London CIV Stewardship Policy 2024

August 2024

Our purpose

Working together to deliver sustainable prosperity for the communities that count on us all

Our values

Collaboration

We work together to build and sustain strong partnerships both internally and externally

Responsibility

We are committed to deliver on our promises, meet the needs of our stakeholders and go the extra mile

Integrity

We act with honesty, ethics, and respect in everything we do

Diversity

We respect and celebrate our differences and create an inclusive environment where everyone feels welcome

Contents

We would like to acknowledge the continued support from our Partner Funds on responsible investment, stewardship and climate change. Our shared commitment to minimising the financial, environmental and social risks of ESG factors enables us to generate sustainable returns and drive change together

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About London CIV

London CIV manages the investment of pension assets for the 32 Local Government Pension Scheme (LGPS) Funds in London. We are one of eight LGPS pools, bringing together c.£30.6 billion investments of 32 Partner Funds across 20+ public and private market investment solutions.

Our Partner Funds are also our shareholders and we work collaboratively to deliver our agreed purpose, which is: "Working together to deliver sustainable prosperity for the communities that count on us all".

We are here to deliver solutions that will allow LGPS Partner Funds to invest assets on behalf of beneficiaries to provide improved and more efficient investment outcomes.

Our commitment to responsible investment

London CIV believe responsible investment is not only a moral imperative but an economic necessity. As active asset owners, we understand that our investments have a significant impact on the environment and society. We believe that an economically efficient, sustainable global financial system is a necessity to unlock long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

London CIV are committed to protecting the interests of our Partner Funds and members by acknowledging that climate-related risks and broader environmental, social and governance ("ESG") considerations are a source of investment risk.

We aim to make long-term sustainable investments that drive real-word change, supported by our partners in engagement and transparent processes. We want to be good stewards and integrate ESG issues into investment decisions, aligning value creation with protection of values to achieve prosperity.

We believe the Sustainable Development Goals (SDGs) are a powerful framework for our approach to active ownership. Aligning our stewardship priorities with these goals demonstrates how our investments not only deliver financial returns but also contribute to positive social and environmental impact.

We are determined to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

Our Stewardship Policy is designed to highlight our approach to setting stewardship priorities and use of active ownership to drive real-world outcomes at scale. This policy is intended to inform our holdings, managers and suppliers about our main concerns and expectations across all Responsible Investment and ESG factors.

Key objectives

1.

London CIV commit to an annual assessment of our environmental, social, governance and responsible investment priorities to maintain relevance and report the changes in our Stewardship Policy*.

2.

We will engage with the top 10 contributors to our global greenhouse gas emissions footprint to deliver our climate change risk mitigation strategy and advance progress.

3.

We will set minimum criteria for diversity standards and engage with our top 10 highest risk holdings on diversity, equity and inclusion.

4.

We will develop guidance on Natural Capital and engage with the top 10 material holdings.

5.

We aim to vote 100% of all available ballots and will report annually on our voting statistics.

6.

We will use engagement effectively to drive real-world outcomes at scale and will report annually on milestones achieved.

7.

We will collaborate to achieve shared goals and participate in initiatives which align with our stewardship themes and responsible investment beliefs and principles.

8.

We will disclose our voting and engagement activity on a quarterly and annual basis for our Partner Funds.

*We review all policies to check no material changes are needed annually, whilst revising stewardship themes every three years to reflect the length of time it takes to track milestones against of real-world outcomes.

Stewardship

As signatories of the UK Stewardship Code, we support the Financial Reporting Council's definition of stewardship:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for Partner Funds and beneficiaries leading to sustainable benefits for the economy, the environment and society."

London CIV strongly believe that stewardship is the most powerful tool investors have at their disposal to align our economy and society with the interests of beneficiaries and wider stakeholders. We support the United Nations Principles for Responsible Investment ("UN PRI") Active Ownership 2.0 framework which provides an ambitious standard for stewardship that prioritises real-world outcomes over mere activity and process, and collective goals and efforts over narrow interests.

Active Ownership is one of the most effective strategies to reduce risks, maximise sustainable returns and have a positive and measurable impact on society and the environment. Achieving these outcomes matters to London CIV, our Partner Funds and their beneficiaries.

This is because systemic risks, such as climate change and inequitable social structures, seriously threaten the long-term performance of economies and asset owners' portfolios, as well as the world in which our beneficiaries live.

Alternatively, divestment alone falls short. Not only does it leave investors without a voice or potential to help drive responsible corporate practices, it requires additional investment and diverts efforts from delivering solutions.

Constructive engagement and proxy voting activities effectively enhances communication, improves knowledge, strengthens trust and brings more integrated strategies that drive sustainable progress for companies and investors.

Conversely, poor dialogue and badly informed voting practices can be harmful and cause corporate cynicism.

Our approach to Stewardship

London CIV take a collaborative approach to stewardship through engagement with companies, investment managers, peers and broader stakeholders to tackle systemic issues in the pursuit of collective goals.

We recognise that engagement is an ongoing process and continually refine and review our approach to reflect the dynamic, evolving landscape of ESG risk and opportunity. Based on thorough research and analysis, we first select our key engagement themes through our proprietary engagement prioritisation methodology. We update our Stewardship Policy, Climate Change Policy and Net Zero Strategy, Responsible Investment Policy and Voting Guidelines to reflect those changes, then work with our partners and participate in collaborative initiatives to drive real-world outcomes*.

1. **Prioritisation**:
   we assess materiality to focus efforts.
2. **Implementation**:
   We use voting, engagement, and other tools, such as advocacy to advance policy, to drive outcomes.
3. **Collaboration**:
   Delivering positive goals at scale.

Effective active ownership requires targeted research, prioritisation, objectives, tracking outcomes, integration with investment decisions, persistence and consistency.

Each stage of our approach is underpinned by disclosure and transparency reporting in line with best practice and appropriate governance and oversight.

*Financial Times, BlackRock's Fink urges CEOs to tackle social issues, https://www.ft.com/content/4eeaa803-511c-4227-962e-018ea1dc2883. Accessed 1 August 2024.

Prioritisation:
Assess materiality and focus efforts

Stewardship

Traditionally, the market has prioritised financial performance and has kept pressure on management to meet shareholders' increasingly demanding expectations. Companies have historically considered it their principal purpose to maximise financial returns, echoing Milton Friedman's belief that "the only social responsibility of business is to increase its profits"*.

Yet over the last two decades, growing awareness of structural, environmental, and social threats to the long-term stability of the global financial ecosystem, together with an increasing perspective that short-term focused value maximisation strategies have led to past crises, has sharpened the focus on sustainable development. This trend saw the influential US Business Roundtable redefining the supremacy of the shareholder by dropping its stance that shareholders alone should benefit from companies' actions. Instead, businesses have a duty of care to ensure the wellbeing of the environment, workers and other stakeholders is factored into account alongside shareholders.

Key priorities

London CIV identifies key stewardship themes in five ways:

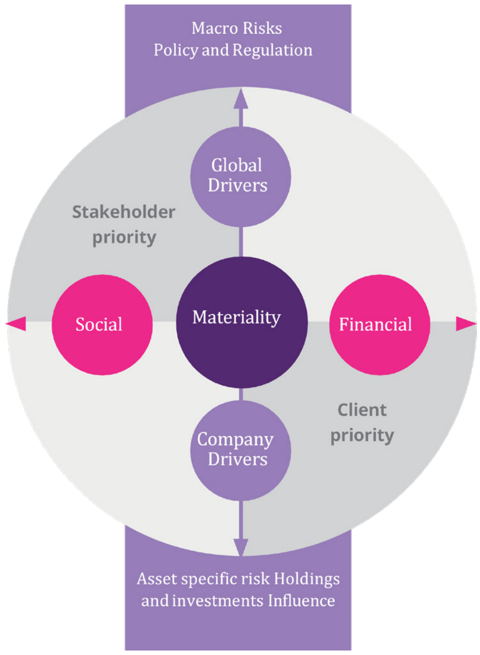
1. Identifying global drivers that include macro risks, policy and regulation together with stakeholder priorities.
2. Evaluating company drivers unique to London CIV including asset specific risk, Partner Fund priorities, our holdings and investments where we be the most influential.
3. Recognising social materiality in terms of which issues will have the biggest impact on the world around us.
4. Calculating financial materiality in terms of which issues will have the biggest impact on our returns.
5. Responding reactively to an unforeseen event, where a specific issue is prioritised based on our exposure and the probability of a successful outcome.

Proactive ESG prioritisation must be addressed holistically while regarding the complex interconnectivity of a myriad of issues. Top-down we are affected at the macro-level by global risks and Partner Fund priorities. From a bottom-up perspective, we incorporate micro-risks of our individual assets and specific areas where we can exert the strongest influence.

This system of prioritisation is nuanced by a values versus value-based approach that views risk as greater in magnitude and likelihood when financial and social materiality combine. We seek to influence industry best practices and shape the development of policies and regulations that are driven by the needs of the industry and stakeholders.

*Business Round Table, https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans. Accessed 1 August 2024.

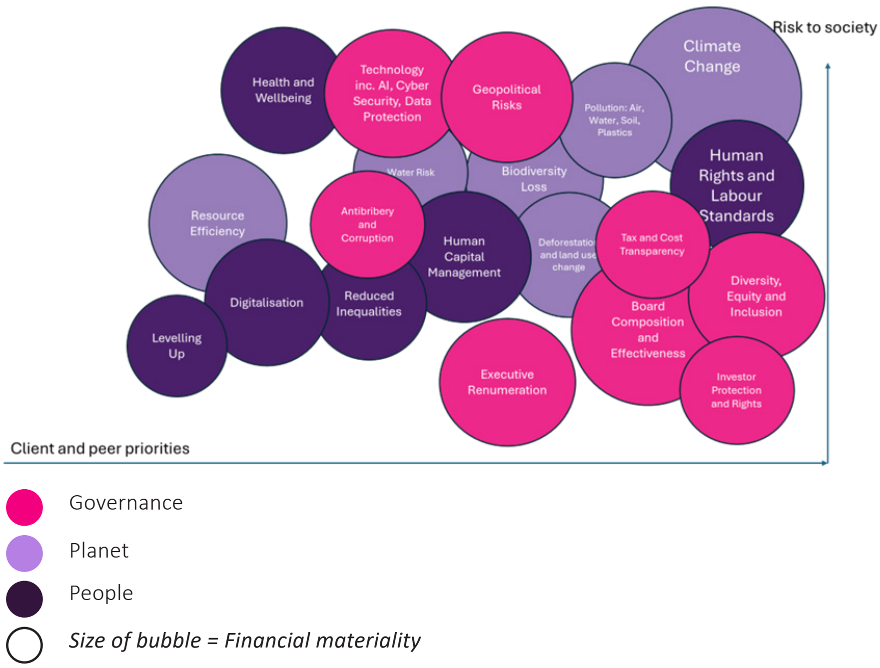
Figure 1: London CIV ESG risk identification methodology



Source: London CIV research 2024

More details on the London CIV ESG risk identification methodology can be found in the Appendix.

Figure 2: Client and peer priorities



Source: London CIV research 2024.

Figure 3: People, Planet, Principles of Governance and Prosperity as defined by the World Economic Forum in collaboration with Deloitte, EY, KPMG and PwC, 2021

People

- Human rights and labour standards
- Human capital management
- Reduced inequalities: including education, poverty alleviation
- Digitalisation: including digital rights, social media, gaming
- Health and wellbeing: including antimicrobial resistance (AMR), public health, nutrition

Planet

Climate Change: including physical risk and adaptation

Biodiversity loss

Deforestation and land use change

Water risk

Resource efficiency

Pollution: Air, Water, Soil, Plastics

Principles of Government

Board composition and effectiveness

Diversity, equity and inclusion

Executive renumeration

Technology: including AI, cyber security, data protection

Tax and cost transparency

Investor protection and rights

Anti-bribery and corruption

Geopolitical risks

Prosperity

- Economic returns
- Paying pensions
- No poverty
- Innovation: products and services

London CIV values all four pillars as part of our duty of care as well as believing that they encourage long-term sustainable growth and maximise the economic health of companies. A full table of our current engagement priorities is listed on the following pages.

We also align our themes to the UN's Sustainable Development Goals (SDGs)

The goals address global challenges critical to long-term business success. We believe the SDGs can create an economy and society in which businesses, people and planet can best thrive. Through our Stewardship activities, we aim to help improve the sustainability of companies in order to boost long-term wealth creation and achieve positive outcomes for society.

People	Planet	Principles of Governance	Prosperity
Human Rights and Labour Standards	Climate Change: decarbonisation, transition risk, physical risk and adaptation	Board Composition and Effectiveness	Economic Returns
5 Gender Equality; 10 Reduced Inequalities; 8 Decent Work and Economic Growth	7 Affordable and Clean Energy; 11 Sustainable Cities and Communities; 13 Climate Action	5 Gender Equality; 16 Peace, Justice and Strong Institutions	8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure
Diversity, Equity and Inclusion	Biodiversity	Executive Remuneration	Pay Pensions
5 Gender Equality; 10 Reduced Inequalities	13 Climate Action; 15 Life on Land	8 Decent Work and Economic Growth; 10 Reduced Inequalities	1 No Poverty; 8 Decent Work and Economic Growth
Human Capital	Deforestation and Land-use Change	Technology and Cyber	Employment and Wealth Creation
3 Good Health and Well-being; 4 Quality Education; 8 Decent Work and Economic Growth	13 Climate Action; 15 Life on Land	9 Industry, Innovation and Infrastructure; 16 Peace, Justice and Strong Institutions	8 Decent Work and Economic Growth

People	Planet	Principles of Governance	Prosperity
Digital Rights: including accessibility, social media, gaming and censorship 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Water Risk: including water scarcity 6 CLEAN WATER AND SANITATION 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	Tax and Cost Transparency 10 REDUCED INEQUALITIES 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Innovation: products and services 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Health and wellbeing 3 GOOD HEALTH AND WELL-BEING	Pollution: Air, Water, Soil, Plastics 3 GOOD HEALTH AND WELL-BEING 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 14 LIFE BELOW WATER 15 LIFE ON LAND	Transparency and Reporting 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Geo-political Risk 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Reduced Inequalities: including education and poverty 1 NO POVERTY 4 QUALITY EDUCATION 10 REDUCED INEQUALITIES	Resource Efficiency and Circular Economy 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Investor Protection and Rights 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	
Build Back Better: including green job creation, safe communities: 7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION			

People

What it means for London CIV

Human Rights and Labour Standards

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. The 2030 Agenda for Sustainable Development is "unequivocally anchored in human rights" and the SDG's collectively "seek to realize the human rights of all" . Accelerated visibility and urgency around various human rights issues, combined with a responsibility to impact real-world outcomes across our investment activities, has increased expectations on the preservation of human rights.

Protecting human rights is not just morally imperative but also financially material. As institutional investors, London CIV have a duty to uphold human rights, as formalised by the UN and the OECD Guidelines for Multinational Enterprises (MNEs). We recognise the critical importance of respect for human rights and labour standards to long-term value creation. Violations of these rights pose material risks for companies and investors.

Our approach to managing human rights issues applies to all our themes relating to people, which map to all four pillars. By meeting international standards and preventing and mitigating adverse outcomes for people, we not only mitigate investment risks but also align with evolving demands of stakeholders, whilst future-proofing our investments.

Human Capital Management

Employees are a vital asset for companies. In today's hyper-competitive business landscape, the ability to attract, nurture and retain talent is essential for continued profitability and business success.

The impact of staff turnover is significant; its effects are felt in productivity, financial costs, revenues and employee satisfaction across the organisation. Happier workplaces fuel productivity whilst reducing both turnover and accidents.

London CIV engage with companies on human capital management issues as a critical priority theme. We expect companies to provide good quality employment that protects employees' physical and mental health. We expect the payment of living wages across direct operations and supply chains. We expect companies to comply with the UN International Bill of Human Rights and other internationally recognised human rights principles such as the United Nations Guiding Principles on Business Human Rights ("UNGPs").

Companies should actively mitigate and remedy any breaches, including forced labour, modern slavery, freedom of association and collective bargaining. Boards should have oversight of human capital key metrics annually to demonstrate this and have fair and sustainable remuneration practices.

Reduced inequalities

Inequalities, including income inequality and health inequality, have the potential to adversely affect our portfolios, amplify financial and social system level instability, damage output and diminish economic growth, and can contribute to the rise of extremism, isolationism and protectionism. The effects can negatively impact long-term investment performance, change the risks and opportunities that affect our investment universe and destabilise the financial and social systems within which we operate. These risks have the potential to influence risk adjusted returns.

We believe tackling these challenges is not just the right thing to do, but a key driver of long-term investment resilience. London CIV integrates inequality risks into investment decision-making. We detail our expectations of companies on inequality issues in other people and governance themes.

It includes executive compensation, corporate tax policies, employee relations, labour markets and promotion of the social, economic and political inclusion of all individuals irrespective of age, sex, disability, race, ethnicity, origin, religion, economic or other status. Companies should do nothing to hinder the global goal of achieving equality and actively promote it. We review where our investments may support global opportunities to reduce inequalities within and among economies, alongside generating positive returns.

Digitalisation

The digital economy is the most important engine of innovation, competitiveness and economic growth in the world.

Whilst digitalisation is critical for the provision of many processes across all industries, it gives rise to new challenges.

As a stewardship theme, we will look specifically at the responsibility of companies with a focus on specific industries such as gaming and social media.

As of October 2023, there were 5.3 billion internet users worldwide, which amounted to 65.7 percent of the global population. Of this total, 4.95 billion, or 61.4 percent of the world's population, were social media users . Over half the world's population, 54%, now own a smartphone.

Whilst gaming and social media provided many positive benefits during the worldwide lockdowns, several social impacts affecting both users and developers should be considered by investors to address gratuitous violence, inciting hatred, stereotyped representations of minority groups and an increase in online abuse of young gamers and social media users.

Health and wellbeing

London CIV believe health inequalities and their criticality are a rising topic on the investor agenda. The COVID-19 pandemic highlighted the complex interconnectivity of health, wealth and the economy. Despite the overall population leading a healthier lifestyle than in earlier times, non-communicable diseases are on the rise, costing trillions in treatment.

Non-communicable diseases constitute the number-one cause of death worldwide and many are avoidable . Obesity as a condition for example remains a major concern contributing to conditions such as heart disease and diabetes, whilst worsening resilience against viruses. Similarly, infectious diseases remain a significant challenge, even those for which cures exist. We recognise that businesses not only need healthy workforces to maintain and enhance productivity levels but thriving consumers too.

All businesses have a responsibility to promote healthy behaviours and support mental resilience, both in terms of the products they sell and the way they treat their workforce. Some challenges may present commercial opportunities; others might not, but a broader duty towards society remains. The solutions are complex, yet we maintain that all companies have a role to play and can make a difference.

We engage with food and beverage companies around marketing practices, the nutritional characteristics of their products, and increasingly their strategy for transitioning to sustainable food systems. For example, taking measures against antimicrobial resistance (AMR), such as diversification from animal to plant-based and sustainable protein.

We also recognise the increasing responsibility of pharmaceutical and healthcare companies to consider the overall global health burden in their R&D and pricing strategies. We engage with this sector on access to medicines and healthcare.

Levelling up

The Levelling Up whitepaper was unveiled in 2022 by the UK Government to address the geographical disparities within the UK. It sets out actions to boost jobs, living standards and productivity in areas where they are lagging. It aims to spread opportunities and restore a sense of community where they have been lost.

This stewardship theme aligns with our reduced inequalities issue, and we strive to consider where our investments may support opportunities to reduce inequalities within the UK.

Office of the High Commissioner for Human Rights, OHCHR and the 2030 Agenda for Sustainable Development | OHCHR. Accessed 1 August 2024
Statista, https://www.statista.com/statistics/617136/digital-population-worldwide/#. Accessed 1 August 2024.
World Health Organisation, https://www.who.int/news-room/fact-sheets/detail/noncommunicable-diseases. Accessed 1 August 2024.

Planet

What it means for London CIV

Climate Change

Climate change poses an existential threat to people and the planet. It presents immediate systemic risks to the ecological, societal, and financial stability of every economy, country, asset type and sector on the planet. It will result in substantial and substantiative physical and economic impacts across most aspects of human activity, leading to multiple implications for our Partner Funds and their beneficiaries. As significant asset owners, we have a key role to play in accelerating the transition to a net-zero economy. Addressing climate change is therefore part of our Partner Funds' fiduciary duty and a strategic investment priority for London CIV.

Owing to the materiality of climate change London CIV has a standalone Climate Change Policy which details our objectives and expectations on companies. While the commitments inked during the first global stock take of climate action under the Paris Agreement at the 2023 UN Climate Change Conference (COP 28) set a political precedent in terms of ambition, collective action to remain on track to limit global warming needs to rapidly accelerate if we are reach the 1.5 degrees Celsius target by 2050. As all companies are subject to physical, transition risks or both, we expect all companies to report on climate change risks in line with the Task Force on Climate Related Financial Disclosures ("TCFD") and at least disclose their carbon footprint. We calculate our own climate risk to engage with our material holdings

Deforestation and Land Use Change

Forests stand as powerful allies for tackling interrelated impacts of climate change, and for advancing three of our other key stewardship themes. Fundamentally, forests are an essential solution for limiting the effects of climate change. Given that forest degradation, deforestation and land-use change alone are responsible for 25% of global greenhouse gas emissions, forestry is a major climate protector. In addition, forests act as a critical climate stabiliser , absorbing one-third of the CO2 from burning of fossil fuels every year.

The second factor is human rights: 25% of the world's population rely on the forests for their livelihood. We recognise the devastating human rights impacts caused by continued deforestation such as displacement of indigenous communities, land grabbing and child labour . Further, our forests are vital for biodiversity with them being home for 80% of the world's land based biodiversity . Finally, forests play a crucial role in regulating water cycles. Deforestation disrupts these cycles, leading to water scarcity and impacting agriculture, energy production, and human health.

Despite world leaders in over 100 countries (including the UK) agreeing to end and reverse deforestation by 2030 during the COP26 climate summit in 2021, the world missed its 2022 deforestation target by 21%. The countries backing up the pledge cover around 85% of the world's forests.

In 2022, we signed the COP26 commitment letter on eliminating commodity-driven deforestation. As institutional investors, we have the obligation to use our influence to ensure companies in our portfolio have procedures and policies in place to mitigate deforestation in their operation and supply chains. Global forest loss exceeded 6.6 million hectares in 2022, of which 4.1 million hectares – an area the size of Denmark – was tropical forest .

However, 2023 was a landmark year for the fight against deforestation. During the COP 28 climate summit, world leaders cemented the goal to halt deforestation loss within 7 years . The European Union also passed a landmark regulation to curb the EU market's impact on global deforestation and forest degradation.

London CIV will continue to publish our exposure to deforestation risks and their management and acknowledge the highest-risk agricultural commodities as soy, cattle, palm oil, timber, pulp and paper (responsible for two-thirds of global deforestation). We will use this as a basis for our engagement and voting decisions.

London CIV will strive to:

Within 2024:

- Disclose deforestation exposure and associated engagement activities in our Stewardship Outcomes Report.
- Publicise the launch an LCIV Natural Capital Fund

Within 2025:

- Achieve best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in our investment portfolios and in our financing activities through active stewardship.
- Publicly report on creditable progress in our Stewardship Outcomes Report with engagement milestones on deforestation.

We acknowledge that there are limitations regarding data whilst assessing deforestation risk but will use a number of resources including Forest 500, CDP and through our assessment of high-risk sectors in our portfolio.

Biodiversity loss

According to the Dasgupta Review , nature is under-priced. Rapid biodiversity loss poses financial risks for businesses. Loss of natural capital is lowering crop yields, reducing fish catches, affecting supply chains and exacerbating natural disasters such as flooding. 55% of the world's GDP, equivalent to $58trn, is dependent on nature – up from $44trn in 2020 .

The link between climate change and nature is now undisputable. Climate change and COVID-19 are striking examples of nature's loss of resilience due to over-exploitation of forests, grasslands, and oceans.

If biodiversity is not tackled now, physical transition and litigation risks will affect economic activities and in turn, investments.

The UN's 15th Convention on Biodiversity, COP15, in 2022 saw the adoption the Kunming-Montreal Global Biodiversity Framework , calling for the historic 30x30 Nature Goal, which aims to protect at least 30% of the world's land and ocean by 2030, and further goals such as increasing the area of natural ecosystems and halting human-induced extinction of known threatened species by 2050.

COP28 saw the launch of a Joint Statement on Climate, Nature and People, noting the "continued loss and degradation of nature increases climate vulnerability" and impacts of climate change critically threaten biodiversity and the billions of livelihoods dependent on high-integrity ecosystems ."

London CIV encourages companies to commit to having a net-positive impact on biodiversity throughout their operations and supply chains.

We recognise that mechanisms to achieve this goal will vary by company and sector but we expect companies to commit to no deforestation in their value chains, investing in nature-based solutions to address the dual challenges of climate change and biodiversity loss. Further, ignoring nature-based risks can lead to financial losses and missed opportunities.

As signatories of the new Taskforce on Nature-related Financial Disclosures (TNFD), the framework will help us integrate the risks and opportunities associated with nature related factors that can significantly impact the financial health of businesses and investments. Given existing nature loss and biodiversity risk London CIV actively support the introduction of TNFD regulations for both companies and investors.

Nature is critical for effective climate action. The final text agreed at COP28 reinforces the role of nature in the fight against climate change. In what it calls a "critical decade", it recognises "the vital importance of protecting, conserving, restoring and sustainably using nature and ecosystems for effective and sustainable climate action." Nature-based solutions were key on the agenda. The role of nature in mitigating climate change covered topics like protecting forests, promoting sustainable land use, and integrating nature-based solutions into climate strategies.

The United Nations Biodiversity Conference COP16 will held later this year in Columbia, one of the emerging areas for deforestation. At COP16, governments will be tasked with reviewing the state of implementation of the Kunming-Montreal Global Biodiversity Framework . Parties to the Convention are expected to show the alignment of their National Biodiversity Strategies and Action Plans (NBSAPs) with the Framework. COP16 will further develop the monitoring framework and advance resource mobilization for the Global Biodiversity Framework.

Physical risk

Global mean temperatures have already risen by approximately 1.0°C above pre-industrial levels, causing more frequent and more extreme weather events as well as gradual shifts in rainfall patterns, sea levels, sea ice, and glacial retreat. Stabilising the climate at 1.5°C or 2.0°C, in line with the 2015 Paris Agreement, though a 'better case scenario', should not be mistaken as a safe level. Both will still have catastrophic impacts across the world in both developing and developed countries.

Whilst climate change risk metrics such as carbon emissions are relatively advanced, physical risk is harder to measure. Though we know these catastrophic physical impacts will come with significant financial risks, there are no accepted global estimates for the loss and damage arising from physical risk factors. We use S&P Global physical risk models to identify risks including drought, flood, hurricane, heatwave, cold wave and coastal flooding, serving as the basis for engagement.

Water risk

Water underpins life and nearly all goods and services. Pollution and overconsumption of water are making clean water an increasingly scarce resource, putting businesses and economic growth at risk. Economic development, population growth, and climate change are increasing the pressure on water resources and water quality, creating risks for all sectors. Water stress is the main medium-term climate risk for Europe's biggest economies .

Furthermore, water is under-priced often not pricing in the externalities its consumption causes. Studies have shown that if the full cost of water availability and water-quality impairment had to be absorbed by companies, average profits would be cut by 18% for the chemicals industry, 44% for the utilities sector, and 116% for food and beverage companies.

Water risk management remains challenging. Unlike carbon emissions, water-related impacts are highly location specific – a cubic metre of water used in a drought-prone, highly populated area will have a greater environmental impact than a sparsely populated area where water is plentiful. In addition, most water-related risks are hidden in the supply chain. With no internationally agreed-upon water targets, action has been slow and disclosure – sparse.

London CIV see this as a growing concern. We will model water risks in our portfolio to target engagement with companies, encouraging better disclosure of water use, targeted supplier engagement and target setting, with the overall objective for investee companies to achieve sustainable water management practices.

Air polution

91 percent of the world's population lives in places where air quality fails to meet World Health Organisation guidelines. Poor air quality is responsible for 4.2 million premature deaths each year, contributes to a range of health issues, costs the global economy billions of pounds each year and is ranked as the fourth highest risk factor for attributable deaths . England's air pollution could cost £5.3 billion by 2035 . It contributed to the deaths of over 4,000 Londoners and, though nitrogen dioxide levels are falling, 99 percent of London does not meet recommended limits for PM2.5. Further, besides air pollution, sub-industries globally release water, soil, and noise pollution.

As a global investor, London CIV will engage with pollution laggards worldwide and embrace air quality opportunities by sector. We expect full supply chain transparency of innovative industries to ensure the problem is not displaced elsewhere. For example, we will work with electric vehicle manufacturers to understand how they can improve air quality in major cities whilst tackling pollution and labour rights issues. We also recognise the interplay of all aspects of pollution affecting flora, fauna, water, air, and soil, and therefore require companies to address these relationships as they impact their value chain.

Plastics polution

Plastic has transformed our world, thanks to its low cost and range of societal benefits, from light-weighting millions of products to reducing food waste and disease. It will even have a critical role to play in the transition to a low carbon economy. However, the volume and nature of plastics use presents an enormous challenge. As they are predominantly produced from fossil fuel-based hydrocarbons, the resultant climate related risks are high. Lack of biodegradability means that microplastics are 'leaked' into the environment, subsequently finding its way into animals, aquatic species and humans. Furthermore, the 'take-make-waste' model associated with plastics further increases the damage associated with all downsides. The UN Environment Programme values societal costs from plastics pollution at $40bn annually.

London CIV recognise our holdings could be exposed to plastics-related risks. These risks could be internalised by taxation, shifts in consumer behaviour, licenses-to-operate or other regulated economic disincentives. Our engagement work on plastics focuses on businesses involved in manufacturing of chemicals for plastics and in consumer goods, encouraging corporate strategies, goals, transparency and reporting. We expect chemical makers and packaging manufacturers to secure long-term growth opportunities through innovation and for other companies to change how plastics are used to reduce embedded emissions.

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Principles of Governance

What it means for London CIV

Diversity and inclusion

Diversity is an essential component of sound corporate governance, critical to a well-functioning organisation and needed to attract and retain a quality workforce. Companies with strong gender and ethnic diversity outperform peers when measured by return on equity and other traditional financial metrics. Diversity also helps to reduce company-specific risk in the long term, leading to a lower cost of capital.

However, equal representation doesn't automatically equate to shared equity of influence, or 'power parity'. Despite the long-established evidence that better gender diversity can positively affect disclosure, business performance and risk management, women remain significantly underrepresented when it comes to power parity in most countries, industries, companies and boards across the globe. As a result we expect companies to proportionately represent gender and ethnicity on their boards, and to create inclusive cultures that foster a felt sense of belonging. We also expect them to disclose quantitative and qualitative information on diversity and strategies to improve inclusion and shared equity in the workplace.

Our outline the thresholds and expectations for board diversity best practice and the future direction of travel.

Technology and cyber security

Technology is ubiquitous. It's the both the visible and invisible infrastructure underpinning every facet of our lives. Investors, as stewards of capital, must navigate this dynamic landscape with both opportunity and responsibility in mind. Embracing technology's potential while mitigating its risks is key. We stand at a pivotal moment, where technology is no longer just a business driver; it's a force shaping the very fabric of our world.

Artificial Intelligence (AI) is rapidly disrupting various industries, creating new markets and investment opportunities. As with any transformative technology, AI also presents a range of challenges that have the potential to negatively impact society, from both a moral perspective and from criminals using AI within security threats.

As a result, investors face increased risks regarding the implications of AI, as well as concerns related to data privacy and cybersecurity. Poor corporate disclosure on these topics makes it a challenge to understand companies' resilience against the risks.

London CIV are therefore committed to assessing portfolio exposure to technology-related risks and addressing these through our stewardship activities with our partners and investee companies.

- We expect companies to implement board oversight and reporting and access to expertise, training and risk assessment.
- We believe it is essential for companies to implement robust governance structures, effective oversight mechanisms, and clear communication channels for ethical AI usage.
- We expect cyber resilience to be integrated into corporate strategies and will use the Ranking Digital Rights Corporate Accountability Index to inform engagements on disclosure and practices.

- Transparency is a fundamental principle of privacy and data protection.
- We will engage with companies to promote improved disclosure on cyber security policy, and ethical use and development of trusted AI technologies that account for human-centric aspects beyond privacy.

Tax transparency

Rising inequality has increased scrutiny over tax and cost systems. London CIV promotes a fair and transparent approach as a way for corporations to contribute to the economies in which they operate and asset managers to demonstrate value for money.

Corporate tax transparency is important to us because :

- The amount of corporate income tax a company pays is material to its profitability. We therefore seek to understand the reliance of future cash flows on the underlying business performance and identify any dependency on external factors like subsidies or potentially vulnerable tax structures.
- Corporate tax avoidance activities may suggest underlying legal, operational, reputational, financial and/or governance risks. Companies that pursue aggressive tax minimisation activities may be sending a signal regarding the board's risk tolerance, leading to potential damaging outcomes such as overlooking opportunities tied to genuine economic activity in favor of short-term tax strategies.
- We want reassurance that tax practices of our portfolio companies can withstand stakeholder scrutiny and potential regulatory changes. As corporate tax regimes globally are reconsidered to avoid revenue loss, multinational companies will face increased pressure to defend their tax-related transactions and may encounter new forms of taxation. We look for companies to be transparent with strategies adjusted for the regulatory environment.
- We recognise that corporate taxes support societies tangible and intangible needs. Recognising that strong government institutions create a solid foundation for competitive growth and other factors that enable long-term business sustainability, corporate income taxes are an important part of most governments' revenue base, and, as such help support this.
- Tax structures need to be understood in more detail at the individual company level. Tax structures can be complex and nuanced. Lack of transparency makes it challenging to understand corporate taxes thus exposing us to unknown risks that should be added into valuations.

Tax avoidance has a serious knock-on effect on society as governments are less able to fund schools, hospitals and other vital public services. Pensioners also lose out from lower investment in services over their lifetimes. We conduct reviews of our portfolio to identify companies with headquarters in jurisdictions with questionable tax regimes and use these results as a basis for engagement on corporate tax responsibility.

London CIV endorses the Cost Transparency Initiative (CTI) and believe that greater cost management and cost transparency will help our Partner Funds' beneficiaries achieve a better income in retirement. Our managers are required to provide standardised cost and charges information which enables us to make clear cost comparisons across different investment platforms and challenge asset managers on cost and performance to seek better value for our Partner Funds.

Executive renumeration

Existing remuneration plans for senior executives do not necessarily promote sustainable value creation for their companies. Incentive schemes often do not align with ESG metrics even when there are clear links to shareholder value. The limitations of pay schemes reliant on performance-based incentives have been highlighted by the COVID-19 pandemic, as share price volatility and limited visibility meant some boards have struggled to set meaningful targets. Inclusion of appropriate ESG issues within executive management goals and incentive schemes are a critical factor in the creation and protection of long- term shareholder value.

We expect boards to use their judgement to ensure executive pay can be justified in the context of the experience of other stakeholders, particularly for companies that have made redundancies or those that are otherwise in distress. We expect to see simpler pay schemes aligned to the long-term success of the organisation rather than the use of total shareholder return as a dominant metric.

Anti-bribery and corruption

Political and regulatory crime, bribery and corruption pose heavy financial risks to investors, with corruption losses exceeding 5% of global GDP (US$2.6 trillion) and bribes surpassing US$1 trillion annually. This presents a detrimental cost to companies, their investors, governments and society, contributing up to 10% to the cost of doing business globally and up to 2% to procurement contracts in developing countries.

Companies embroiled in corruption scandals can suffer from:

- Damage to brand, reputation and share price.
- Exclusion from potential business opportunities.
- Liability to pay hefty fines.
- Diversion of significant senior management time away from running the business to manage investigations and prosecutions .

We perform background research to assess company culture and existing procedures and policies such as, those that forbid bribes or facilitation payments to secure business or conducting integrity due diligence on new business partners. We may ask companies about the cost of not paying bribes, for disclosures on whistleblowing and employee turnover. In regions where engagement is less advanced, we refer to national corporate governance guidelines.

Public policy and codes of practice

Given the ever-evolving nature of ESG risk, good governance underpins all ESG factors and mitigates risks from other environmental and social factors. Corporate governance is a vital component of lasting success and something we expect to see from all of our holdings. Businesses that are well governed can typically point to strong management guiding their decision-making and a long-term focus.

As global investors, we apply our principles of good stewardship universally. We are advocates of the benefits of various stewardship codes to improve the quality of engagement. As a UK-based investor our key reference points are the UK Stewardship Code 2020, the UK Corporate Governance Code and the 2006 Companies Act (s172) as terms of reference when considering company activities and actions for engagement.

Corporate behaviour in line with s172 facilitates a more resilient financial system, which supports prosperity for all and in turn enables us to achieve the right risk for the right return and long-term sustainable growth for our Partner Funds.

However, recognising that each company is different, we aim to assess how companies apply these principles to their own circumstances or use other governance codes to inform practices.

Geopolitical risks

Geopolitical risks are challenging to anticipate and can have significant impact on societies and the related market valuations. We assess such risks on a case-by-case basis to determine if it will have material impact to Partner Fund Funds, following the below process when assessing such risks:

Research – The Investment Team tracks news flow and market data to assess the materiality of a geo-political event. We may use external resources such as Corruption Perceptions Index, Freedom House Freedom Index to help understand country risks. We generally determine whether the occurrence may trigger the following actions:

- Potential credit defaults or inability to trade securities held by London CIV funds;
- Reputational risks for London CIV and our Partner Funds;
- Risks associated with other key Stewardship themes (e.g. Human Rights and Climate).

Exposure Analysis – Once we have identified a material geopolitical event, we will map out exposure across our funds.

Collaboration – We then engage with our investment managers to understand and assess their approach in mitigating the risks identified and communication to our Partner Funds as soon as is feasible. We also work with EOS and other partners to engage with companies who may be affected by the associated event.

Internal Controls – We work with our custodian, internal compliance team and depositary to ensure London CIV funds remain compliant with all applicable regulatory sanctions.

Proxy Voting – In the event of a highly material geopolitical event we may employ a “Do Not Vote” or vote “Against” for all resolutions for impacted companies. This is to reduce the reputational risks of potentially breaching sanction regimes or being seen as supporting a sanctioned regime. We will seek official guidance from regulatory bodies such as the FCA in these instances.

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Implementation

Using voting and engagement to drive outcomes

London CIV define Active ownership as the use of the rights, position and power of ownership to influence the activities and behaviour of investee companies to shape real-world sustainability outcomes at scale We endorse the United Nations Principles for Responsible Investment (UNPRI) Active Ownership 2.0, which specifically advances stewardship beyond the core mechanisms of voting and engagement. That said, voting and engagement practices are critical tools, and we recognise the interplay between them; one can be the initiator or the complementary tool of the other, both should be used efficiently to support long-term value creation.

Voting

Voting refers to the use of voting rights to signal approval (or disapproval) on [matters concerning] management and/or shareholder resolutions. In practical terms, this means actively deciding how to cast votes on topics raised by management, and submitting resolutions as a shareholder for other shareholders to vote on (where this is legally permitted). Voting can be done in person or by proxy during a General Meeting, including an Annual General Meeting ("AGM") or Extraordinary General Meeting ("EGM"). Voting on agenda items at annual general meetings (AGMs) is one of the most significant opportunities investors have for wielding influence on critical matters.

London CIV is a member of LAPFF and partners with EOS at Federated Hermes ("EOS") to execute our votes. By incorporating LAPFF Guidance, Hermes EOS Guidelines, and best practices, aligning them with our Investment Beliefs and key Stewardship Themes.

We arrive at LCIV's own Voting Guidelines. These are regularly reviewed on an annual basis to ensure they reflect our evolving approach.

LAPFF is a member-led forum which engages with companies and issues voting alerts based on its own research to its members. EOS Guidelines are informed by a hierarchy of global and regional best practice guidelines, which set out expectations of companies regarding strategy, communications, financial structure, governance and the management of social and environmental risks.

LAPFF is a member-led forum which engages with companies and issues voting alerts based on its own research to its members. EOS Guidelines are informed by a hierarchy of global and regional best practice guidelines, which set out expectations of companies regarding strategy, communications, financial structure, governance and the management of social and environmental risks.

EOS Voting Principles outline their house position on key ESG issues and are informed by external local market standards, including the OECD Principles for Corporate Governance and national corporate governance codes, as well as the views of its Partner Funds.

For more details on how we vote in practice, please refer to our Voting Guidelines.

Engagement

Engagement refers to all interactions between the investor and current or potential investee companies on ESG issues and strategies. The aim is to advance (or identify the need to influence) ESG practices and/or improving ESG disclosure. This is a systematic process that involves ongoing dialogue and continuous monitoring of companies. These interactions can take place either independently or collaboratively with other investors.

London CIV actively engages with companies through our investment managers and engagement partners using collaborative forums or via our voting and engagement partner. Delivering collective goals and achieving positive real-world outcomes relies on strengthened collaboration between investors and other stakeholders. We firmly believe that a long- term multi-pronged approach to engagement will always be most effective. This is why we take a number of collaborative approaches to engagement. As we monitor success in terms of outcomes, we always identify the milestones that need to be achieved when we set objectives.

Where engagement is not succeeding at the required pace, we will consider using escalated engagement techniques that may be more public in approach.

Escalation

Escalation is a strategy used to pursue engagement in cases where the company is not open to dialogue or where dialogue has not been constructive. We work with our investment managers to understand the companies engaging with, where that engagement may have been unsuccessful, and what level of escalation they are employing as a result.

In parallel we may look at the engagement escalations EOS are undertaking. We may also use collaborative engagement and reach out to other investors to elevate areas of concern to companies.

Ultimately, if dialogue does not bring the desired outcomes after a defined period, we will consider different escalation strategies to trigger corporate reaction. Possible next steps after an unsuccessful engagement period may include:

- communicating with the Board: expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholders' meeting.
- collaborating with other investors to increase pressure on the company.
- issuing a public statement and organising or supporting a media campaign.
- submitting shareholder resolutions in relation to the ESG issues of concern.
- voting against the re-election of directors who are responsible for the topic of engagement (i.e., risk and audit committee members).
- voting against the board of directors or the annual financial report.
- submitting one or more nominations for election to the Board.
- threatening to reduce exposure or divest.

Use of data providers

At London CIV we use a variety of data sources to inform our stewardship activities. We recognise that ESG data is a developing discipline, and we consistently encourage improved disclosure from our investments. In addition to our asset managers' and London CIV's own analysis of ESG exposure within our portfolio, we use third party proprietary and public data sources. At present these include:

Provider	Description	Website
Trucost, part of S&P Global	Trucost, part of S&P Global, assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Data includes carbon emissions for scope 1, 2 and 3 emissions, coal power generation, fossil fuel reserves, physical risk, transition risk and broader environmental factors. London CIV uses its data sets to inform our environmental portfolio risk analysis.	trucost.com
EcoInvent	The EcoInvent database is an lifecycle inventory database, providing documented process data for thousands of products, including renewable energy assets. London CIV uses its database to model the embedded emissions of its infrastructure investments as part of its wider climate risk analysis.	ecoinvest.org
Forest500	For nine years, Global Canopy's Forest 500 has tracked the policies and performance of the 350 most influential companies and 150 financial institutions linked to deforestation in their supply chains and investments.	Forest500.org
Transition Pathway Initiative (TPI)	The LSE Transition Pathway Initiative Centre (the TPI Centre) is an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy. The TPI Centre’s analysis considers corporate climate governance and carbon emissions.	transitionpathwayinitiative.org

A lack of standardisation and transparency across ESG and climate data means that analysis can be subject to inconsistencies. To ensure the quality of our data outputs we assess the Quality Control (QC) procedures for any new datasets we use and also maintain our own QC checks by way of internal assurance.

Owing to the complex and nuanced nature of ESG data, analysis is always reported alongside qualitative insights. We use data where possible in our everyday monitoring and report on insights in our quarterly reports to support the stewardship activities and oversight of our Partner Funds.

As ESG and Climate data evolves, we review our provision and aim to increase the information available to us on an annual basis. Whilst our focus has been largely on climate risk to date, we seek to increase our analysis on other material ESG factors in order to work effectively with our managers on a broader spectrum of investment risks.

Conflicts of interest

Engagement processes and voting rights are exercised in line with the best interests of Partner Funds to protect and enhance the long-term value of shareholdings. The management of conflicts is important in protecting our Partner Funds' assets, building long-term relationships with the companies we invest in and maintaining strong partnerships.

London CIV has a robust approach to conflicts of interest, with comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting our Partner Funds and their underlying beneficiaries. The effective management of potential conflicts of interest is a critical component of our due diligence on all asset managers and service providers, as well as our ongoing contract management.

Conflict of interest clauses are included in investment management agreements. Conflicts are also considered when undertaking voting and engagement activities.

By undertaking engagement activities, the following conflicts may arise:

- We may engage with or vote in respect of a company which has a strong commercial relationship, including as a service provider, with London CIV and/or our Partner Funds.
- We may engage with or vote in respect of a company where staff own securities or have a personal relationship with senior staff members in a company.
- We may engage with or vote in respect of a company where Partner Fund representatives are on the Board of the organisation.
- We may engage with or vote in respect of a company where staff either hold a share of the company or have a direct link to the Board of the organisation.
- We may engage with a government or government body which is the sponsor or associate of the sponsor of one of our Partner Funds.
- We may vote on a corporate transaction, the outcome of which would benefit one Partner Fund more than another.
- We may otherwise act on behalf of Partner Funds who have differing interests in the outcome of our activities.
- Staff or Partner Funds may also be exposed to entertainment, gifts or free events from companies which could influence judgement or result in favouritism towards specific organisations.

London CIV maintains policies and procedures that mitigate the risks of perceived, potential and actual conflicts.

Examples of how we reduce the risk of conflicts occurring and manage such risks if they do occur include:

- Ensuring all staff discuss any foreseen potential conflict of interest from voting or engagement with their line manager and report to the Compliance and Risk Team.
- Any potential conflicts arising over our approach to voting or engagement are discussed with the
- Chief Investment Officer ("CIO") and reported to the Compliance and Risk Team.

- Split voting in exceptional circumstances in the event of a potential conflict.
- The Investment and Customer Outcomes Committee ("IOC") to review voting decisions and engagement activities on a regular basis.
- Allowing any unforeseen conflicts of interests to follow an escalation procedure involving the CIO.

London CIV always places the interests of our Partner Funds and their beneficiaries first and require that when acting on our behalf, our suppliers do the same and publicly disclose their conflicts of interest policies.

The Conflicts of Interest Policy published by our current Stewardship and Engagement provider can be viewed here.

Stewardship

By asset class

Our stewardship responsibilities extend to all funds held by London CIV. We tailor our approach to each asset class and investment strategy. Stewardship can be more challenging for pooled, multi-asset, private market, and emerging market funds. Nonetheless, we are committed to strategic asset allocation that minimises short-term risks through diversification.

So rather than excluding geographies, fund types or asset classes that are challenging in terms of ESG integration, London CIV has developed detailed guidance and questionnaires to support engagement in these areas and will continue to work closely with its investment managers to drive responsible investment practices across all our assets.

Listed equity

We believe well-governed companies are critical to the creation of long-term value for shareholders, other stakeholders, society and the environment. We expect companies to comply with regulation and company law in the countries in which they operate, as well as with any relevant regional or international requirements.

Our approach to voting, engagement and escalation as detailed earlier explains our stewardship approach for listed equities in segregated accounts. A segregated account is one in which the shares are held separately from other investors and we can instruct votes directly at company meetings on behalf of our Partner Funds to support engagement. Our Voting Guidelines detail our approach to voting for our segregated accounts.

Pooled funds

Where engagement becomes more challenging is where we are invested in pooled funds. Pooled funds refer to investment schemes in which assets from individual investors (including London CIV pension funds, endowment funds, insurance companies and other asset managers) are aggregated for the purposes of investment. Pooled funds, such as multi-asset funds, are used by pension funds as they can be a cost-effective way to get exposure to a large, diverse set of investment opportunities spanning the global capital markets.

The most significant pooled funds are the specialist credit, multi-asset, and passive funds. With pooled funds, our influence in terms of voting rights, engagement and stewardship activities, responsible investment policy requirements and disclosure is diluted compared with segregated mandates. This is because the pooled provider is not bound by London CIV's specific Voting Guidelines.

However, stewardship capability and implementation are an important aspect to the selection of investment managers and providers pooled index funds. Legal and General Investment Management's (London CIV's Partner Funds' largest provider of pooled funds) approach to active ownership can be viewed here.

By working closely with our pooled investment managers and index providers on engagement and voting, we will aim for greater alignment of stewardship priorities and expectations over time. For example, we have secured control of voting on equities securities held in the LCIV Absolute Return Fund. We also note that the CQS Alternative Credit Fund which the LCIV MAC

Sub-fund invests in, is classified as an Article 8 fund under SFDR (a fund which promotes environmental and/or social characteristics and incorporates good governance criteria into its investment strategy).

Fixed income

ESG factors can affect the investment performance of bonds, both negatively and positively, at the issuer, sector, geographic and system levels. We believe well-governed companies that implement robust ESG and climate impact practices are more likely to make their loan repayments and improve their creditworthiness over the long-term.

Our investment managers embed ESG into the investment process using credit analysts, portfolio managers and/or a dedicated engagement team specialising in ESG themes. Our fixed income managers have strengthened their engagement practices, and we believe that robust engagement is now well integrated into bond investing strategies.

Integration of ESG considerations at manager selection and ongoing monitoring is a critical part of London CIV's approach to ensure ESG risk is factored in at the issuer, sector, and geographic level.

ESG questionnaires are sent to managers before the selection process where the approach of the manager and their own corporate governance are assessed to indicate how advanced the manager's approach to ESG integration in fixed income is. Due diligence meetings are conducted prior to appointment and quarterly meetings are held once managers have been selected.

We see fixed income engagement as an exciting opportunity for innovation and expect ESG factors to directly affect issuance. Examples of strategies we encourage include promoting issuance of well-designed 'purpose of use' or sustainability bonds and offering margin rachets to borrowers who score more highly on ESG criteria. We see all ESG factors as financially material to whether loan repayments can be made and thus believe it should affect creditworthiness.

Sovereign debt

Investor engagement in the sovereign debt context can be misinterpreted as lobbying, advocacy or an attempt to interfere in a government's policy choices. Whilst governance and political factors have long been a part of sovereign credit analysis, the asset class has until recently remained largely unexamined from an ESG risk and reporting perspective due to the absence of reliable metrics and actionable intelligence. Please refer to the Geopolitical Risk section for how we currently incorporate political risks into our ESG assessment.

London CIV believes that bondholders should engage to make more informed investment decisions. Many of our managers already regularly engage with government representatives and other country authorities to gain insight, primarily around fiscal monetary and environmental policies, all fundamental elements of bond pricings. We encourage our managers to use the meetings they already have with sovereign officials to point out which ESG information they deem important.

We recommend our managers to frame engagement around ESG disclosure and making progress towards existing policy commitments, such as the Sustainable Development Goals

("SDGs") or the Paris Agreement. The COVID-19 crisis has increased countries' public financing needs, presenting investors, as funding providers, with a unique opportunity to engage with sovereigns on delivering sustainable recovery plans.

In addition, we calculate the climate footprint of our sovereign fixed income assets on an annual basis as well as their contribution to the global energy transition. The results of this analysis are available in our TCFD Report.

Private markets

Private markets capture investments unavailable through public markets, such as listed exchanges. It includes asset classes such as infrastructure, renewables, real estate, private equity, and private debt. We see private markets as an attractive way to diversify our Partner Funds' investment portfolios and enhance long-term returns. Active ownership is a critical part of investment in private markets due to the degree of influence London CIV can have and the long-term nature of the investments that are made.

However, within the asset class there are barriers to stewardship due to the lack of disclosure and use of general partners and investment managers which provide an additional communication barrier between London CIV, our managers and the underlying assets. As a result, pre- investment, in-depth due diligence is a critical part of

our strategy. We assess ESG criteria as part of the investment manager selection process as we believe that well governed companies with strong ESG criteria will offer better long- term risk adjusted returns.

We expect managers to have firm ESG and climate change policies and reporting processes in place, across the entire value chain, from investment due diligence, through to ownership and exit. Before investing in a fund, we consider whether the mandate focuses on sustainability-related themes or whether the fund mandate focuses on sectors or geographies with relatively higher ESG-related risks and opportunities.

We assess the selected manager's approach to ESG during due diligence. We expect material ESG risks and opportunities to be identified at this stage and, where necessary, develop follow-up actions or mitigation plans that London CIV will monitor on an ongoing basis. At the selection stage, London CIV may decide to include reporting and ESG commitments from the manager in a side letter to the Limited Partnership Agreement ("LPA").

As the average ownership period for an underlying investment is often more than 10 years, much can change during this time in relation to the investment, the investment manager, the regulatory environment, and in the market. This may expose ESG risks that were not material at the time of investment. Therefore, we expect managers to have policies, systems and resources to ensure ESG factors are monitored throughout the lifetime of the investment.

Applying effective stewardship practices in private markets can be very dynamic. Thus, we aim to use the appropriate mechanisms relative to the asset class, size and complexity of our investments, as well as our position in the capital structure, taking into account and the influence that we may or may not have as a result. Some examples of stewardship activities across private markets include:

Where London CIV have a significant holding we will strive to influence the underlying manager at Limited Partner Advisory Committees ("LPAC") meetings.

- Ensuring appropriate governance structures are in place, especially if managers have minority positions in assets.
- Assessing how responsible investment integration is embedded into the culture of the organisation.
- Understanding the awareness, training programmes and capacity to manage ESG issues.
- Assessing the manager's approach to diversity and inclusion.
- Working with managers to improve transparency and ESG/impact reporting, by explaining which metrics we seek to gather on our investments and explaining why we see new metrics as material.
- Establishing what commitments to responsible investment have been made through affiliations with organisations such as PRI, TCFD, Global Real Estate Sustainability Benchmark ("GRESB") and others.
- Estimating the full value chain footprint of ESG impacts to serve as the basis of engagement, to understand if adequate data is collected to mitigate any potential 'hotspots' of risk.

Infrastructure

Infrastructure has an essential role to play in mitigating and adapting to climate change as well as achieving the Sustainable Development Goals ("SDGs"). However, this often means that when trying to assess ESG criteria, disclosure may focus on the operational benefits of the asset such as emissions avoided or direct employment generated whilst omitting the full lifecycle impacts such as the embedded carbon footprint or labour standards in the supply chain of the materials used to build the asset.

Given the economic lives of many infrastructure assets, it is vital that we understand and price all risks

associated with the investment. ESG factors can have a material impact on long-term investment outcomes and play an integral role in the decision-making process. We expect our managers to remain vigilant on ESG issues for infrastructure, requiring adequate disclosure that covers the full value chain of the investment.

We expect our managers to integrate ESG considerations pre- and post-investment. Prior to new investment, all investment risks should be assessed. This is particularly critical due to the illiquid nature of private infrastructure.

It is also important to engage through the lifecycle of the investment. As with all of our private markets engagements, we work closely with our investment managers and perform ongoing quarterly meetings to highlight any emerging issues and track progress.

We believe that engagement can be particularly effective for private infrastructure debt because there is often a sole lender or a small number of lenders – compared with multiple lenders in a public corporate bond issue. Therefore, lenders should have closer relationships with borrowers and access to early engagement.

London CIV works with its real assets and infrastructure investors to incorporate ESG and climate considerations into investment due diligence and decision-making. We calculate the environmental footprint of their energy infrastructure investments as well their contribution to the SDGs on an annual basis as part of our TCFD Report and use these results to help us prioritise engagement.

Real Estate

Investing in real estate presents two key ESG considerations when compared with other asset classes. As with infrastructure, it has a long-term investment horizon, which is important because more ESG risks are likely to materialise when assessed over longer periods. Secondly, many ESG issues emerge at the local level, for example extreme weather, water stress and community relations and direct real estate investments are inextricably linked to a specific geographic location. Whilst a company can move its operations or change suppliers, real estate has no such flexibility.

Specific examples of how engagement should be used for real estate investments include:

- Assessing the managers' approach to quantifying physical climate change risks, and how these are fully integrated into their due diligence, valuation and property management.
- Using tools, such as the GRESB to evaluate performance and areas for improvement.
- Assessing how sustainability credentials of assets can be improved through refurbishments and green retrofits.
- Understanding how the environmental and social footprint of the asset has been calculated throughout the full supply chain.
- Evaluating the operational footprint of the asset by assessing raw data such as utility bills, third party reports or independent databases.
- Assessing the effectiveness of tenant engagement around operational issues such as energy and waste management.
- Engaging on any data gaps (at the operational or supply chain level) to improve transparency and reporting with particular focus on carbon foot printing and climate specific metrics.
- Calculating the "triple-bottom line" benefits of any real estate, including social benefits/ impact captured from affordable housing or job creation for example.
- Assessing the managers' approach to quantifying how the asset contributes to quality of life in the local area using specific localised Quality of Life indicators.

Private debt

While private credit managers are typically not involved in the direct management or ownership of the businesses they finance, contrary to common belief, the asset class can exercise influence and pursue effective stewardship responsibilities.

ESG engagement in pre-investment due diligence and integrated credit analysis
In private markets, it is important to have a highly disciplined approach to investment selection due to the illiquid nature of our asset class. Hence

ESG considerations play an integral part of the due diligence and credit analysis process.

In the first instance, at the due diligence stage and as with other credit risk factors, we may decline deals for ESG reasons. For example, we have a number of investments in chemical companies, but in the case of one midsize European company where it had exposure to single use plastics, we would have expected reporting on recycling data and other components of 'circular economy' management. However, the deal team's dialogue with, and assessment of, the prospective borrower identified that it had very little disclosure evidencing that it was managing this business risk, which was a contributing factor to us declining the deal.

Next, an important lever and pre-investment engagement tool in our asset class to incentivise progress on sustainability performance, are ESG-linked margin ratchets which reduce the loan interest margin if the borrower delivers against predefined targets. In other words, if they meet said targets, they reduce the cost of capital.

Emerging markets

While private credit managers are typically not involve Over half of the world's GDP growth since 2009 has come from emerging markets, with China and India accounting for over 40% of that growth . Whilst there has been considerable progress in developed markets with regards to ESG integration, companies in emerging and frontier markets still lag their peers.

The rise of emerging markets is happening alongside other structural changes, namely, changing governance expectations and climate change. This presents a difficult challenge for our managers on how they can actively engage portfolio companies in markets where governance norms, legal frameworks, and responses to climate change may vary.

We expect managers to assess the local context and take the time to understand the local business environment, culture, and evolving regulations. These differences serve to guide variances in stewardship and engagement activities. We believe our assessment of the diversity and inclusion of the manager at the operational level can be a good indicator of whether or not the investment team have the right cultural diversity internally to contextualise engagements.

Aside from our standard due diligence processes to determine the skills and quality of all managers whom we invest with, we expect managers working in emerging markets to:

- Focus on larger holdings where there is a pre-existing relationship with the companies
- Not to force domestic norms on foreign companies, but maintain a minimum global baseline that all companies must meet.
- Engage with emerging markets companies alongside knowledgeable local investors.

We Forum, https://www.weforum.org/agenda/2020/02/investor-engagement-emerging-markets/. Accessed 1 August 2024.

Collaboration
Delivering outcomes at scale

Collaborating with other institutional investors and service providers is a powerful way to pool knowledge and information, share costs and risks, and effectively influence and capture the attention of corporate managers. Complex market transformation is far more likely to be achieved through an alliance of investors rather than one institution acting independently.

By speaking to companies with a unified voice, investors can more effectively communicate their concerns to corporate management. The result is typically a more informed and constructive dialogue. By working with investment managers, companies, our stewardship partner, Partner Funds and peers we are able to:

Build knowledge and skills:
through collective expertise on highly complex issues, enabling us to approach companies operating in challenging environments or covering a range of economic, regulatory, and cultural markets.

Increase efficiency:
to avoid duplication of effort by sharing tasks and responsibilities.

Enhance power and legitimacy:
through the collective reputation, size and weight of members which are difficult for companies to ignore.

How we work with companies

London CIV engages with companies individually, through our investment managers, our stewardship partner, and collectively through industry collaboration, with the objective of improving investment outcomes over the long-term. We expect companies to adhere to the UK Corporate Governance Code on a 'comply or explain' basis and expect non-UK companies to adhere to international corporate governance principles, whilst recognising local application and development.

Whilst most of our engagement takes place via third parties, London CIV has clear guidance on what we expect from companies and what companies should expect from us so that managers, GPs and our stewardship partner can be assessed against similar standards.

What companies can expect from us:

- Transparency: We will disclose our expectations on companies and always be clear on our objectives and the outcomes we seek to achieve when approaching companies.
- Collaboration: We will collaborate with other investors where possible so as to avoid the duplication of multiple requests.
- Materiality: We will clearly demonstrate the business case, prioritising areas associated with greater economic opportunities, increased competitiveness and improved long-term prospects for the firm.
- Alignment: We will align requests with international standards where possible to save companies' time.
- Preparedness: We will arrive prepared and provide feedback. We will avoid entering engagement without fully reviewing financial, sustainability and operational data of the company or without having specialist knowledge on issues.

What we expect from companies:

- Transparency: We expect companies to provide adequate disclosure on ESG issues to support our research, as this gives us confidence ESG issues are understood and in hand. We also expect them to be responsive to data requests.
- Collaboration: We expect companies to be proactive in responding to requests and willing to provide access to senior members of staff to aid dialogue.
- Investor Relations: Companies can enhance their communication with us by closing the loop between internal ESG information systems and reporting practices.
- Proactivity: Corporations can use engagement proactively and strategically to test ESG policies, identify more efficient ESG targets and build better ESG management systems.
- Cohesion: We expect companies to operate with good coordination between corporate investor relations departments and board-level executives to ensure engagements are not a lost cause.

How we work with Investment Managers

London CIV expects company directors and investment managers to adopt measures to promote both stewardship and long-term decision making.

Managers can contribute more to the performance of businesses through greater involvement in the companies in which they invest. We believe that adopting such responsible investment practices will prove beneficial for investors and markets alike.

Working with managers is a key part of our stewardship strategy, specifically for more challenging asset classes such as private markets and infrastructure. Where we cannot rely on our stewardship provider, or the use of a vote, we must turn to our investment manager to seek dialogue with the underlying asset and drive outcomes.

Manager stewardship is assessed on a quarterly basis and reported to our Partner Funds. An example of our internal manager monitoring assessment questionnaire is below. Managers are scored across five criteria: responsible investment integration, engagement and stewardship, company culture and governance, disclosure and momentum.

All investment managers are at different stages in their responsible investment journey, and we recognise that they may have different challenges owing to the nature and asset classes of their funds. Momentum is therefore an important criterion in our manager assessment process.

We will continue to develop our reporting expectations in a way that works for individual managers and their various investment approaches.

How we work with our Stewardship Partner

London CIV has selected EOS to complement our own stewardship activities following a tender using the National Framework and due diligence process. As of April 2021, EOS engage with companies that form part of our public equity and corporate fixed income holdings to seek positive change for our Partner Funds, the companies and the societies in which they operate.

Using these services enables us to achieve a wider coverage of assets and provides access to more detailed expertise across a range of investment themes. The team's connections, language skills and cultural understanding greater enhances the ability to create and maintain constructive relationships with company boards.

Manager stewardship is assessed on a quarterly basis and reported to our Partner Funds. An example of our internal manager monitoring assessment questionnaire is below. Managers are scored across five criteria: responsible investment integration, engagement and stewardship, company culture and governance, disclosure and momentum.

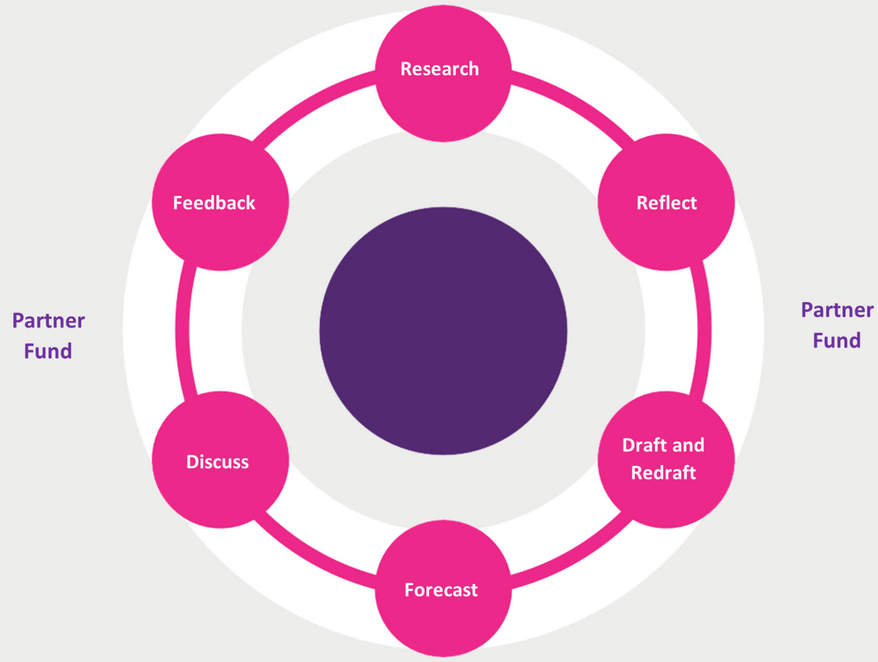
As we are looking to track milestones, EOS brings continuity to our engagement plan with a focus on long- term outcomes. EOS has a four-stage milestone system which allows it to track the progress of engagements, relative to the objectives set for each company. When it sets an objective, it also identifies the milestones that need to be achieved. Progress is then assessed regularly and evaluated against the original engagement proposal.

EOS make voting recommendations guided by our Voting Guidelines that are, where practicable, engagement-led and involve communicating with company management and boards in the period prior to the vote. This ensures that its rationale is understood by the company and that the recommendations are well- informed and lead to change where necessary.

We communicate our engagement priorities to EOS on a regular basis by taking advantage of the various touchpoints described below. As well as feeding into EOS's engagement strategy, we undertake our own monitoring of the provision to ensure the service delivery meets our expectations and check that activities align with our stewardship themes and priorities.

Figure 7: Measuring progress – milestones. Source: Hermes Equity Ownership Services.

Figure 8: EOS Partner Fund-led approach. Source: EOS at Federated Hermes



Collaborating with likeminded institutional investors

London CIV recognises that our voice has greater influence and is more efficient and effective when we work together with partners. We are committed to collaborating with peers and Partner Funds in a range of initiatives covering a variety of ESG issues. Key commitments and areas of focus, as well as how we have participated in these initiatives to date, are detailed below:

Initiative	Description
Asset Owner Diversity Charter	An asset owner led initiative set up in 2020 by Brunel, Cambridge, Camden, London CIV, Lothian and NEST pension funds to develop a formal set of actions the industry can commit to in order to improve diversity, in all forms, across the investment industry.
ClimateAction100+	An investor initiative to drive corporate action on climate change. Over 400 investors with >$35 trillion in assets under management ("AUM") are engaging 100 systemically important emitters (accounting for two thirds of global emissions) on improving governance, curbing emissions and strengthening disclosures.
Nature Action 100	An investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. More than 200 institutional investors – representing over $27 trillion in assets under management or advice – from around the world participate in Nature Action 100
Transition Pathway Initiative (TPI)	The LSE Transition Pathway Initiative Centre (the TPI Centre) is an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy. The TPI Centre's analysis considers corporate climate governance and carbon emissions.
PRI Spring Initiative	Spring is a PRI stewardship initiative for nature. We are signatories of this newly launched initiative as an endorser, and supporter of engagement.
PRI Advance	Advance is a PRI-led collaborative initiative where institutional investors seek to advance human rights and positive outcomes for people through investor stewardship. 265 Investors endorsing the initiative, representing $35 trillion in assets under management (AUM).
Cost Transparency Initiative (CTI)	An independent group tasked by the Financial Conduct Authority in 2018 with delivering a standardised template for the disclosure of costs and charges to institutional investors.
FSB's Task Force on Climate Related Financial Disclosures (TCFD)	A market-driven initiative, set up to develop a set of recommendations for voluntary and consistent nature-related financial risk disclosures in mainstream filings.
FSB's Task Force on Nature Related Financial Disclosures (TNFD)	A market-led and science-based initiative supported by national governments, businesses and financial institutions worldwide. The Taskforce on Nature-related Financial Disclosures (TNFD) has developed a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities.
LAPFF (Local Authority Pension Fund Forum)	LAPFF promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Forum leads the way on issues such as executive pay, reliable accounting and a just transition to a net zero economy.

Initiative	Description
Marine Conservation Society: Microplastics Pollution	First State Investors and the Marine Conservation Society convene like-minded investors, to engage with the manufacturers of domestic and commercial washing machines to fit, (as standard), filters to their products to prevent plastic microfibres entering the world's precious marine ecosystems.
Pensions for Purpose	A collaborative initiative of impact managers, pension funds, social enterprises and others involved in impact investment. Aimed at promoting the understanding of impact investment.
ShareAction: The Good	An investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. More than 200 institutional investors – representing over $27 trillion in assets under management or advice – from around the world participate in Nature Action 100
Work Coalition	An evolution of its existing Living Wage Coalition, The Good Work Coalition focusses on a broader range of international topics including: The Living Wage, Insecure Work and Gender Equality for Low Paid Women.
ShareAction: Healthy Markets Coalition	A group of investors with over $1 trillion in AUM aimed at increasing accountability of food retailers and manufacturers for their role and impact on people's diets and the growing concerns surrounding increasing levels of obesity.
UN backed Principles for Responsible Investment (PRI)	The PRI is the world's leading proponent of responsible investment which encourages institutional investors to commit to and promote six guiding principles including incorporating ESG issues into investment decision making, active ownership, better disclosure, collaboration and reporting on progress.
Investor Alliance for Human Rights	The alliance is a collective platform for responsible investment that is grounded in respect for people's fundamental rights. The initiative helps investors to navigate their responsibility to respect human rights. They utilise corporate engagements to drive positive business conducts and set human rights standards for businesses.
Deforestation Free	A market-driven initiative, set up to develop a set of recommendations for voluntary and consistent nature-related financial risk disclosures in mainstream filings.
Pensions Working Group	This working group was established by Global Canopy, Systemiq and Make My Money Matter to develop a practical guidance to enable pension funds to identify, address, and eliminate deforestation, conversion, and associated human rights abuses from their investments.
Like-minded Investment Managers	We work with all our investment managers to manage ESG risks, harness ESG opportunities, and collaborate on critical stewardship activities.

London CIV's policy is to collaborate in initiatives where issues align with our priority areas and/or where we feel we can have a positive impact. We are committed to continuing and expanding these efforts and will report on our role in each initiative, along with successes and outcomes, in our Annual Stewardship Activities and Outcomes Report.

Reporting

As signatories of the PRI, disclosure is a key part of our stewardship activities. We expect appropriate disclosure on ESG issues by the entities in which we invest and will engage accordingly. We will also report on our activities and progress towards implementing our Stewardship Policy.

Each quarter, London CIV will report on its voting record and engagement activities to Partner Funds as part of its Quarterly Investment Report ("QIR"). We will also disclose summary reports on our website covering our engagement and voting records to inform Partner Funds' own stewardship efforts.

On an annual basis we will report on our Stewardship Activities and Outcomes. The move towards tracking outcomes is a key part of our strategy and as part of our policy we will monitor milestones and outcomes for each engagement activity that we undertake.

Governance and oversight

The London CIV Board approves and is collectively accountable for London CIV's strategy and governance, including its overall approach to active ownership and stewardship. The IOC oversees the implementation of London CIV's investment strategy on behalf of the Board including its approach to active ownership.

The Executive Team, led by the Chief Executive Officer ("CEO"), is responsible for the day-to-day management of London CIV, including delivery and development of stewardship activities. The CIO is responsible for managing the integration of ESG factors into the portfolio construction, implementation and overall investment decision making.

Stewardship strategy development and operational accountability is led by the Head of Responsible Investment ("HRI") who reports to the CIO and is supported by two Responsible Investment Managers, one of whom oversees stewardship and engagement. The integration of ESG considerations in manager selection, monitoring and management is explicit in all roles within the Investment Team.

The development of this policy has been supported by key stakeholders specifically through the support of the Sustainability Working Group ("SWG"), membership of which includes representatives from Partner Fund Funds, London CIV, and the appointed ESG Champion from the Board. The group meets monthly to discuss emerging ESG issues and priority areas.

This policy relates to and interacts with other documents, in particular the Responsible Investment Policy and Climate Change Policy. The first edition of this Stewardship Policy was approved on behalf of the Board on April 2021 and the annual update approved on 31st July 2024.

POLICY APPROVED
London CIV, July 2024

Appendix
Glossary

Acronyms and terms	Description
AGM	Annual General Meeting.
CEO	Chief Executive Officer.
CIO	Chief Investment Officer.
Companies Act (2006) s172	Section 172 is a part of the section of the Act which defines the duties of a company director and concerns the "duty to promote the success of the company".
CTI	The Cost Transparency Initiative is an industry standard to improve cost transparency for institutional investors.
Dasgupta Review	The Dasgupta Review is an independent, global review on the Economics of Biodiversity led by Professor Sir Partha Dasgupta (Frank Ramsey Professor Emeritus, University of Cambridge). The Review was commissioned in 2019 by HM Treasury and has been supported by an Advisory Panel drawn from public policy, science, economics, finance and business.
Diversity and Inclusion	Diversity refers to recognising differences, acknowledging the benefit of having a range of perspectives in decision-making and the workforce being representative of the organisation's customers. Inclusion is where people's differences are valued and used to enable everyone to thrive at work. An inclusive working environment is one in which everyone feels that they belong without having to conform, that their contribution matters and they can perform to their full potential, no matter their background, identity or circumstances.
EOS	EOS at Federated Hermes is a leading stewardship service provider. Our engagement activities enable long-term institutional investors to be more active owners of their assets, through dialogue with companies on environmental, social and governance issues.
ESG	Environment, Social and Governance are issues that are identified or assessed in responsible investment processes. Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems. Social factors are issues relating to the rights, well-being and interests of people and communities. Governance factors are issues relating to the governance of companies and other investee entities.
GRESB	Global Real Estate Sustainability Benchmark. GRESB validates, scores and benchmarks ESG performance data, providing business intelligence and engagement tools to investors and managers.
CSO	Chief Sustainability Officer.
IOC	Investment Oversight Committee.
LAPFF	The Local Authority Pension Fund Forum is the UK's leading collaborative shareholder engagement group. LAPFF promotes corporate governance standards to protect the long-term value of local authority pension funds.

Acronyms and terms	Description
London Quality of Life Indicators	The London Quality of Life Indicators are designed to capture the breadth of challenges facing London and to provide a means to gauge how London is performing against several measures considered to be key factors in delivering a sustainable city that supports and enhances quality of life. They can also help alert policy makers to unsustainable trends.
LPAC	Limited Partner Advisory Committees
OECA	The Office of Enforcement and Compliance Assurance is the legal enforcement arm of the United States Environmental Protection Agency.
OECD	Organisation for Economic Cooperation and Development – A group of 37 member countries that collaborate and develop economic and social policies.
PM2. 5	PM2. 5 refers to particles that have diameter less than 2.5 micrometres (more than 100 times thinner than a human hair) and remain suspended for longer. These particles are formed as a result of burning fuel and chemical reactions that take place in the atmosphere.
QIR	The Quarterly Investment Report is a report sent to all London CIV Partner Funds detailing the financial and ESG performance of London CIV funds on a quarterly basis.
Sustainability Working Group	The Sustainability Working Group (SWG) – is a working group including representatives from Partner Funds, London CIV, and the appointed ESG Champion from the Board.
TCFD	Financial Stability Board's Task Force on Climate Related Financial Disclosures ("TCFD") was established with the goal of developing a set of voluntary climate-related financial risk disclosures which can be adopted by companies so that those companies can inform investors and other members of the public about the risks they face related to climate change.
TNFD	Task Force on Nature Related Financial Disclosures ("TNFD") was established with the goal of developing a set of voluntary nature-related financial risk disclosure recommendations and guidance which can be adopted by companies so that those companies can inform investors and other members of the public about the nature-related dependencies, impacts, risks and opportunities they face, and incorporate nature into decision-making.
UK Corporate Governance Code	The UK Corporate Governance Code sets out standards of good practice for listed companies on board composition and development, remuneration, shareholder relations, accountability and audit.
UK Stewardship Code 2020	The Code sets stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers.
UN Environment Programme	The environmental authority in the United Nations system. It uses its expertise to strengthen environmental standards and practices while helping implement environmental obligations at the country, regional and global levels.
UN SDGs	UN Sustainable Development Goals. These include the SDG targets and indicators, thresholds set by the UNFCCC 2015 Paris Agreement, expectations set out in the Universal Declaration of Human Rights, and other environmental, social, governance, and development objectives established by political or socio-economic institutions.
UNGP	United Nations Guiding Principles on Business Human Rights – A set of guidelines for governments and companies to prevent, address and remedy human rights wrongdoings committed in business operations.
UNPRI	UN Principles for Responsible Investment- A set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance factors. Organisations follow these principles to meet commitments to beneficiaries while aligning investment activities with the broader interests of society.
US Business Roundtable	The US Business Roundtable is a not-for-profit association whose members are chief executive officers of major US based corporations. The association aims to promote a thriving US economy and expand opportunities through sound public policy. Its members join with communities, workers and policymakers to build a better future for the nation and its people.

Appendix
London CIV's Investment Beliefs

London CIV aims to deliver stronger investment returns over the long term, protecting our Partner Fund interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

Our Investment Principles clearly articulate our commitment to be responsible investors. We recognise that social, environment and corporate governance (ESG) considerations, including climate change, are integrated throughout all aspects of our investment process.

1. Long term investors earn better returns net of costs.
2. Careful calibration of risk against objectives, together with robust risk management, leads to better risk-adjusted returns.
3. Responsible Investment improves outcomes, mitigates risks and creates opportunities through:
   a. Good corporate governance
   b. Active stewardship and collective engagement
   c. Effective management of climate change risk
   d. Promoting diversity and inclusion
4. Providing value for money is critical and it is essential to manage fees and costs.
5. Collaboration, clear objectives, robust research and evidence-based decision-making adds value.
6. Targeting opportunities across the public and private asset markets is aligned to the needs of Partner Funds.

Our Investment Beliefs detail how we integrate climate change throughout the investment process and sets objectives to work towards to ensure outcomes can be monitored and measured over time.

Appendix

Methodology for Assessing and Monitoring Company-Level Risks, Identifying Stewardship Priorities, and Integrating the Five Key Drivers

London CIV identifies key stewardship themes through a dynamic and multifaceted process, considering both top-down and bottom-up factors. This appendix details the comprehensive methodology employed to identify, assess, and monitor risks at the company level, ultimately informing the prioritization of stewardship themes and guiding engagement strategies with portfolio companies.

1. Global Risk Landscape Assessment:
Beginning with a comprehensive analysis of the global risk landscape, including macro risks, policy, and regulation as well as stakeholder priorities. Analysis begins with the most recent World Economic Forum | Global Risks Report at time of analysis and incorporates up to three additional relevant sources which are identified in January each year by the responsible investment team following desk-based research and literary review.

2. Company Specific Risk Evaluation:
Conducting a detailed assessment of company-level risks specific to London CIV's holdings and investments, including asset-related risks, evolving client priorities, and areas where London CIV can exert influence.

3. Social Materiality Focus:
Recognising social materiality in terms of the issues that will have the biggest impact on the world around us.

4. Financial Materiality Analysis:
Quantifying financially material issues that hold the greatest potential to affect investment returns.

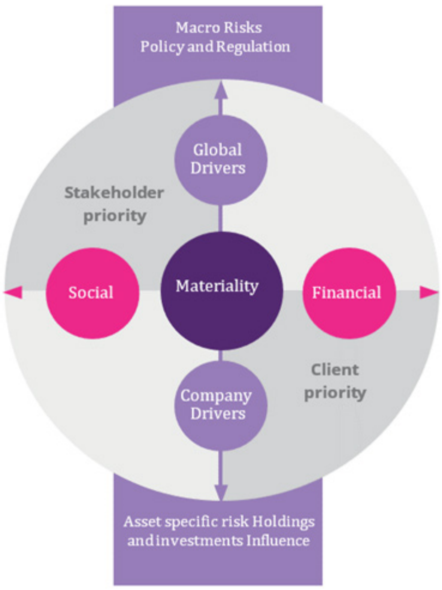
5. Reactive Event Response:
Responding reactively to unforeseen events after a specific and significant incident ensuring timely and effective action.

Where an issue is prioritised based on our exposure and the probability of a successful outcome. Determining ESG priorities must be addressed without undermining the complex interconnectivity of a myriad of issues. At the macro-level we are affected by top-down global risks and client priorities.

From a bottom-up perspective, we recognise micro-risks of our individual assets and specific areas where we can have influence.

This ever-evolving system of prioritisation is nuanced by a values versus value-based approach that sees risk as greater in terms of magnitude and likelihood when financial and social materiality combine.

This is whilst influencing what is viewed as best practice by the industry and other stakeholders, and thus what policy and regulation will soon unfold.



In order to quantify these risks, London CIV conduct an annual review of any new research of papers and publications relating to global ESG risks. Then we use a combination of simple quantitative calculations and qualitative scoring in order to define our top priorities using our proprietary risk identification methodology.

Step 1: Identifying Global Risks

- Primary Data Source: World Economic Forum (WEF) Global Risks Report : The WEF's annual Global Risks Report serves as the foundational source for identifying and understanding global risks and their interconnections. Its comprehensive analysis of economic, environmental, geopolitical, societal, and technological risks provides a robust basis for assessing company-level exposure.
- Supplementary Data Sources (If Needed): While the WEF report typically provides a comprehensive overview, additional sources may be consulted to supplement the analysis in specific cases. Sources used in the January 2024 review included:
- Global Risks Report by Marsh McLennan: This report presents insights from a partnership between the World Economic Forum and Marsh McLennan, offering a business perspective on global risks.
- Global Risk Index by the United Nations University Institute for Environment and Human Security (UNU-EHS): Provides a country-level assessment of risk exposure to natural hazards and climate change.
- Fragile States Index by the Fund for Peace: This index gauges the vulnerability of states based on social, economic, and political indicators.

As long-term asset owners, we believe our priority align more closely with long term risks hence our strategy in long term and milestone planning and focus on WEF's 10 year timeframe.

Source: Woeld Economic Forum Global Risks Perception Survey 2022 -223

Step 2: Materiality Test

- If score 255 or above then the priority theme should be reviewed within Step 2 of the process
- If score is between 155- 254 then the theme will be added to the monitor list

Step 3a: In-depth assessment (If proposed theme passes first stage Materiality Test)

Recognising social materiality in terms of which issues will have the biggest impact on the world around us.

- Conduct thematic research on the proposed issue
- How will this issue impact on other E, S and G factors, for example is there interconnectivity and mutual dependency with other priority themes reviewed in Step 2?
- Is there any knowledge or resource pertaining to the issue within the Sustainability Team?
- Can we leverage EOS to influence change, for example do they have industry specialists and resource on this key topic?

Calculating financial materiality in terms of which issues will have the biggest impact on our returns.

- Assessment of existing exposure
- Desk based assessment of investment managers' position of the issue when making investment decisions

Step 3b: Monitoring and Review (If proposed theme is flagged for the Monitor List)

- Monitoring List: A dynamic list is maintained, comprising significant and moderate risks identified in the assessment. The monitoring process includes tracking news and developments, reviewing WEF reports and updates, and engaging with investment managers.
- Review Frequency: The monitoring list and stewardship priorities are reviewed at least annually, with more frequent reviews for high-priority risks or if significant changes occur.
- Adaptability: The methodology is designed to be adaptable to emerging risks and evolving best practices in responsible investment.

Step 4: Action Implementing and Integrating Stewardship Priorities

Upon identification and prioritisation of stewardship themes through the risk assessment process:

1. Internal Approval and Alignment: The newly identified theme will be discussed with the Stewardship Working Group (SWG) and Investment Team, then presented to the Executive Committee (ExCo) for formal approval.
2. Policy Integration: The approved theme will be integrated into the Stewardship Policy and other relevant policies (RI Policy, Climate Policy, Voting Guidelines), with feedback from the Investment Team and final approval by ExCo.

3. Communication and Implementation: Investment managers and the Equity Ownership Services (EOS) will be informed of the new theme and London CIV's position.
4. Monitoring, Reporting, and Review: Progress on selected themes will be reported annually in the Stewardship Outcomes Report. A full review of the risk assessment and stewardship theme identification process will take place at least every three years, with annual literature reviews and sense-checks using London CIV's proprietary risk identification methodology.

This streamlined approach ensures efficient implementation and integration of stewardship priorities within London CIV's responsible investment framework.

Policy, regulation and stakeholder priorities are assessed using desk-based research and literary review annually in January of each year
Definitions and Global Risks List - Global Risks Report 2024 | World Economic Forum (weforum.org)
Sources used in the January 2024 review included; (1) **Global Risks Report by Marsh McLennan**: This report presents insights from a partnership between the World Economic Forum and Marsh McLennan, offering a business perspective on global risks. (https://www.marshmclennan.com/insights/publications/2024/january/global-risks-report-2024.html); (2) **Global Risk Index by the United Nations University Institute for Environment and Human Security (UNU-EHS)**: Provides a country-level assessment of risk exposure to natural hazards and climate change. (https://ehs.unu.edu/); (3) **Fragile States Index by the Fund for Peace**: This index gauges the vulnerability of states based on social, economic, and political indicators. (https://fragilestatesindex.org/)

DOCUMENT ENDS