



LCP's Stewardship Report 2023

**Highlights of our stewardship and
responsible investment activities**

October 2023





FOREWORD



*Zuhair
Mohammed*
Head of Investment

This is our third UK Stewardship Code Report which covers our stewardship activities over the year to 31 March 2023 (the “year”).

In preparing this report we have considered the Financial Reporting Council’s (FRC) feedback on both our first and second reports, as well as the general comments the FRC made in its reports entitled “Effective Stewardship Reporting” dated November 2021 and “Review of Stewardship Reporting 2022” dated November 2022.

This report highlights how we have supported our clients with their stewardship and responsible investment activities in the year to 31 March 2023 and implemented the principles of the UK Stewardship Code 2020 (the “Code”). In it, we also describe our engagement with investment managers and advocacy within the investment community more generally, including with regulators, to help raise standards of stewardship and responsible investment practices.

LCP’s mission is to fuse human expertise with powerful analytics to shape a more positive future for our clients and people. We know good stewardship and responsible investment practices are consistent with achieving that.

Stewardship can enhance investment performance by encouraging companies to act in the long-term interests of their shareholders and other stakeholders (eg pension schemes) and their ultimate beneficiaries (eg pension scheme members). Stewardship contributes to stable, well-functioning and well-governed economic, social and environmental systems, which is in the best interests of our clients.

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

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



HIGHLIGHTS FOR THE YEAR TO 31 MARCH 2023

Responsible investment issues – comprising ESG (environmental, social and governance) factors and stewardship – are increasingly important for our clients. The challenges posed by, for example, the UK’s September mini budget – and the subsequent “gilts crisis” – the US and European banking sector strains, as well as the ongoing impact of the Russian invasion of Ukraine, have had a material impact on the UK and global markets. This has further raised clients’ awareness of the risks of systemic issues such as high and “sticky” inflation, rising interest rates and associated debt sustainability concerns, climate change, cyber risk and the danger of further pandemics, all of which demand effective stewardship of their investments.

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

- Supporting clients in improving their stewardship activities following the release of the Department for Work and Pensions’ (DWP) new stewardship guidance, going beyond simply complying with legal requirements (see [page 26](#));
- Launching our new responsible investment (RI) philosophy, which has an increased focus on stewardship, and which emphasises the importance of systemic risks and considering the real-world impacts of investment decisions; (see [page 18](#));
- Updating our assessment of managers’ approaches to ESG integration, voting and engagement and climate risk management, adding an assessment of their net zero practices and pushing for improvements where necessary, particularly those non-equity managers who view stewardship primarily as an issue for equity holdings (see [page 32](#));
- Strengthening our resources to support our clients with continued expansion of our responsible investment team (see [page 24](#));
- “Upping the ante” in monitoring stewardship issues with managers (see [Box 1](#));
- Delivering positive results from both our employee and client surveys in 2022 (see [page 14](#) and [Box 2](#), respectively);
- Producing innovative thinking as part of our work in “[Powering possibility in pensions](#)” (see [page 47](#));
- Responding effectively to the gilts crisis with clients and the wider investment community (see [Box 5](#));
- “Painting a brighter future” as described in the results from our Diversity, Equity and Inclusion (DEI) survey of investment manager firms (see [Box 4](#));

- Making a real-world difference to the green transition of the energy system;
- Providing continued support and advice for large pension scheme clients in meeting the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) regulations;
- Addressing the nine commitments we made by joining the Net Zero Investment Consultants Initiative (NZICI) to ensure net zero alignment is embedded in the way we work¹. Our net zero report can be accessed [here](#); and
- Raising the profile of RI in a range of ways – for example, through conference speaking, podcasts, articles and blogs.

Events of the past year - the gilts crisis and the cost-of-living crisis resulting from high inflation and increasing interest rates - have highlighted the importance of effective governance and stewardship.

Last year the DWP raised the bar for stewardship with its stewardship guidance. We strongly support this positive development and have encouraged our clients to set stewardship priorities and improve their engagement with investment managers.

Whilst much of the focus over the past year has been dealing with immediate issues highlighted above, we note the need to deal with longer term systemic risks (like climate change) facing our clients and society in general. These risks can only be mitigated through strong stewardship and engagement. Therefore, we will continue to promote good stewardship to help mitigate these risks and protect our clients and the planet.

Zuhair Mohammed
Head of Investment

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

¹ Since we have produced a separate report describing what we are doing in relation to net zero we have omitted the detail of that work from this report to avoid duplication.



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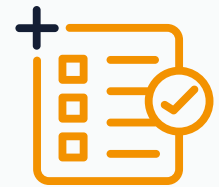
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OUR APPROACH TO STEWARDSHIP

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

LCP offers a wide range of services, both longstanding and new, to a broad range of clients. Our longstanding business activities cover actuarial, investment, pensions administration and governance as well as insurance, while new areas include work such as financial wellbeing, health analytics, energy analytics and football analytics.

Our investment clients are predominantly asset owners, holding investments in equities (company shares), government and corporate debt, and other asset classes such as property and private market assets. They normally appoint external investment managers, sometimes via an investment platform, to manage the assets and to conduct stewardship on their behalf, often through pooled funds.

However, over the past year, our new business activities have grown rapidly in importance. To illustrate, we have included an example of the work undertaken by our Health Analytics team described under [Principle 4](#).

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

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

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

Principles for service providers

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

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

PURPOSE, STRATEGY AND CULTURE

Principle 1

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

Purpose, the services we offer and an outline of our culture, values, business model and strategy

Purpose of the organisation

We strive to create human connection in everything we do. It makes working with us more fun, and helps us to uncover better solutions for our clients. We participate fully in the wider world around us, both across our professional landscape and with our local communities.

We are known for our market-leading advice in pensions, investments and insurance, and we strive to help create a financially better future for society. Our love of data, technology and working out solutions to the difficult questions of today, has led us into newer sectors where we see our skills and knowledge can be effectively applied.

We measure our success not just in financial terms, but also in how we benefit all our stakeholders and support long term sustainable growth for current and future generations of our people. Every decision we make impacts people. We want to achieve the best we can for everyone, whether that is our people, our communities, our clients, or those they serve. While our clients may be institutions, organisations or government bodies, our advice ultimately impacts wider society – we fully recognise that in helping our clients meet their own financial and wider goals, we are ultimately allowing them to deliver on the obligations they have to the individuals they serve. Thus, while we have hundreds of clients, millions of people are impacted by our advice.

For example, pension provision is increasingly via defined contribution (DC) rather than defined benefit (DB) arrangements, so the quality of our advice directly affects the financial circumstances of individual members more and more. The same is true of other areas in which we operate. We understand this and the responsibility it brings, and our aim is to continually strive to improve these outcomes.

We also see our firm as having a wider purpose which is to encourage and promote a better financial services industry and society more broadly. For example, we spent the year building a case behind the scenes seeking changes in the pensions regulatory environment to allow the £1.5tn of UK DB pension fund assets be used more effectively for good. This





PURPOSE, STRATEGY AND CULTURE CONTINUED

plan, on which we went public post-reporting year, is reflected in proposals now being consulted on by government.

The firm's broader purpose is also why we share our knowledge and expertise with others in our industry, and why we contribute to policy development and the wider public interest. We have representatives on over 60 different external professional and trade committees and groups including the Association of Consulting Actuaries (ACA), Institute and Faculty of Actuaries (IFoA), the Pensions Management Institute (PMI) and the UK Statistics Authority.

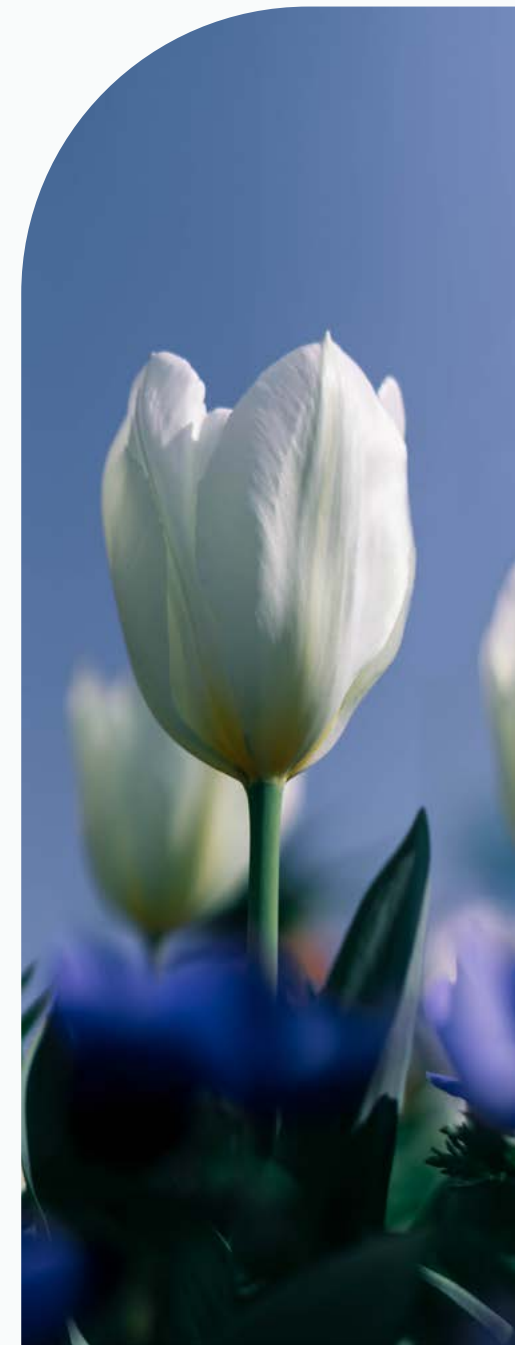
LCP dates back to 1947, and has grown steadily since then to be the largest independent, owner-managed pensions consultancy in the UK and Ireland, as well as an organisation now offering a wide range of financial and analytical services to a broad mix of clients. We are structured as a Limited Liability Partnership which plays an important part in our culture and the experience of our clients since the leaders of our business are also our lead advisers. We have the freedom to focus on what our clients need and value. The partners own the majority of the business, with a minority non-controlling stake held by Charterhouse, a private equity firm. An Executive Committee (ExCo), chosen by our 168 partners, manages the business day-to-day and reports to the firm's Board. During the year, we rebranded our Professional Committee (ProfCo) as RiskCo, to better reflect the changing nature of its remit in addressing a broadening range of firm-wide risks. It continues to work with our other various subcommittees in overseeing the professional activities at the firm.

The range of our activities over the year is testament to the breadth of our services. Within our "mainstream" activities, we would

highlight our annual **Financial Wellbeing report** which examines the financial health of the UK population. Our most recent report delved into the complex interaction of people's finances and emotional and physical health, and how helping with the first of these can help with the other two. We also produced a white paper which examined the rise in economic inactivity and looked at what policies can be developed to combat this.

Our ongoing campaign to raise awareness about the underpayment of state pension to groups of women has led to a multi-year DWP correction exercise expected to pay out £1.5 billion to over 230,000 pensioners. This year we followed up with our '**Mothers Missing Millions**' campaign. The campaign was aimed at parents (predominantly women) who missed out on state pension rights for the years they spent bringing up children. We had over 50,000 visitors to our dedicated website, and we have heard from a number of people who successfully secured a higher pension and a backdated lump sum as a result of the campaign.

We would also highlight developments in one of our broader areas of work. Our energy sector service offering continues to grow, in response to the industry's rapid pace of change and as the transition to net zero becomes something increasingly relevant to our clients and broader society. We are hands-on when it comes to making our energy infrastructure more sustainable. For instance, during the year, we worked together with Northern Powergrid, to secure £14.5m funding from Ofgem to develop a framework to enable communities to pursue their own decarbonisation agenda and have greater control over their own energy.





SERVICES TO SUPPORT OUR CLIENTS' STEWARDSHIP

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

- Setting investment strategy, taking into account market-wide and systemic issues such as changes in interest rates, inflation, currency risk and climate change;
- Developing short, medium and long-term investment pathways to meet clients' objectives (for example, market-dependent and/or time-based de-risking frameworks);
- Assessing and understanding risks, and implementing mitigation strategies;
- Selecting, monitoring and reviewing investment managers and their funds to implement a chosen strategy;
- Advising clients on the stewardship of the fund investment vehicles they own; recommending how to vote on resolutions for the fund vehicle's management; reviewing governance structure and the degree of independent oversight of the fund vehicle;
- Helping to establish and review our clients' investment policies, including in relation to ESG factors, voting and engagement;
- Reviewing and reporting on our clients' investment managers' voting and engagement activities;
- Assessing value for money of investment managers and ensuring fee arrangements are transparent;
- Providing independent oversight of fiduciary arrangements;

- Meeting regulatory requirements and expectations, such as the DWP's stewardship guidance;
- Providing training and development on regulatory and legislative stewardship requirements, as well as stewardship more broadly;
- Providing services to support our clients' compliance with TCFD regulations;
- Supporting clients in becoming signatories to the UK Stewardship Code; and
- Using advocacy through our thought leadership, consultation responses and membership of industry bodies (such as the IFoA), Pensions and Lifetime Savings Association (PLSA), Charities Investor Group, the Investment Consultants Sustainability Working Group (ICSWG), the Institutional Investors Group on Climate Change (IIGCC) and NZICI to encourage responsible stewardship throughout the investment value chain.

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

Relevant activities include:

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



CULTURE AND VALUES

Our approach to our people, our clients and other professionals is to work in a collaborative, constructive and supportive manner, always going the extra mile when we can to deliver more than may be expected. It's about building our role in our local communities, our industries and the wider world.

We expect all LCP staff to act professionally and ethically. We are licenced by the IFoA and our investment business activity is subject to the IFoA's Quality Assurance Scheme (QAS). Many of our investment colleagues hold professional qualifications, or are working towards them, whether qualified actuaries or Chartered Financial Analyst (CFA) charter holders.

Our culture is underpinned by our four values:

CURIOUS

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

We encourage our people to explore new avenues for learning, putting their hands up for new opportunities or taking their career in unexpected directions. Constructive challenge is valued and helps us to improve processes and ways of working.

ACCOUNTABLE

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

CONNECTED

We strive to create human connection in everything we do and be in tune with our surroundings. It makes working with us more fun and helps us to uncover better solutions for our clients. We are connected to our communities, to our environment, and to each other, and we work together to shape a more positive future. In a hybrid world, this matters more than ever.

AGILE

The one constant in our world is change, so we are set up to be able to move quickly and decisively. From adapting our advice in response to changing policy, developing new tools and being early adopters of new technology to make decisions quicker and easier, to working in a bespoke way to respond to individual client needs - we are a supportive partner in a changing, fast-moving world.

OUR CLIENT PROMISE, LCP CARES

Our values are underpinned by our LCP Cares promise that Clients Always Receive Exceptional Service. It's our service standard and promise to our clients that everyone at all levels will strive to go the extra mile.



To receive a consistent, responsive and timely service

That advice will be clear, high-quality and tailored to their needs

Clients should expect

That our people will go the extra mile

Clients → Always → Receive → Exceptional → Service



OUR COMMITMENT TO RESPONSIBLE BUSINESS

Good business

We believe that good business is also good for the wider world in which we operate. We see operating sustainably as key to our own growth and our clients' success – and an empowered, engaged workforce supported by a strong culture and good governance is how we achieve it.

This means that we prioritise the things that really matter, from playing our part in the transition to a low carbon economy and increasing financial knowledge to promoting DEI. We take our role as industry leaders seriously, as we believe that we can amplify the good we cause by working with others and leading important conversations.

This year we have built on our commitment to being operationally net zero with respect to Scope 1 and 2² emissions and are currently looking to extend this to incorporate Scope 3 emissions. We are now working with our suppliers and internal teams to identify where we can make improvements and to put policies in place that support our progress.

We have purchased offsets from a blended portfolio comprised of projects that are independently audited to internationally agreed standards.

As a firm, we have a network of Green Champions who run firm wide campaigns, promoting initiatives to help people to understand – and then reduce – their energy consumption. A few examples of their work include:

- Promoting Green Week – an internal campaign run by the Green Champions together with our LCP Delta team which coincided with COP27, designed to raise awareness of various aspects of environmental sustainability, including finance, technology, transport, energy, waste, recycling and food;
- Assisting with actions to monitor progress on, and delivery of, LCP's net zero commitment; and
- Championing the introduction of a staff benefit to encourage take up of electric vehicles.

2. Scope 1 emissions are direct emissions resulting from vehicles, fuel use and/or chemical leakage. Scope 2 emissions are indirect emissions resulting from bought electricity, cooling, heat and/or steam.



OUR COMMITMENT TO RESPONSIBLE BUSINESS CONTINUED

Our team structure for CSR related decisions and activities





OUR COMMITMENT TO RESPONSIBLE BUSINESS CONTINUED

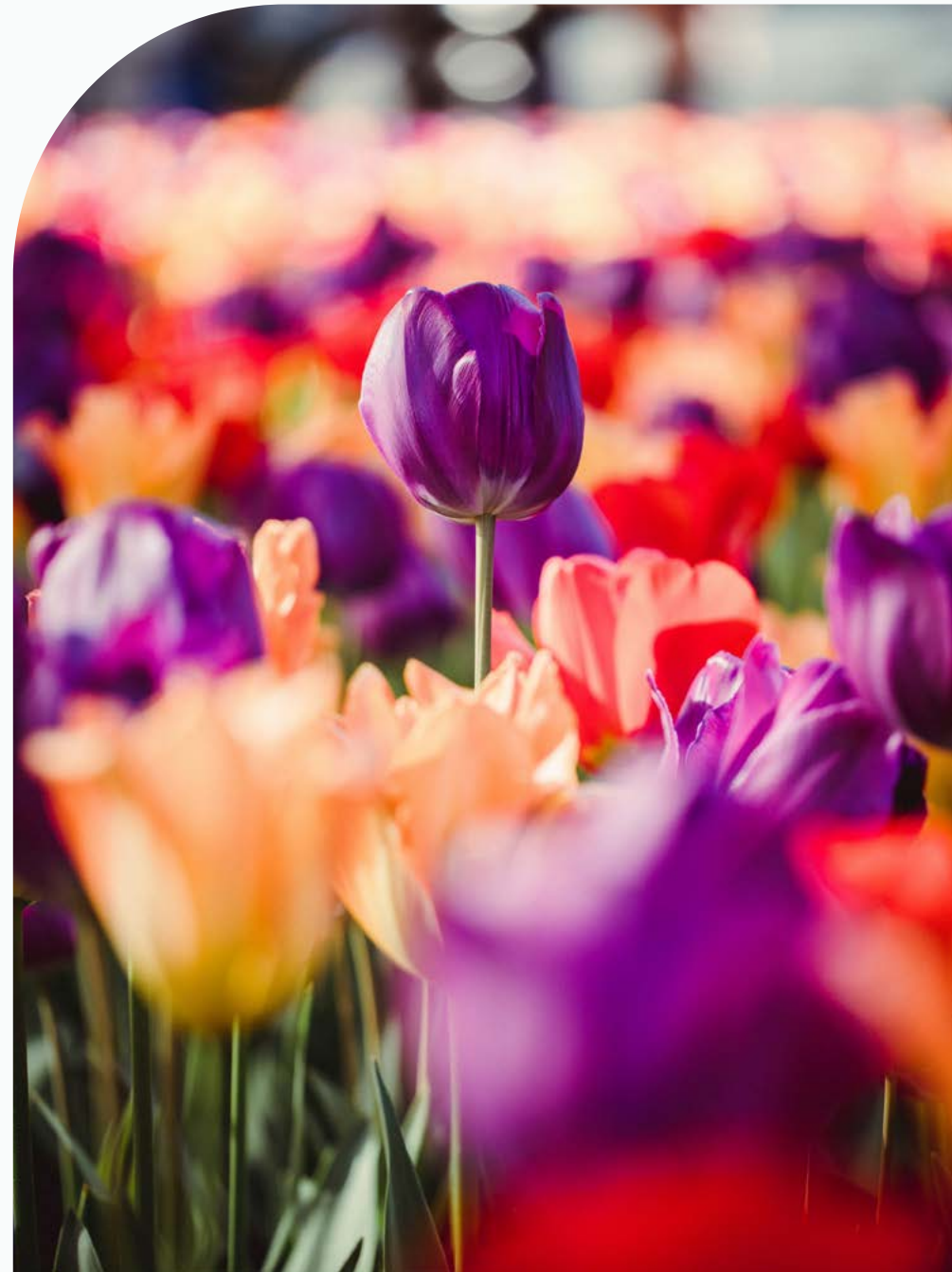
We support diversity, equity and inclusion (DEI)

We want everyone to have the opportunity to fulfil their potential at LCP. We have a very active DEI Group, along with four networks – Multicultural, LGBT+, Women's and Wellbeing (who cover Mental Health, Neurodiversity, Disability, Age Inclusion, Mental and Physical Wellbeing and Nutrition). Our Networks help support our aim to build an inclusive workplace where all forms of diversity are valued. We also contribute to initiatives beyond LCP – such as the investment industry Diversity Project (see [Principle 2](#) for details) and representation on the IFoA's Diversity Action group.

We have won 13 DEI awards since 2018 and were one of only six financial service companies awarded LGBT Great's Gold standard for LGBT+ equality within financial services in 2022 and are pleased to have been awarded the Gold standard for a second year in 2023. We have also been pioneering in our thought leadership in this area and helping our clients turn ideas into practical steps.

We are also on the third round of our Partner Champion programme which has seen 70+ of our partners and principals sign up. This is an individual commitment made by senior leaders to challenge barriers to DEI, with each individual stepping forward to be a visible advocate and supporter.

We published our guide '[Diversity, Equity, and Inclusion, a recipe for an effective pension scheme](#)' and were heavily involved in the drafting of The Pension Regulator's (TPR) Diversity Action Plan. We also published a report called '[Painting a brighter future](#)', which sets out the results of our survey of diversity and inclusion at investment management firms in the UK.





OUR COMMITMENT TO RESPONSIBLE BUSINESS CONTINUED

Looking after our team

Our seven “People Principles” illustrated below are core elements of LCP’s business strategy. We want to foster and nurture our people and allow them to grow; this is at the very heart of our People Principles.



In the wake of the pandemic, we changed our working practices to reflect how our lives have all become more ‘hybrid.’ This year we have continued to support our people and react to the cost-of-living crisis. We have:

- Given a one-off additional pay review;
- Given an additional cost-of-living bonus to all staff;
- Introduced 26 days leave for all staff and flexible bank holidays, so that people can use some of their bank holiday allowance to take days that are more meaningful and significant to them; and
- Listened to what people want from their workplace in terms of support and benefits so we can make sure that our people are getting the things they value from us as an employer. We run regular surveys and encourage constant feedback to ensure we stay in tune with our people’s needs.

One of the key ways we look for feedback is through LCP Voice, our firm-wide engagement survey, which helps us understand how individuals feel about working for LCP, what’s working well and where we could improve. We received a fantastic 84% response rate to the 2022 survey, which means we have a wide representation of feedback and themes from across the firm.

We are proud to have received an overall engagement score of 87% – which is equal to the results we received in 2019 when we last ran the Voice survey and is also an impressive 10 points above our industry benchmark. The survey is open to everyone in the firm, and we had very strong responses rates across all parts of the firm and all levels of seniority.

As part of this survey, we committed to donating £3 to the LCP Foundation³ for every survey response we received. With an 84% response rate, this equated to a total of £2,415 donated to the LCP Foundation.

These high scores meant we were awarded People Insight’s Outstanding Workplace award.

3. The LCP Foundation gives direct grants to charities as well as matching funding for staff members raising money for good causes.



OUR INDEPENDENCE

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

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

BUSINESS MODEL AND STRATEGY

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

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

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

We aim to achieve this growth by focussing on:

- Building on our strong reputation within the DB buy-in / buy-out market, where significant opportunities have arisen as a result of the general improvement in pension scheme funding levels;
- Growing our share of the DB pensions market, in particular for the very largest schemes and ensuring that we are the partner of choice to take these schemes to their endgame or run-off;

- Building on our strong pensions expertise in defined contribution (DC) pensions and Financial Wellbeing consulting;
- Continuing to build a broader client base through our investment consulting services to charities, endowments, sovereign wealth funds, central banks and insurance companies on the responsible allocation of their capital to meet their investment objectives;
- Increasing the range of services offered to existing clients, for example, within our Energy and Health departments;
- Continuing to develop our technology to enable us to deliver a highly efficient and differentiated service to all types of institutional investors;
- Maintaining our independent status and not offering fund management products. This is increasingly seen as a differentiator compared with our larger competitors; and
- Ensuring that we provide career opportunities in broader areas in which our consultants can deploy their analytics skills. Examples include consulting to insurance companies on reserving and capital modelling, working with government on long-term energy policy and with energy companies on investment decisions, as well as health analytics to understand the impact of chronic diseases and their related conditions on healthcare providers and infrastructure. We even work with Premier League football clubs and those farther afield to optimise transfer decisions and player selection. Apart from generating direct revenues, this work gives talented colleagues time and freedom to apply their abilities in broader areas. This is a highly effective differentiator in our recruitment policies. We believe that if we focus on growing a talented and engaged workforce then continued business growth will follow as a natural consequence.

INNOVATION

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

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



INNOVATION CONTINUED

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

1. LCP Monitor

LCP Monitor – our tool giving clients real-time information on their investments – was formally launched during the year. A key part of the LCP Monitor system is the ability for our clients to see, and track changes to, our Responsible Investment rankings for all of their appointed investment managers. These rankings reflect a range of RI metrics, including our assessment of the stewardship capabilities of managers.

LCP Monitor is currently being rolled out in a phased manner to our investment clients. As part of that rollout, we are also trialling new functionality that allows clients to better understand how their investments are managed, for example, the carbon emissions related to those investments, and what their exposures are. We are listening to our clients’ feedback on what they value most in LCP Monitor to inform where we focus our development efforts, as described on [page 56](#).

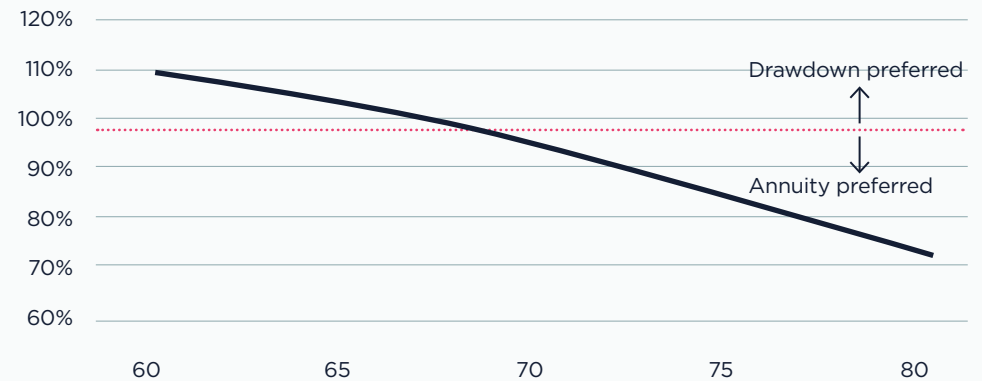
2. Flex first, fix later

At our [DC and Financial Wellbeing conference](#) in May 2022, we raised the idea of a new type of post-retirement solution which better meets the needs of some DC pension scheme members and is not currently available in the market. While there has been lots of government policy and focus on DC members in the “accumulation phase”, very little policy thought had been given to the “decumulation phase”.

This analysis built on another LCP paper [“Is there a right time to buy an annuity”](#), published in 2021, which considered whether there is a crossover point at which it made sense for an individual to prefer an annuity over drawdown. Our solution starts with assets wholly or largely invested for growth in drawdown and then gradually switches in whole or in part to an annuity at a later age, with an opt out in case members’ preferences or circumstances change.

Following our May 2022 conference, we have refined our modelling and are now using it to help advise providers on how to achieve the best outcomes for their members post-retirement.

Relative happiness: drawdown v annuity





LCP BEACON

Two examples of other kinds of tools we have developed over the year are as follows:

3. LCP Beacon

LCP Beacon's development started in late 2022 and was launched in May 2023. It's an example of how we as a firm are rising to tackle the challenge of climate change – one of the most, if not the most, important systemic risks our clients face.

LCP Beacon

Climate change is an increasingly significant risk for sponsors

It can be difficult to know where to start when trying to understand the climate risks and opportunities relevant for your sponsor, even more challenging when trying to incorporate these factors into a scheme's journey plan.

LCP Beacon is an intuitive tool designed to help pension scheme stakeholders understand and engage with climate risks and opportunities, providing clear actions that are tailored to their circumstances.

With climate change becoming increasingly significant, it's critical that pension schemes manage climate risk and identify opportunities in this rapidly evolving landscape. Covenant – which is a measure of the ability (and willingness) of a sponsoring employer to honour its commitments to pension scheme members – is a key aspect of pension scheme health. LCP Beacon supports the stewardship activities of trustees and sponsors by integrating climate risks and opportunities into their assessment of covenant strength. A good understanding of covenant ultimately improves journey planning, risk management, and decision-making processes.

In particular, using LCP Beacon helps clients to:

- Gain a deeper understanding of the different types of climate risks and opportunities and how they may impact a company's financial performance and position;
- Assess the effectiveness of a company's corporate sustainability strategy and identify areas for improvement; and
- Develop tailored questions for trustees to engage with their sponsor and learn more about the impact of climate change on covenant strength.

4. LCP Football Analytics – Sustainability Index

Football is at the heart of many local economies, helping to promote social cohesion as well as a sense of community. At the same time, many clubs have struggled to maintain a sound financial footing with their long-term sustainability being threatened as a result.

As we've mentioned in previous reports, LCP's Football Analytics team developed its football SaaS⁴ scouting platform TransferLab in 2017, extending it to incorporate a version covering the women's game in 2021. On 26 January 2023, the team announced it had supported the launch of Fair Game's⁵ "Sustainability Index" (subsequently renamed the "Fair Game Index"). The aim of the index is to create a new mechanism to financially reward well-run clubs and incentivise better governance and financial stability.

LCP's Football Analytics Team was instrumental in helping Fair Game develop this index, in particular by developing an interactive dashboard to make the index's information clear and accessible. The Sustainability Index was developed as a way to embed and operationalise some of the findings from Tracey Crouch's (Chair of the recent [Fan-Led Review of Football Governance](#)). The index looks at using new and existing revenue streams in football, such as broadcast income and the proposed Solidarity Transfer Levy, to incentivise clubs by distributing funds according to how well they score on four criteria: Financial Sustainability, Good Governance, Equality Standards and Fan & Community Engagement.

The approach proposed by Fair Game to monitoring and measuring equality and financial stability standards will, if implemented, incentivise and reward clubs for being progressive, help clubs to meet some of the additional costs of implementing best practice, as well as help to put many more clubs onto a more sustainable financial basis.

4. Software as a service (SaaS) is a software distribution model in which a cloud provider hosts applications and makes them available to end users over the internet.
5. Fair Game, a group of 34 value-driven football clubs, works with its network of world-renowned experts to develop realistic long-term solutions to the problems faced by football in England and Wales.

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



On 1 April 2022, we launched our new ESG strategy internally, setting out our priorities for the forthcoming partnership year. It covers all aspects of our investment-related ESG services for clients, as well as integrated ESG approaches for DB pension schemes spanning covenant, investment, funding and journey planning. ESG priorities for other parts of our business (eg energy analytics, health analytics and insurance) are set within those teams. The purpose of the ESG strategy is to provide focus and coordination to our work in this important and fast-moving area, to help us prioritise and make the best use of the resources available. The strategy has nine strategic objectives and further developing our stewardship services is one of these objectives.

Implementation of this ESG strategy during the year was overseen by our ESG Panel whose membership and terms of reference were refreshed to reflect the agreed strategy. The Panel monitored its implementation and considered whether it needed to evolve to keep pace with client needs and external developments.

In March 2023 we launched our **RI philosophy**. Our updated philosophy is designed to focus attention on concrete actions to address systemic risks posed by issues such as climate change and inequality. Our clients own a representative slice of the whole economy, so they need to take a systemic view when making investment decisions.

What happens in the real world impacts financial markets, and what happens in the financial sector impacts the real world. Therefore, we believe that all investors should be responsible investors. Since the decisions of asset owners have real world impacts, asset owners need to consider those real-world impacts, on the planet and people, as well as the profits from their portfolio.

Recognising the need for urgency and need for action, our RI philosophy states that we will be bolder and clearer in our recommendations to clients, setting out our preferred approach, rather than simply suggesting a range of options. This reflects our desire to have greater real-world impact through our advice, given the seriousness of the systemic risks we face. Whereas historically we have tended to be led by client preferences when advising on RI, we now believe it is important we lead in this area, given the significant influence we can have over how large sums of money are invested. We intend to place greater emphasis on engagement with managers, asking searching questions and pushing against the status quo to move towards more progressive and innovative solutions.

We firmly believe this is aligned with pension scheme members' best financial interests as well as being of broad societal value.

We are also encouraging clients to align their investment strategy with net zero emissions by 2050. This follows on from our clear stance, set on 1 April 2022, on the Net Zero Asset

Managers (NZAM) initiative, where managers will only be eligible for an LCP "buy" rating⁶ if they are signed up to NZAM.

As a business we are doing our bit as well. We've attached a link [here](#) to our NZICI report which describes how we as a firm are improving our sustainability and reducing our environmental impact and our net zero activities more broadly.

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

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

- Helped clients devise, implement and then monitor policies relating to stewardship matters; an example of this is provided in **Box 1**.
- Discussed with clients and managers what investment portfolios might look like in 5, 10, 20 years if they are to deliver on net zero by 2050 climate targets;
- Engaged with investment managers in a variety of ways – via face-to-face or virtual meetings (annually for most funds our clients invest in), through an annual forum and questionnaires – to understand and challenge how they incorporate stewardship into their investment process;
- Engaged with bulk annuity providers⁷ in a variety of ways – we conduct periodic surveys and meet with them from time to time – to understand and challenge how they manage ESG risks and incorporate stewardship into their investment processes;
- Trained all of our investment staff and partners on stewardship matters, such as ESG and voting and engagement, and made this information available to new joiners (via on-demand video recordings), reflecting the transparent nature of our culture; and
- Produced training and educational material for clients, for example, training slides which helped clients understand the purpose and requirements of the DWP's new stewardship guidance.

6. We assign three ratings to products which are buy, hold, and review.

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



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

In our report last year, we said that we would continue to deepen our RI capabilities. Over the year, for example, we initiated a focused deep dive review of the stewardship capabilities of three of the largest passive equity managers. The rationale for this is the significance of passive managers as shareholders in almost all quoted companies, their importance as managers of our clients' assets, as well as the fact that stewardship is central to those managers' investment propositions. We look forward to outlining our findings when we next report.

In addition, we researched nearly 40 ESG and sustainable investment products during the year, building our knowledge of market-leading RI approaches, enabling us to better engage with more traditional managers and providing us with the breadth and depth of knowledge to provide a wide range of value-add RI services to meet our varied client needs.

BOX 1: FOCUSING ON MEMBERS' PRIORITIES: WORKING WITH A LARGE DC ARRANGEMENT

Summary

We helped a client with a large DC arrangement incorporate members' sustainability priorities into the investment monitoring, to assess whether their asset managers' stewardship reflected those priorities, and to engage when action fell short of expectations.

Activity

Our client had previously conducted a survey to ascertain members' views, including identifying their priority environmental and social themes. We helped the client to design a bespoke passive equity fund which 'tilts' towards companies that generate revenues from activities which are addressing the members' sustainability priorities and away from companies whose activities detract from those priorities. In addition, in light of member feedback and the severe financial risks to members' benefits from climate change, the client set a target of net zero emissions by 2050 which applies to all the funds in the arrangement's default investment strategy.

Following the introduction of the bespoke equity fund, we worked with the client to design a "responsible investment" monitoring framework covering all of the funds in the default strategy. This monitoring framework contains three important aspects:

1. Identifying the extent to which each fund used in the default strategy is assisting with or detracting from progress towards an interim target of 50% reduction in emissions by 2025.
2. Where the change in carbon intensity for a fund was out of line with the target, identifying the extent of engagement activity carried out by the manager with the fund's highest emitters.
3. Identifying the extent of asset managers' engagement on members' priority themes beyond climate change.

Using this approach, in each case, where a manager is identified as having fallen short of expectations, they are invited to explain how their approach to net zero and stewardship is consistent with the DC arrangement's ambitions.

Outcome

The client now has an effective stewardship monitoring process and significantly deeper insight into the engagement being carried out on its behalf as well as the extent to which this is in line with members' priorities. Specifically, the expectation is that the quality of the managers' engagement will be used as a factor in driving the client's future asset allocation decisions.

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



It is difficult to measure this directly. However, for the reasons stated elsewhere, we believe that our status as an independent firm means that we are naturally aligned with our clients' best interests. We believe this contributes to the longevity of our client relationships.

Many of our clients have been with us for decades and we continue to win new appointments both in our longstanding areas of business (a notable achievement in what is a structurally declining market) as well as clients in other areas of work (eg health analytics). Our business growth has been generally very strong for many years, both in absolute terms and relative to our peers, so we think that points to clients believing that we deliver a high-quality service focussed on their best interests and delivering on their needs.

We also seek feedback from clients directly.

BOX 2: CLIENT CARE

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

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

As part of our client satisfaction programme, we undertake a triennial client survey. Nearly 300 clients participated in our 2022 client satisfaction survey, and we were delighted with the results which echoed those of previous surveys.

The results of our 2022 survey show an increase in overall satisfaction from 8.4 to 8.6 out of 10. In addition to this, we've seen our net promoter score increase by 26 points to +64.

While we were pleased with the results, we are not complacent. Please see [Box 9](#) for how we are acting on the insights provided by the survey to improve our service to clients further.

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

Of the clients who responded to the survey:

68%

considered LCP's client experience to be better than our peers

71%

believe the individuals they work with are better than those at other firms

8.6/10

Our average satisfaction score

+64

Net Promoter Score, which is in the upper quartile for professional services firms



INDUSTRY AWARDS

While not a direct measure of serving our clients' best interests, we believe that our success in winning many industry awards – in investment and beyond – in recent years, is indicative of delivering what clients need and value. A list of those we have won over the year are outlined below:

- 2023 InsuranceERM Awards (Analytics Solution of the Year, Young Actuarial and Risk Professional of the Year, and Actuarial Team of the Year)
- 2022 UK Pensions Awards (25 Years of Excellence in Consultancy, Risk Reduction Adviser of the Year, Sponsor Covenant / IRM Adviser of the Year, Diversity & Inclusion Award, 25 Years of Excellence in Consultancy, Fiduciary Evaluator of the Year (highly commended))
- 2022 Pensions Age (Sponsor Covenant Provider of the Year)
- 2022 Actuarial Post (Employer of the Year)
- 2022 Pension and Investment Provider Awards (Investment Consultant of the Year (highly commended), Actuarial Consultant of the Year (highly commended), Employee Benefits Consultant of the Year (highly commended))
- 2022 Insurance Times (Excellence in Risk Management (Bronze))
- 2022 Insurance Times Tech & Innovation Awards (Risk Modelling Solution of the Year, Data Analytics Excellence Award (highly commended))
- 2022 Insurance Insider Honours (Women in Insurance Award)
- 2022 Rising Star Awards (Investment Trainee of the Year, Actuary/Consultant of the Year (highly commended), Investment Trainee of the Year (highly commended), Actuarial/ Advisory Trainee of the Year (highly commended))
- 2022 Women in Insurance (Actuary of the Year, Insurance Woman of the Year (large firms), Young Insurance Woman of the Year (large firms))
- 2022 Women in Investment Awards (Mentor of the Year)
- 2022 Women in Pensions (Young Achiever of the Year, Organisational Award for Supporting Diversity (highly commended))





ACTING IN OUR CLIENTS' BEST INTERESTS

Internal oversight

We take conflicts of interest issues very seriously and have a separate Conflicts and Ethics Committee which sets our policies in this area and whose members are available to discuss with individuals any particular issues they may have. Please see [Principle 3](#) for further details.

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

As noted earlier in this section, we rebranded our “top” ProfCo as RiskCo, to better reflect the changing nature of its remit in addressing a broadening range of firm-wide risks.

External oversight

We are authorised and regulated by the Financial Conduct Authority (FCA) and licenced by the IFoA for a range of investment business activities. In the last external compliance visit from the IFoA (which assesses our compliance with their Designated Professional Body handbook) the IFoA marked us very highly. This visit was conducted on its behalf by the Institute of Chartered Accountants in England and Wales (ICAEW) in June 2019. In addition, we were formally re-accredited in respect of the Quality Assurance Scheme (QAS) in October 2022 by ICAEW on behalf of the IFoA. This accreditation refers to how we maintain and apply procedures in relevant areas as set out in Actuarial Profession Standard QA1: Quality Assurance Scheme for Organisations.

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

Competition and Markets Authority (CMA) Order and update to the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022

The requirements that resulted from the CMA's review of the investment consulting industry in 2018 are now overseen by TPR. Under these, our pension trustee clients now must:

- Set objectives to assess our performance as investment consultants when we are appointed;
- Review the objectives at least every three years and without delay after any significant change in investment policy; and
- At least every 12 months, review our performance against the objectives set.

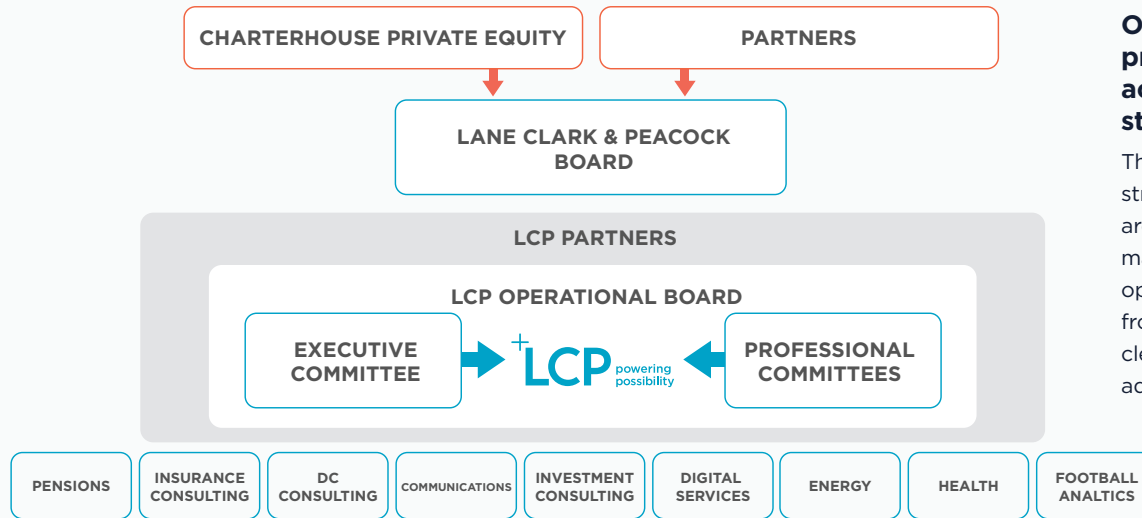
These reviews were required for all our pension trustee clients over the year.



Principle 2

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

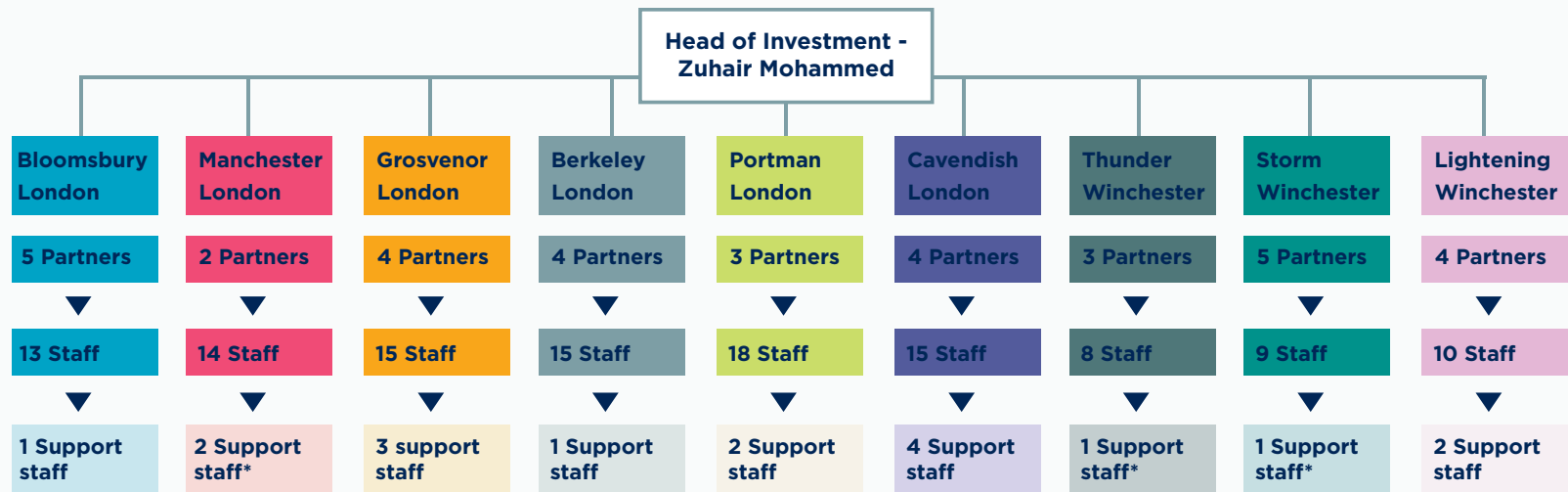
REPORTING EXPECTATIONS



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

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

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



*Please note that one support staff covers for two teams

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

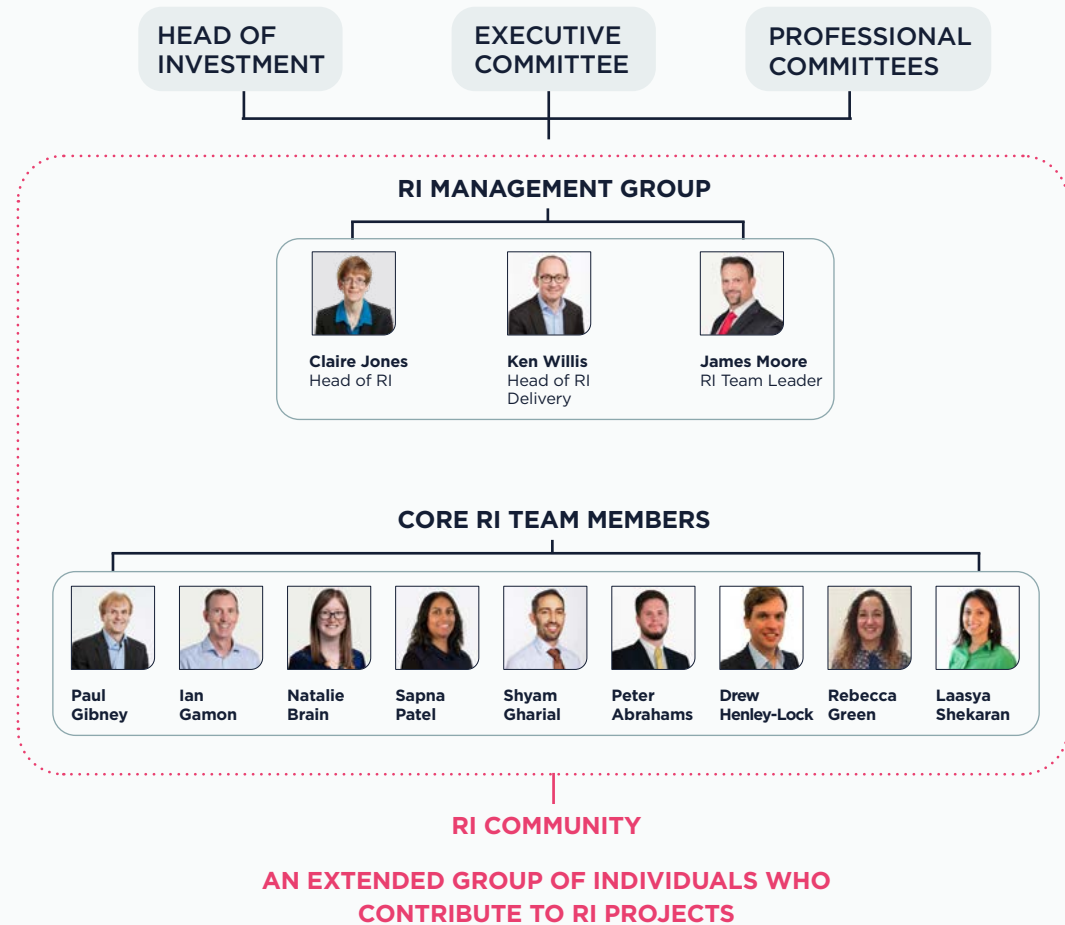


ESG GOVERNANCE STRUCTURE

Our ESG governance structure at the start of the reporting year can be found on page 17 of last year's report. Towards the end of the current year, after reflecting on the strengths and weaknesses of the existing structure, we agreed several changes to simplify reporting lines and clarify responsibilities. We also made it more inclusive by setting up the RI community which offers new ways for a wider group of individuals with an interest in RI to get involved and build their expertise. The new structure - which was implemented shortly after year-end - is summarised opposite. We will provide more information in our next stewardship report.

Small, focussed, nimble teams work on individual RI projects and workstreams (eg net zero integration, RI manager survey). Members of the Core RI Team - which consists of experienced individuals who spend a significant proportion of their time on RI-related work - are key contributors to many of these projects. Dozens of other people (who are members of the RI community under the new structure) are also involved in one or more workstreams, helping to develop and maintain our ESG and climate-related services, including climate metrics and climate scenario analysis.

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

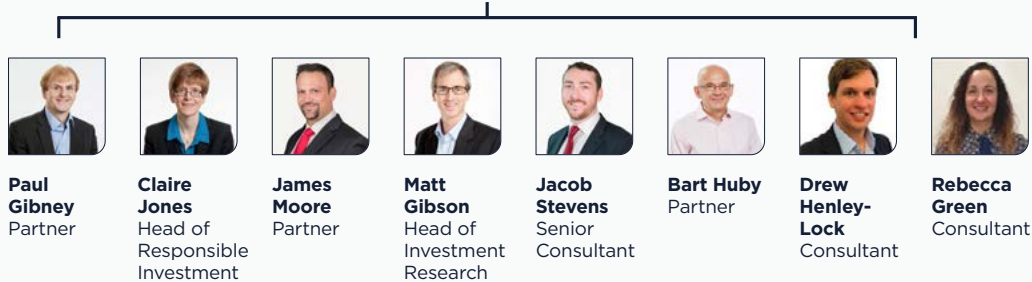




ESG GOVERNANCE STRUCTURE CONTINUED

Our Stewardship Group remains in place and one new member joined over the year. The Group meets typically once a month. The Stewardship Group's eight members are drawn from our RI, investment research, DC and actuarial teams to ensure that there is sufficient weight given to both the asset and liability aspects of creating long-term value for both clients and beneficiaries. The group's members at the year-end are shown below:

STEWARDSHIP GROUP MEMBERS



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

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



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



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

Monitoring the capital allocated by our clients to managers, and considering where new mandates might be awarded, depends heavily on the quality and accuracy of our investment manager research process, on which we continue to build. Over the year, our manager meetings have been conducted via virtual video calls, typically lasting between one and two hours, or in-person. We normally meet with managers at least annually on funds where clients are invested and more frequently if there are significant changes to personnel or fund strategy, or any concerns.

The most significant stewardship development during the year from our perspective was the publication of the DWP’s stewardship guidance for pension scheme trustees in June 2022.

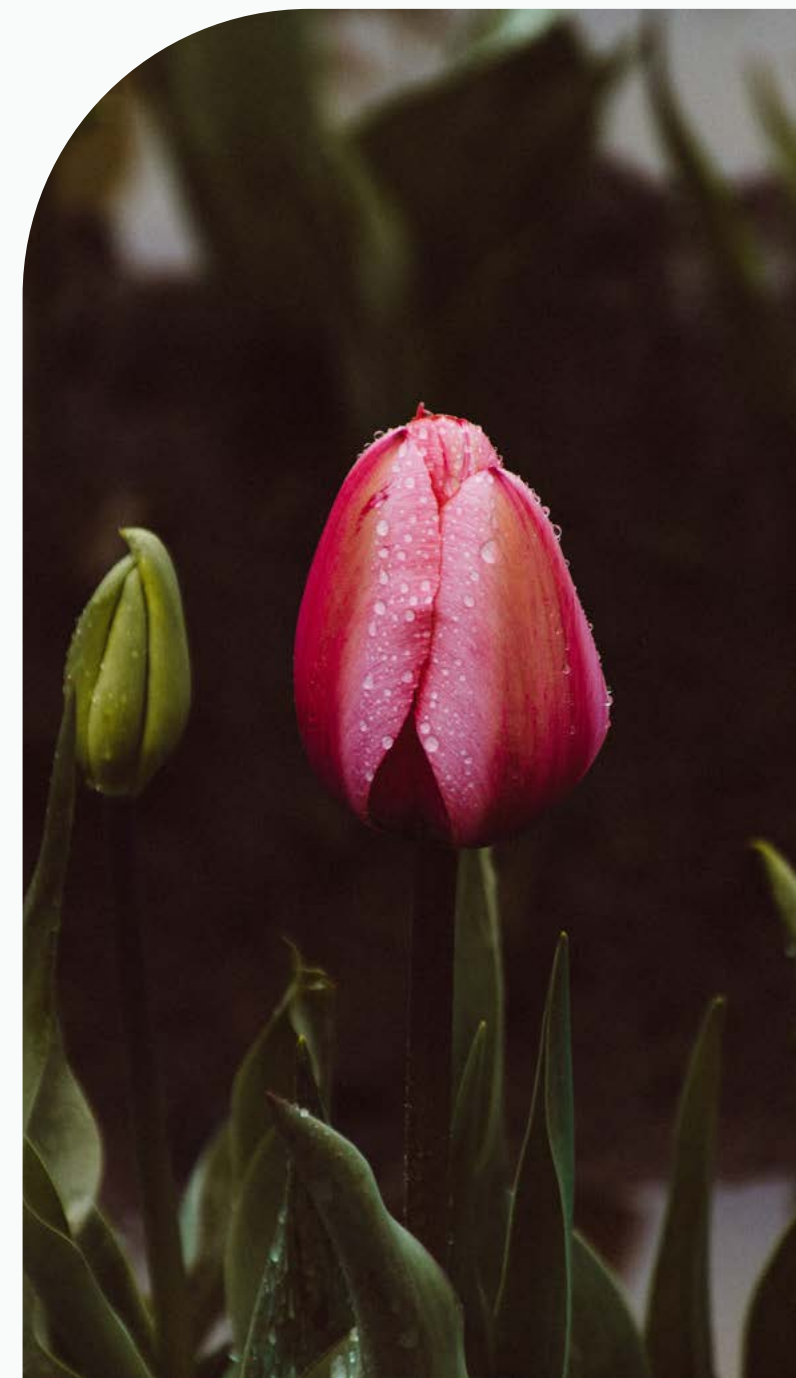
While the guidance comprises a mix of “must”, “should” and “could” requirements, our aim was to try and have our clients engage with the spirit of the guidance rather than just the letter. We developed engaging training materials to aid our trustee clients’ and employees’ understanding of the new requirements, alongside updated Statement of Investment Principles (“SIP”) and implementation statement⁸ templates. These were designed, not only to be compliant with the new requirements, but also to encourage trustees to move the dial towards more rather than less stewardship activity.

In addition, we provided training for trustees on setting stewardship priorities and our experience was that many trustee groups found the exercise interesting and thought-provoking. We subsequently helped our clients communicate their priorities to their managers.

Most of our clients have selected between one and three stewardship priorities; where choosing one, climate change was the most common, and when choosing three, one of each of E, S and G was the preferred approach. The priorities set reflect key market-wide risks and relate to areas where we believe that good stewardship and engagement can improve long-term financial outcomes for pension scheme members. In communicating these priorities to managers, the expectations set are that managers should:

- Take account of financially material factors (including climate change and other ESG factors) when investing our clients’ assets, and improve their ESG practices over time, within the parameters of their mandates;
- Undertake voting (where applicable) and engagement on our clients’ behalf in line with their stewardship policies, considering the long-term financial interests of our clients; and
- Provide information on their stewardship policies, activities and outcomes, as requested by our clients and us from time to time, to enable us to monitor them.

Our clients are or will be using their priorities to help select their most significant votes for inclusion in their implementation statements. In addition, we encouraged our clients to discuss these priorities both with their existing manager appointments as well as part of any new manager appointments.



8. For an explanation of implementation statements, see [Investment guidance News Alert August 2019](https://www.lcp.uk.com/news-alerts/investment-guidance-news-alert-august-2019) (lcp.uk.com)



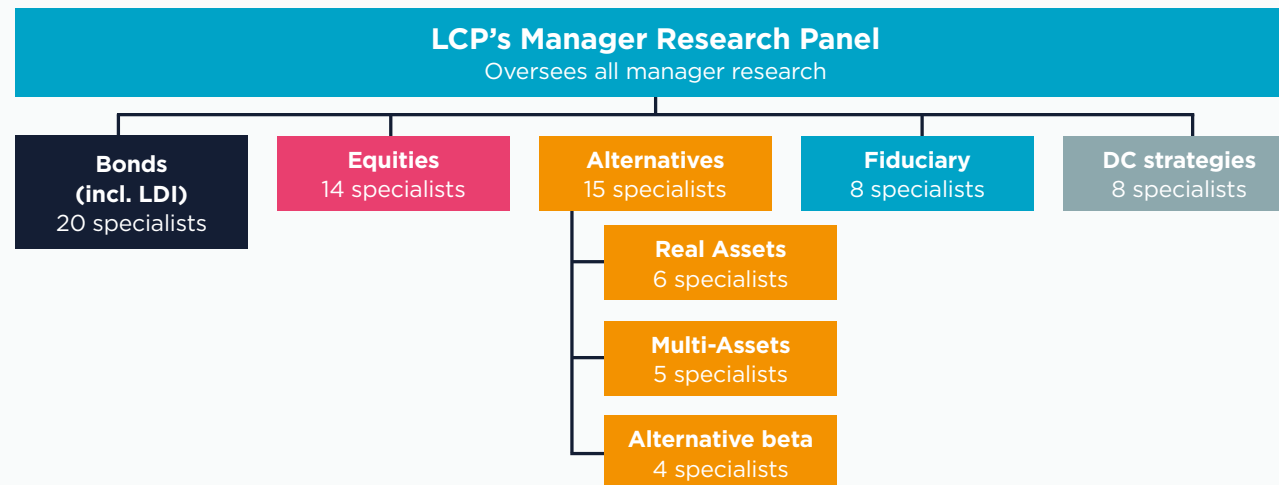
WE APPROPRIATELY RESOURCE OUR STEWARDSHIP ACTIVITIES

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

Our investment department of over 150 people, along with our DC and Financial Wellbeing (FW) department of almost 50 people, provide advice to a wide range of institutional investor clients, as highlighted on [page 23](#) above.

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

This includes the output from our investment manager research programme which covers a wide range of asset classes and managers, and for which RI is a major focus. Our manager research teams comprise a mix of people – some team members are research-only specialists while others combine research duties with client responsibilities. We believe this mix is helpful when conducting research, combining the in-depth knowledge of research specialists with the client perspectives of those with a dual role, who will best understand the practical implications of particular approaches. The same mix of dedicated / mixed duties and responsibilities applies to our RI team as well.



RI resources

Our Head of RI has focused solely on responsible investment – ESG factors and stewardship – for the last five years and over that time has overseen a substantial increase in the resource dedicated to RI. Parts of this role are now shared with two partners to form the RI management function (as shown on [page 24](#)).

Alongside the Core RI team, the RI community also supports our clients on ESG issues and contributes to ESG research and thought leadership.

As well as being able to call upon our RI team, our clients also have access to several RI resources which include:

- Fund-specific RI ratings and assessments from LCP's proprietary research (typically reviewed annually);
- Manager RI ratings and analysis from our biennial survey;
- ESG and climate “dashboards” providing ESG and climate-related metrics for investment portfolios based on data under licence from MSCI; and
- Climate scenarios to analyse climate-related risk over the short, medium and long-term based on modelling from Ortec Finance (including Orderly Net Zero by 2050, Disorderly Net Zero by 2050 and Failed Transition).



WE APPROPRIATELY RESOURCE OUR STEWARDSHIP ACTIVITIES **CONTINUED**

Our well-qualified, highly trained and diverse workforce

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

We encourage all of our team members to study for appropriate qualifications and provide both financial support and time off to do so. Our investment team has a wide range of qualifications with most being either qualified actuaries (FIA), investment professionals (CFA) or both with the investment department having 43 qualified actuaries and 41 CFA charter holders. We are also happy for individuals to study for more specialised, additional qualifications where these have benefit to the firm and to clients, such as the CFA Certificates in ESG, and Climate and Investing. In addition, several of our wider investment team are Chartered Enterprise Risk Actuary (CERA) qualified and we expect more will become so.

Qualifications alone though are not sufficient. We believe in lifelong training and as a firm make a wide range of ongoing training options available to staff and partners to help them stay up to date with developments and new ideas in their subject area and beyond. A key part of this is compulsory monthly technical training for the investment department, led by in-house topic experts with the opportunity to ask questions and engage in discussion. During the year, eight of these monthly sessions covered a total of 16 RI-related topics.

As a firm we encourage individuals to question if they do not understand or if they think there's a better way to do something. We also encourage individuals to attend external events to gain a broader perspective and share the key points on our internal knowledge spaces for other colleagues to see.

We continue to offer shorter "bitesize" sessions lasting around 30 minutes as they worked well during the pandemic, and they offer a particularly effective way to address certain topics. During the year, we have run 5 ESG-related bitesize sessions across the firm which people opt into according to their role.

BOX 3: DIVERSITY, EQUITY AND INCLUSION FOR PENSION TRUSTEES

We believe strongly in the importance of Diversity Equity and Inclusion (DEI). Therefore, we are supportive of our clients being able to benefit from having a diverse range of decision-makers. Many trustee boards recognise the importance of DEI but don't know where to start. That's why, in May 2022, we published our "DEI guide for trustees: A recipe for an effective pension scheme". This guide covers the following:

- Why DEI is important for good pension scheme governance;
- Top tips to help trustees improve DEI for their pension schemes;
- Creating an inclusive decision-making environment and working collaboratively with pension scheme sponsors;
- What trustees need to create an inclusive and equitable decision-making group; and
- How trustees can make member communications more inclusive.

In addition to the above, two of LCP's partners were involved with TPR's DEI Working Group which was responsible for drafting **TPR's equality, diversity and inclusion guidance** for pension scheme governing bodies and employers.

Please see **Box 4** for further details on our work with investment manager firms.



WE APPROPRIATELY RESOURCE OUR STEWARDSHIP ACTIVITIES **CONTINUED**

BOX 4: DIVERSITY, EQUITY AND INCLUSION AT INVESTMENT MANAGERS

In June 2022, we published our report “[Painting a brighter future](#)” which shared the results from our first DEI survey of investment manager firms as part of our commitment under the Asset Owner Diversity Charter.

We sent 176 investment managers who are in our manager research universe an extensive questionnaire covering a range of qualitative and quantitative questions around diversity and inclusion. The survey was developed by a group of investment consultants/asset owners that are signed up to the Asset Owner Diversity Charter – we provided input into the creation of the questionnaire.

Of the managers surveyed, 70 provided a response. This is lower than the level of replies we receive for most of our surveys, which is typically very high. We think that at present a lot of managers are in the process of producing / collecting the relevant data, so it’s not readily available, while some managers in the US declined to respond, citing privacy reasons. We expect the response rate will improve over time.

Of those 70 investment managers who did reply, 42 were able to provide us with data of representation split by gender and ethnicity. Many firms do not currently collect this data at a sufficiently granular level to allow identification of these features within different roles across the firm, but most firms are starting to do so. The 28 managers who responded without this level of detail provided other qualitative information around their representation levels and their approaches to diversity and inclusion.

Our focus is on encouraging more investment managers to complete this survey and for those who have completed the survey to improve their disclosures.

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

Our manager and asset class research teams have continued to grow steadily over the years, as the investment environment has developed and as clients’ needs have changed. Our RI team has seen a rapid increase in size and resource over recent years. In the last year, we have increased our spending in this area (as measured by the value of our people’s time) by around 20%, an increase in resource supported by the firm’s management and senior investment leaders. We expect that our outlay in this area will continue to grow.

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

We also carry out regular reviews to check that processes are being followed. These might be carried out by our compliance team or by a small team tasked by one of our professional committees to review output in a particular area. Please see [Principle 6](#) for more detail.

Our systems – or as we would see it our IT – are fundamental to how we operate as a business. They allow us to advise our clients effectively, helping them in their decision making and allowing us to improve our efficiency. As we noted earlier, all our key analytical tools are developed in-house with no offshoring or subcontracting of systems or calculations. This gives us control and flexibility in delivering our services in the ways that clients want. We can therefore respond quickly and effectively to client comments and suggestions for improving the output and how it is presented.





WE APPROPRIATELY RESOURCE OUR STEWARDSHIP ACTIVITIES **CONTINUED**

Our workforce is appropriately incentivised to deliver services

The incentive for all of us – from junior analysts to senior partners – is to deliver on each client’s objectives, in a way that is aligned to our culture and values (see [page 6](#)). At all levels, a sizeable element of remuneration comes from a performance-related bonus linked to the quality and quantity of services delivered to their clients. At senior levels, remuneration is increasingly linked to the profitability of the firm.

Both our clients and our staff have been impacted by the cost-of-living crisis resulting from the high inflation and increasing interest rates. Recognising the pressures resulting from this, we decided to support our staff by providing an additional one-off bonus. The level of the bonus was designed to be more impactful for those with lower incomes.

We ensure that fees are appropriate for the services provided

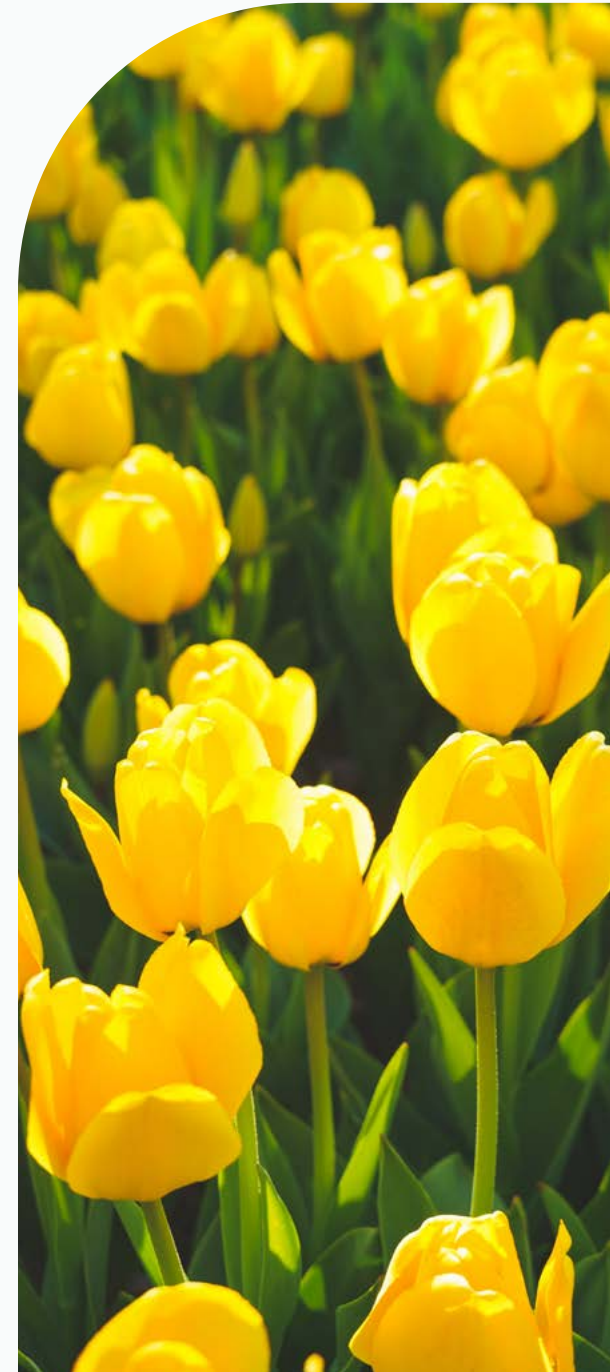
We seek to offer transparency and control to our clients in relation to fees. We help colleagues set appropriate and commercial fees with our clients ensuring that there is clarity on both sides as to what is expected – in terms of fee levels and the scope of the work.

As part of our Client Care Survey in [Box 2](#), we asked our clients whether they “receive good value for money from LCP for the fees paid” and we saw an improvement in this score since 2019.

The basis for charging for our investment services is agreed with the client in advance and is generally based on fixed fees or time cost. We typically review the fee basis and scope of services on an annual basis with clients. In addition, our services are at times subject to a wider market review. The open and competitive market we operate in means we become quickly aware if our fee levels are out of line with the market, for the value delivered, for example via new business tenders or the conversations we have with various groups – eg professional trustees.

We also help our clients negotiate appropriate fees for the services they source from other providers. For instance, for our trust-based DC clients we benchmark their manager fee arrangements annually against similar sized schemes as part of their value for members assessments to help ensure their members are receiving the best value for money. Our database of fees is updated continuously to ensure that our clients receive the best value for their members. In one recent case, we helped one of our clients negotiate a 0.10% pa reduction in member fees across all their DC funds.

In addition, we seek to negotiate fees for new platform and manager appointments. We produce our investment manager fee survey every two years (the last one was produced in February 2022) and use this to aid these negotiations. We negotiate lower fees with managers for our clients to access funds using their aggregated commitment to a given fund as a bargaining tool to the benefit of all our clients.





OUR GOVERNANCE STRUCTURES AND PROCESSES ARE EFFECTIVE IN SUPPORTING OUR CLIENTS' STEWARDSHIP

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

Our internal communications, which include weekly team meetings and monthly department-wide training sessions, help keep colleagues informed of new projects and provide opportunities for RI knowledge sharing and for challenge. We also use our internal Responsible Investment channels and internal social media options (eg Viva Engage) to communicate RI developments. For example, we've used these channels to announce new and updated regulations, client materials and training materials. As noted on [page 28](#), we gave compulsory training covering 16 RI-specific topics over the year.

In the case of stewardship, the RI and broader investment team produces a wide range of materials for clients. As well as the materials mentioned elsewhere in this report, this includes:

- General information / educational documents – eg client training slides on the importance of stewardship, recent climate change developments, and aligning investment portfolios with net zero;
- Topical articles on RI matters – eg several blogs for our website over the year, two articles for each of our quarterly “Markets, macro and strategic portfolios” document, 5 articles in our two 6-monthly “Vista” publication as well as 4 podcast episodes on RI topics in our increasingly popular “Investment Uncut” podcast series, where these four episodes alone had over 2,400 listens;

- A presentation in our [annual DB pensions conference](#) describing systemic risks and the influence the pensions industry can wield in addressing them;
- Materials to support those of our pension scheme clients with over £1bn of relevant assets in complying with the requirements to produce annual TCFD reports describing their activities to manage climate-related risks and opportunities, including climate scenario analysis and climate dashboards; and

- Quarterly RI and climate risk reporting (as part of standard performance monitoring reports) with supporting materials to help trustees engage with their managers about any concerns revealed in the reports, including a central log to track these engagements (to avoid duplication of effort as well as enabling amplification of the message to managers where clients have common concerns).

Throughout the year, we have been developing our stewardship reporting for our clients and shortly after the end of this reporting period, in April 2023, released our first set of voting and engagement case studies internally. By producing case studies centrally, it helps to make the process more efficient as well as demonstrating good practice for such reporting. These case studies explore how investment managers have voted and engaged with individual companies. We believe case studies can open up an engaging discussion with our clients and ultimately lead to further discussion (and/or escalation) with their investment managers (including inviting to future meetings). In other words, they can encourage our clients to take a more active role in the stewardship of their schemes' assets.





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

As noted on [page 18](#), in March 2023 we launched our [RI philosophy](#). Our updated philosophy is designed to focus attention on concrete action to address systemic risks posed by issues such as climate change and inequality. As outlined earlier, this philosophy articulates our intention to be bolder and clearer in our RI recommendations to clients, setting out our preferred approach, rather than simply suggesting a range of options.

To help deliver against this philosophy, we decided to appoint a senior individual as Head of RI Delivery, to make sure that our RI / stewardship ideas and content are effectively actioned. The aim is for more of our RI content to reach clients and for this to be done in a more engaging manner, so that more action is taken as a result and our advice has greater impact on the real world. In addition, since the year end, we have clarified that RI workstream leaders are responsible, not only for producing ideas and content, but also for following through on delivery, ensuring their material reaches clients and is being effective. We expect the workstreams to gather feedback from colleagues and evolve their approach as necessary to achieve these aims. The creation of the RI community supports this by ensuring there is a critical mass of individuals with a strong interest in RI across the investment department and beyond who can support the delivery of content to clients and provide feedback.

We recognise that stewardship continues to grow in importance for our clients and more broadly. Therefore, we have developed a number of new ongoing initiatives to improve our advice to clients in this area and have made sure that these are properly supported through the addition of resource to our RI team, and our Stewardship team so that a number of individuals are developing deeper expertise in this area, as well as additional stewardship training to the wider investment department.

Where appropriate, we will also make use of external expertise where we believe this can enhance the advice we provide to clients, as we have done, for example, with our work on modelling climate scenarios. We are cognisant of the challenges of being able to undertake stewardship activities efficiently and proportionately on behalf of our clients. For example, analysing voting data from a passive fund can be challenging given the volume of resolutions managers have the option to vote on. That's why, over the year, we conducted an extensive review of different FinTech solutions to be able to effectively analyse this data and support our clients in assessing their managers' stewardship capabilities. We have now identified a provider and are now working on how best to deliver to clients the insights this is providing.

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

- Updating our assessment of investment managers' approaches to ESG product integration, voting and engagement and climate risk management, and adding an assessment of their net zero practices. The new framework was launched in late 2022 and is being implemented through research meetings over the course of 2023. This is leading, we believe, to an approach to RI grading which is more consistent, comprehensive and robust. It remains very much a work in progress; with an area as fast moving as RI, this is, we think, inevitable. We're looking to see that the grading system is being used as intended - and encouraging feedback so if aspects are not working well, we'll modify them as needed. We've provided more information on this under [Principle 5](#).
- Developing a new investment tool (which can operate at the security, mandate or portfolio level) to help clients with strategy, portfolio construction and monitoring which will enable analysis of ESG/climate metrics and highlight problem areas in ESG exposures.





Principle 3

Signatories identify and manage conflicts of interest⁹ and put the best interests of clients first.

CONFLICTS OF INTEREST

Our Conflicts Policy

We take conflicts of interest very seriously and have a Conflicts and Ethics Committee, comprising senior partners, that sets policy in this area and provides advice to anyone faced with a potential conflict. Our Conflicts of Interest Policy (the “Policy”) sets out the principles of how we prevent, manage and disclose to clients any conflict of interest that may potentially arise. From time to time, we face conflicts of interest in the course of our business. These could be actual conflicts, potential conflicts or perceived conflicts of interest. Our Policy requires us all to identify and manage these conflicts. LCP takes all reasonable steps to prevent conflicts of interest from adversely affecting the interests of our clients.

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

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

Background

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

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

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

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

Details of the procedures our colleagues need to follow should they become aware of any potential conflicts of interest are described in our internal document “**Departmental conflicts of interest policy protocol**” which is available to everyone via our intranet.

9. Conflicts of interest may arise from, but are not limited to:

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



CONFLICTS OF INTEREST CONTINUED

Examples of potential conflicts of interest

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

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

Management

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

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

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

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

Identification

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

While we have described some possible situations in which conflicts may arise, there are many possible scenarios that could give rise to a conflict and it is not possible to list them all. If a colleague identifies a potential conflict then they will first raise it with the client partner or departmental head, as appropriate, for guidance on how to manage the situation.

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

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

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



CONFLICTS OF INTEREST CONTINUED

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

Escalation to the department's ProfCo, LCP RiskCo, or with Legal & Compliance

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

In escalating the issue, the individual should consider raising it confidentially as appropriate with their department's ProfCo, LCP RiskCo, or with Legal & Compliance. In this case, the potential conflict of interest should be raised with the head of one of these groups.

It is noted that while an issue can be discussed confidentially with a member of one of these groups, in practice, if there is an actual conflict of interest, it will be necessary in due course for it to be addressed with the client partner or head of department.

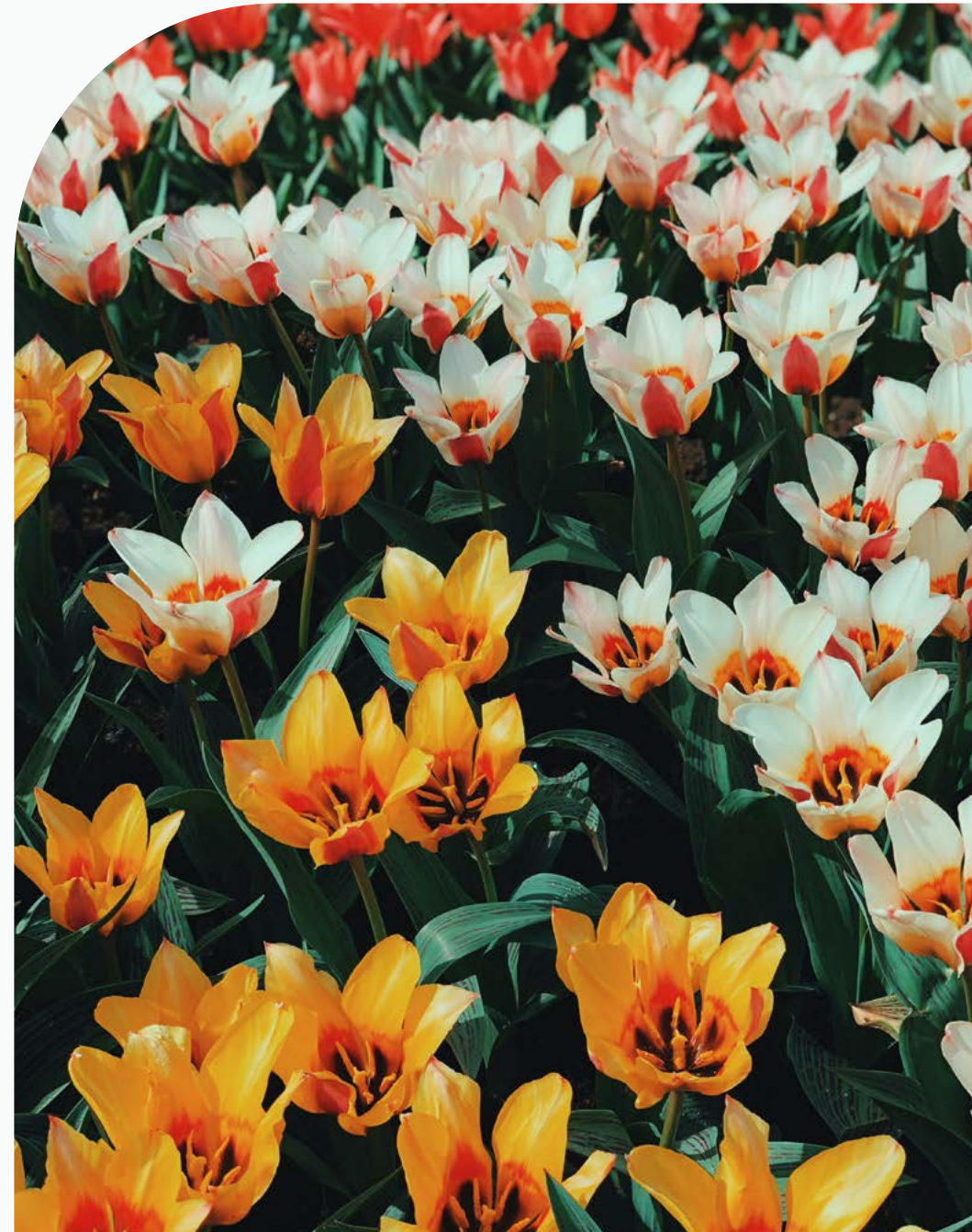
The individual meets with the relevant departmental ProfCo / LCP RiskCo / Legal & Compliance representative to discuss the issue. Having met, they agree that one of them will produce a note of the meeting which should include:

- A description of the potential conflict of interest;
- The decision agreed between them as to whether this is an actual conflict of interest or what further work is needed to establish if this is the case; and
- If it is agreed (immediately or following further investigation) that there is an actual conflict of interest, then how the issue is to be addressed with the client partner / head of department as appropriate.

The note is agreed between the individual and the departmental ProfCo / LCP RiskCo / Legal & Compliance individual as appropriate.

If appropriate, they agree a time to meet to consider whether the agreed action(s) has / have addressed the conflict of interest or to agree what further action is necessary.

It is the responsibility of the relevant ProfCo / Legal / Compliance professional, working with the client partner or head of department, to ensure that the conflict of interest is resolved.





CONFLICTS OF INTEREST CONTINUED

Escalation to the Conflicts and Ethics Committee

If the individual does not feel comfortable raising the issue openly with their department's ProfCo, LCP RiskCo, or with Legal & Compliance, or if they require further guidance, then they should raise it confidentially with a member of the Conflicts and Ethics Committee. The individual can address the issue to any member of the Conflicts and Ethics Committee, whose members are listed on our intranet.

It is noted that while the individual can discuss an issue with the Conflicts and Ethics Committee member confidentially, in practice, if there is an actual conflict of interest, it will be necessary in due course for it to be addressed with the client partner or head of department.

The individual meets to discuss the issue with the member of the Conflicts and Ethics Committee. Having met, they agree that one of them will produce a note of the meeting which should include:

- A description of the potential conflict of interest;
- The decision agreed between them as to whether this is an actual conflict of interest or what further work is needed to establish if this is the case; and
- If it is agreed (immediately or following further investigation) that there is an actual conflict of interest, then how the issue is to be addressed with the client partner / head of department as appropriate – for example, if the individual would prefer this to be done by the Conflicts and Ethics Committee member, by the two of them together, or by the individual alone.

The note is agreed between the individual and the Conflicts and Ethics Committee member.

If appropriate, they should agree a time to meet to consider whether the agreed action(s) has / have addressed the conflict of interest or to agree what further action is necessary.

It is the responsibility of the Conflicts and Ethics Committee member, working with the client partner or head of department, to ensure that the conflict of interest is resolved.

Transparent reporting

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

Disclosure

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

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

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

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





CONFLICTS OF INTEREST CONTINUED

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

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

We believe that we have prevented or adequately managed any conflicts of interest through the use of our Conflicts of Interest policy and supporting documents. The former describes how conflicts might arise, provides examples of potential conflicts and directs individuals to a conflicts of interest policy protocol which details the practical steps to take if a colleague believes they have identified a potential conflict. We would note that:

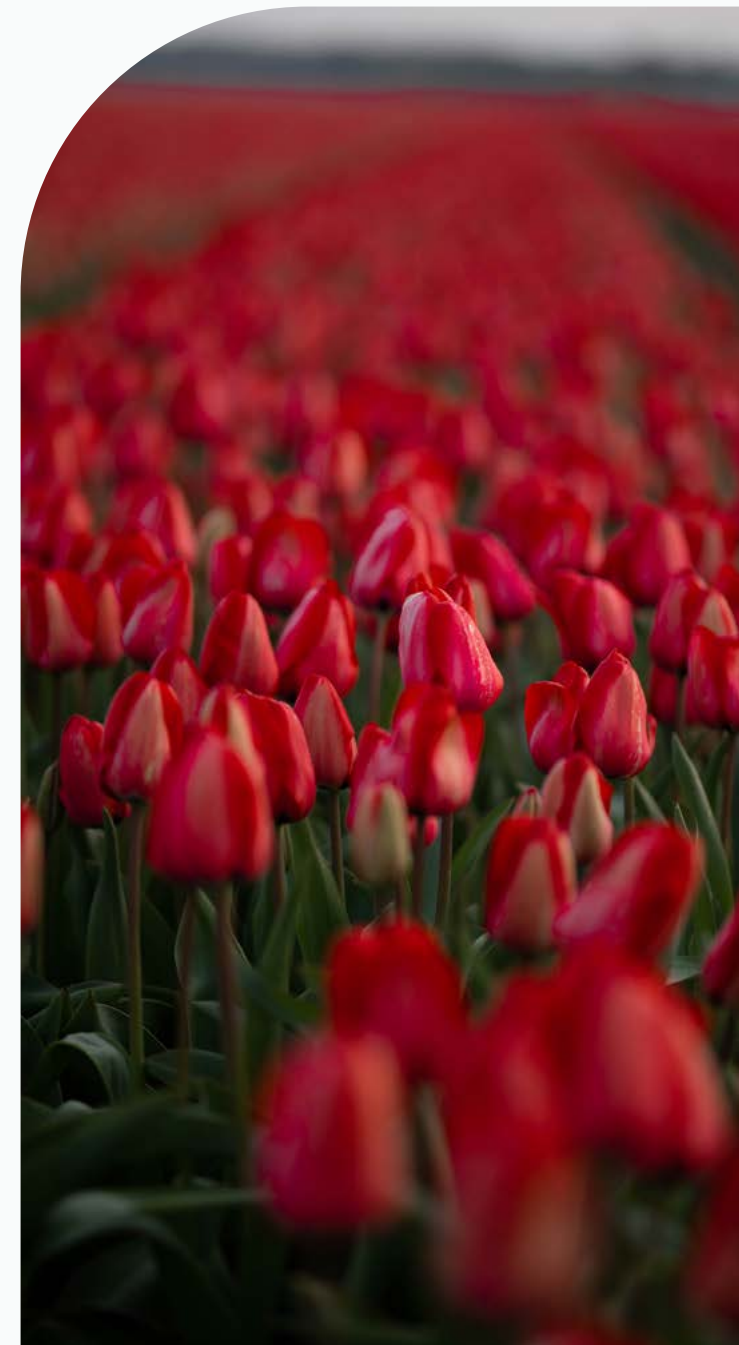
- We do work for some pension scheme trustees whose sponsor, or related group companies, offers investment management services;
- We do not receive any remuneration or financial benefit from managers for putting investment managers' funds forward to clients; and
- Where we work for companies offering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

Onboarding new clients

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

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

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





EXAMPLES OF HOW WE MANAGE CONFLICTS OF INTEREST

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

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

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

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

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

LCP provides advice to both trustees and company sponsors regarding suitable and appropriate governance models for investing their pension scheme assets. LCP offers investment advisory services and does not offer a fiduciary management service (ie a bundled service combining investment advice and fund management services).

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

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

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



EXAMPLES OF HOW WE MANAGE CONFLICTS OF INTEREST CONTINUED

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

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

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

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

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

4. Advising DB pension scheme consolidators - potential conflicts

LCP provides services to DB pension scheme consolidators.

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

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

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

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

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

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

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





Principle 4

Signatories identify and respond to market-wide and systemic risks¹⁰ to promote a well-functioning financial system.

HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS

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

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

Our investment partners hold regular “markets and managers” meetings. At these our Head of Macro and Head of Manager Research will give an overview of topics of interest in their respective areas. In the macro part of the meeting, we might cover geopolitical developments, interest rates and inflation – both global and UK. Understandably, inflation and rising interest rates have been a recent focus of our attention.

We’ve always had external speakers come and present to the investment department, in order to gain an alternative insight or new perspective on important topics of the day. However, during the year, we instituted a more formal process, with a roster of external experts scheduled to come and talk to us. For example, we heard from a leading macroeconomic expert at a major global investment manager about developments in China and their implications for the broader world economy. It was a topic we had identified as having potentially significant, systemic ramifications and wanted to be ready with our thoughts and views. These sessions provide a great opportunity to exchange views and delve into topics in depth.

In terms of more formal processes, we seek to identify market-wide risks and systemic risks through:

- **Analysis of historical market movements to inform our assumptions about future market movements.** We undertake substantial research and analysis on the investment returns of many different investment markets and macro-economic measures, such as inflation. We typically apply a quantitative analysis to periods of extreme market movements during the past 20 years, and a more qualitative one to historic ones. We also analyse how different markets and macro factors are related to each other and how, in extreme moves, relationships might change. This analysis helps to form our views on the risks of extreme market movements and market-wide events. These views are used to inform our statistical models and our advice. We use this information to help clients consider a broad range of possible outcomes and to give an indication of potential losses in a “reasonable worst-case scenario” through statistical measures and explicit market-scenario analysis.
- **We seek to identify more tangible and immediate risks to investment markets through our analysis of the current environment.** Our analysis includes consideration of the macroeconomic background; the risks to the fundamental performance of companies and other issuers of securities, the valuation of securities, as well as how market sentiment might impact investments. This approach helps us to address risks that may not be captured well in the statistical assumptions we have used for asset returns. We use this information to help clients understand their risks, and possible economic / macro scenarios that could lead to significant losses.

¹⁰ Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- changes in interest rates;
- geopolitical issues; and
- currency rates.

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



HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS CONTINUED

- Our macro research group is tasked with identifying systemic risks to investment markets. As part of its regular meetings with investment managers, economists and others, the group from time to time considers possible systemic risks. Systemic risks are, by their nature, wide ranging, with examples of areas the macro research group considers including:
 - Critical stakeholders in the functioning of markets such as exchanges and banks;
 - Contagion risks from, in particular, other market participants defaulting on borrowings;
 - Socio-economic and environmental factors that could lead to significant falls in economic output and / or the value of assets;
 - Cyber risk; and
 - Political risks that could lead to a failure of a market, or a limitation on an investor's ability to realise assets.

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

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

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

We look for any significant news that might affect our pensions clients directly or their key suppliers, customers or beneficiaries. This is collated and published on our website, this could be in our weekly [Pensions Bulletin](#) or individual updates if required. Any material issue is highlighted to the appropriate team at LCP. A senior management group is assigned ultimate responsibility for ensuring that any significant risk to clients is brought to their attention and appropriate consulting tools, documents and training are developed centrally, where appropriate.

How we respond to market-wide and systemic risks to help promote well-functioning financial markets

Over the course of the reporting year, as part of our Stewardship Group meetings, we have developed a framework that details – as we see them – a range of systemic and market-wide risks, their likelihood, possible mitigation strategies for them as well as the effectiveness of those mitigation strategies. Our initial observations would be that for some risks, should they materialise, any mitigation measure will have a modest effect while for some others, while mitigation may be effective, the cost of putting it in place makes it unattractive. We are though finding it a helpful exercise – it's better to have thought through the issues even if no action results and of course whilst for one client a particular mitigation cost may be unattractive, for another, it may be money well spent.

Two of the most significant market developments impacting our clients over the year were increasing inflation and rapidly rising interest rates, particularly after the UK government's mini-budget in September 2022. We believe we responded well to these events, based on the feedback we have received from clients and fund managers, the timeliness with which we acted and the outcomes we delivered as a result. We set out below examples of how we responded to these and other systemic risks, including the concerns in the banking sector in February 2023.





HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS CONTINUED

BOX 5: THE MINI-BUDGET AND RESULTING GILTS CRISIS – OUR IMMEDIATE RESPONSE

The mini-budget mostly impacted our clients who were invested in gilts, which is a large proportion of our DB clients – ie those with leveraged Liability Driven Investment (LDI) funds – and a smaller proportion of DC clients. We had anticipated rising interest rates – a risk to many DB clients’ portfolios – as a result of central banks’ response to persistent high inflation – as described on page 33 of our Stewardship Report 2022. Therefore, we have always advocated to our clients that they set up collateral waterfalls to meet cash calls on LDI funds and that they have clear plans for managing leverage. When considering the wider pool of assets available to LDI, we were typically advocating relatively low levels of leverage and were cautious about having high allocations to illiquid assets.

The mini budget caused gilt prices to fall (and yields to rise) and so our clients with leveraged LDI funds needed to provide cash to top up their allocations to their LDI funds. We immediately recognised the significance of the development and therefore as a firm, we were extremely proactive in communicating to our clients what they needed to do and why. Unlike so many other financial crises – the Global Financial Crisis, Russia’s

invasion of Ukraine – doing nothing was not the best option. Action had to be taken, and quickly and we worked throughout the day, into the evening and over weekends to ensure our clients could do what they needed to do, and this was recognised by them. Below we have reproduced comments from a professional trustee about our actions during the gilts crisis.

“LCP has been completely on top (and calm throughout) this extremely difficult period. They have brought ideas to me before others, and clearly thought through the options and consequences to produce complete advice.”

Compared with our peers, we believe we had a “good crisis”. While we understand that as many as 20% to 30% of UK pension schemes had LDI hedging cut, for our clients, we estimate that less than 5% had any material cut in hedging.

Please see [Box 6](#) for how we have responded to help make markets more resilient to similar events through the advice we have given to clients, as well as the discussions we have had with managers, regulators and lawmakers.

We would note that the crisis surrounding the mini-budget did mean that a lot of time and resource that we would have liked to devote to longer term activities, including development of our stewardship activities and offering, were inevitably deferred in the face of the urgent work that was required to address immediate client LDI-related issues. Significant resource continues to be applied to LDI matters to deal with the consequences of what happened in September / October 2022 and the changes needed to avoid any similar occurrence.



HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS **CONTINUED**

BOX 6: MAKING MARKETS RESILIENT FOR THE LONGER TERM

Although we note above that we believe we responded well to the gilts crisis in September / October 2022, we are not at all complacent. We could always have done better. We have therefore conducted a root and branch review of how LDI managers performed during the period and agreed actions with them to better manage any repeat of the events of that period. One of the main changes agreed by managers, consultants and regulators was that leveraged LDI portfolios should in future have lower levels of leverage, thus maintaining a material part of the attraction of the approach – the ability to retain an efficient balance between growth and matching assets – but in a more risk-aware manner. We have also looked to improve the structure and responsiveness of the collateral waterfalls that our clients have in place (eg holding more liquid assets directly with their LDI manager) to provide a greater degree of future proofing.

We have also contributed to the wider investment debate on LDI. For example, we ran a **webinar** in early October 2022, while events were still unfolding, to provide insight and comment on what was happening in the gilt market and to counteract some of the inaccurate and misleading comments appearing in the press and elsewhere. In addition, in November 2022, three of our partners participated in open sessions of the House of Commons Work and Pensions Committee (WPC) LDI inquiry and/or a closed-door session of the House of Lords, where we gave our views on events and what we thought the lessons were.

As well as engaging with regulators, lawmakers and investment managers, we also undertook a wide range of actions to help our clients and the wider investing community, eg by producing a client flyer, internal briefings, emergency webinars – all designed to make sure we could quickly and effectively advise our clients on what they needed to do.

We recognise that a lot of the work we do is helping our clients to manage risks and we would like to do more to help them have a real-world impact. That is one of the aims of our new RI philosophy and post reporting year end we've been considering how we can take a more active role in shaping outcomes in relation to climate change, the biggest systemic risks our clients (and society) face.

Discretionary pension increases

As we know, very high levels of inflation in the UK have generated a cost-of-living crisis affecting society as a whole, with increasing prices making essentials like food and energy significantly more expensive. Whilst most of our clients' DB pension schemes provide their members with annual increases that are linked to inflation, in many cases these are restricted to 5% each year, and in some cases to 2.5% each year. This means that over the last year many pensioners have seen their pensions increase well below inflation, which has exceeded 10%.

We have discussed proactively with a range of our clients the possibility of providing additional top-up increases to their members, in order to provide pensions that link more closely to inflation, to help those individuals manage their finances. This has been helped by much improved pension scheme funding levels, which supports an additional allocation of capital to pension scheme members.

Box 7 provides an example of how we've helped DC clients respond to higher inflation levels.



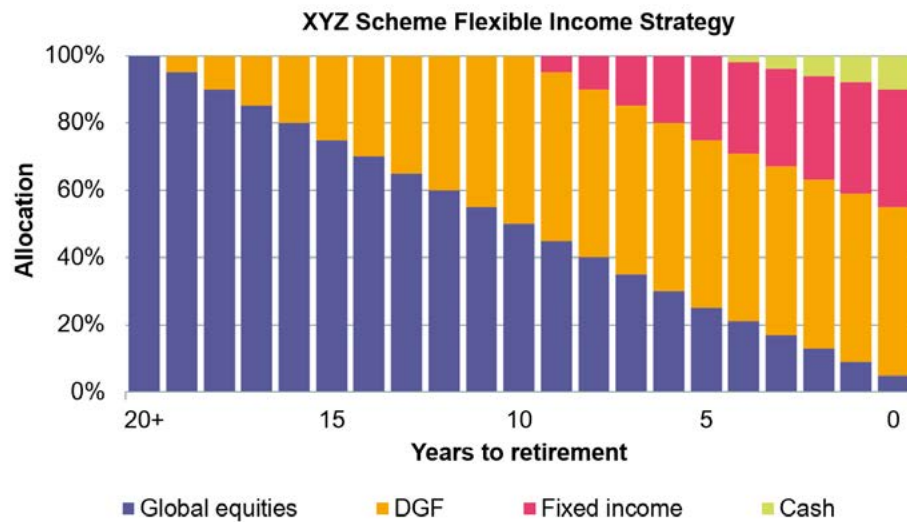


HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS CONTINUED

BOX 7: HELPING DC SCHEMES RESPOND TO INFLATION

As one would expect, rising inflation has impacted our discussions with clients. For DC members, inflation is a key consideration when designing investment strategies. As you can't invest in inflation, we've been encouraging our clients to use inflation targets as an additional metric to demonstrate value alongside their usual index-relative measures.

For DC clients with lifestyle strategies (in which members' assets are automatically moved between different investment funds as they approach their target retirement date – see chart below for an example), the targets set reflect the different stages of the strategy. For example, growth (when members are more than 10-15 years from retirement, inflation plus c3+%), mid-growth (when members are more than 5-10 years from retirement inflation plus 1+%) and at retirement (inflation). Of course, beating inflation over any short-term period, such as the reporting year, can be difficult for any strategy, diversified or not. However, targets act as an important reminder and measure for assessing the merit of a given strategy in a way which is consistent with the long-term nature of pension scheme investments.



Investing for DC members in a persistent inflation environment was a key theme of our [May 2022 DC Conference](#).





HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS **CONTINUED**

Responding to banking sector failures

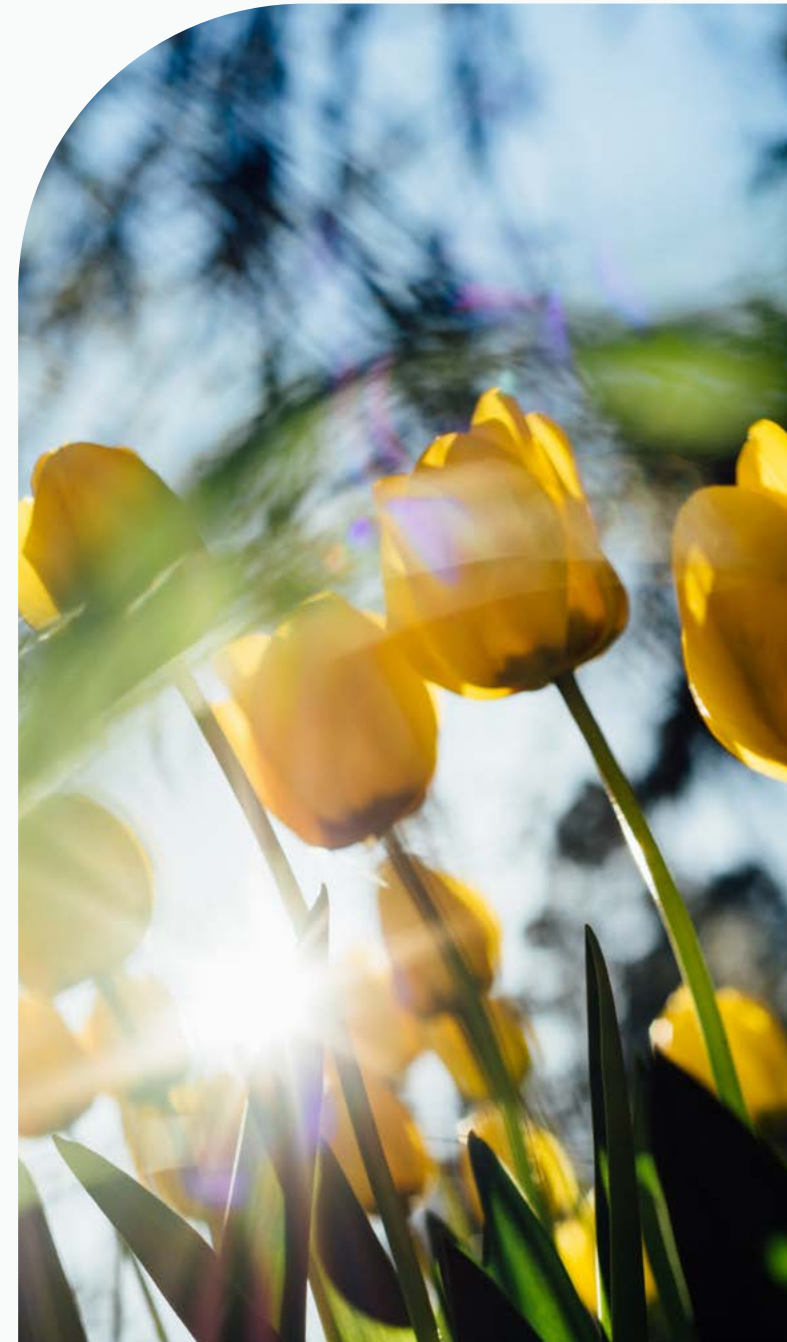
By comparison with the gilts crisis, the banking sector failures that occurred in February / March 2023 were slower moving and more localised. Poor interest risk management policies at a number of US institutions exposed by the rise in rates, plus the ability of customers to move deposits elsewhere almost instantaneously created conditions for a potential bank run. We were able to explain to clients why the actions of the US Federal Reserve and others made this unlikely and also to liaise with clients' investment managers to understand the exposure they had directly or indirectly to those troubled banks.

We did note to clients that the speed of deposit withdrawals from vulnerable institutions had been unprecedented, noting that central banks will need to think carefully just what and how to monitor financial strains in future. It is a systemic risk whose nature has changed and one where we anticipate regulatory developments.

Artificial intelligence (AI)

One of the biggest risks – as well as opportunities – that we need to manage is the integration of AI into what we do. We expect that advances in AI will bring about a fundamental change to how professional services are delivered. We are embracing this change and can see many opportunities for positive outcomes for our clients and for our people.

Our Digital Services team includes a number of experts who have been involved in developing our first-generation AI tools over a number of years. We are now exploring and using AI in many more areas across the firm to support us in our day-to day work (to increase efficiency) and for developing new tools for our clients. We are also receiving regular briefings from external experts to help us understand and use new technologies and manage the risks and ethical concerns. Our colleagues have had access to ChatGPT since March and have been exploring how to use it to increase efficiency of day-to-day tasks (for example conducting research). We think the key initial benefits from our use of AI will be similar to the change delivered by our previous technology developments such as Visualise.





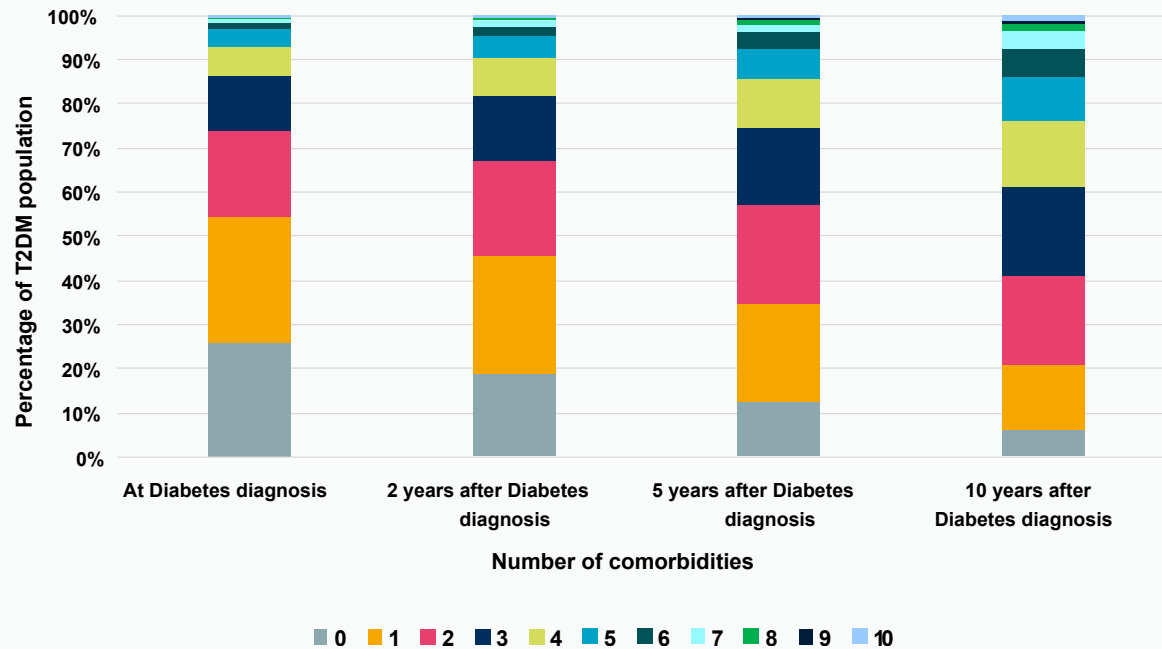
HOW WE IDENTIFY MARKET-WIDE AND SYSTEMIC RISKS CONTINUED

Health

Our Health Analytics team provides insight into trends whose development, if not checked, could have very significant implications for financial sustainability and therefore stability. For example, one area of concern as the UK population ages is the increasing number of people with multiple areas of ill-health (“co-morbidities”), which places extra strain on healthcare systems due to the additional complexity of treatment and the associated costs. The team has worked with the UK National Institute for Health and Care Excellence (“NICE”) to investigate multimorbidity in patients with type 2 diabetes (“T2DM”). The specific aim was to identify comorbidity patterns, how they vary across patients with T2DM and over time, and the impacts of this on health outcomes and resource utilisation. The research found that multimorbidity is common in patients with T2DM and increasing. More than 75% of patients with T2DM had at least one comorbidity when their T2DM was diagnosed, with around 50% having two additional comorbidities or more (see chart below).

Following on from this project, our team has developed a [Type 2 Diabetes Comorbidities Explorer tool](#) which can be used to provide further analysis.

We also believe that good health is integral to responsible and sustainable investment because of the importance of workforce health – and public health more generally – to the economy (as well as to individuals and their families). That’s why we contributed to ShareAction’s [“Investor Guide on Health”](#) which aims to support investor action on health by explaining why health must be integral to responsible and sustainable investment strategies and helping investors identify specific health-related topics to prioritise.



WE WORK WITH OTHER STAKEHOLDERS¹¹ TO PROMOTE CONTINUED IMPROVEMENT OF THE FUNCTIONING OF FINANCIAL MARKETS



We do this in several ways. The first two examples below illustrate how we're engaging with lawmakers to bring about positive change in financial markets for investors and others.

Powering possibility in pensions

For decades, the UK's policy and regulatory focus for DB pension schemes has been on protecting members' pensions. This focus is entirely understandable against a backdrop of large deficits and (in some cases) risky investment strategies. It has resulted in large volumes of funds being paid into pension schemes and substantial de-risking of investment strategies. Partly as a result of these measures, and partly as a result of significant changes in investment markets (most particularly, increases in bond yields), many pension schemes are now finding themselves very well-funded. Security of pension benefits is far less of a systemic concern than it has been over recent decades.

Over the year, this realisation prompted us to ask two big questions. Do the best-funded, well-run schemes really need to invest in such low-returning assets to provide pension security? Could their collective hundreds of billions of assets be unlocked to invest more freely for growth, benefitting all stakeholders without compromising on security for members?

To answer these questions, **we imagined a new regulatory regime** for well-funded private sector DB schemes, that would operate with just two key changes to primary legislation:

- Under our proposed new regulatory option, sponsors and trustees of well-funded DB schemes could choose

to opt-in to pay an additional levy (a 'super-levy') to the Pension Protection Fund (PPF), in return for which 100% of members' benefits would be protected in the event of sponsor insolvency (we refer to this as 'super-protection'). With full member benefits protected, the scheme could then be free to invest more for long-term growth; and

- As well as using pension scheme funds more productively, this would be expected to generate growing surpluses in schemes. When surplus funds exceed a specified level, we propose that the excess could be used to enhance member benefits and/or be withdrawn by the sponsor to support higher DC pension contributions or further investment in their business. This key feature of our proposal sought to address the imbalance of the current regime where employers currently have little incentive to support long term growth in DB pension schemes, because they have little access to any upside.

In our view, the benefits of our proposal are that it:

- Frees up pension scheme assets to invest for more growth – surplus monies can be used for higher DB member pensions, better DC pensions, and/or UK business growth;
- Offers an opportunity for DB pension assets to better support productive finance, including long term growth of UK companies, UK infrastructure, and supporting the UK's energy transition to net zero; and
- Improves the level of pension security for DB members, in a more efficient way than requiring every scheme to adopt low-returning investment strategies.

Following the reporting year-end, we submitted our proposal to the House of Commons WPC March 2023 call for evidence on DB pension schemes and DWP's July 2023 call for evidence on options for DB schemes. We are continuing to engage with policy makers and other industry stakeholders on this topic as we wait for the outcomes of these calls for evidence.

Making TCFD work better

During the reporting year, our Head of RI participated in an academic research project "Future-Proofing Pensions Funds from Climate Risk", involving researchers from King's College London, the University of Oxford and Warwick Business School. They are studying the implementation of the TCFD climate governance and reporting requirements for large UK pension schemes, to understand how they are affecting schemes' climate risk management.

The engagement included our RI head being interviewed by researchers about her experiences of the TCFD requirements and then subsequently participating in an event to discuss the findings. The discussion centred on whether/how the TCFD rules are changing pension schemes' climate risk management and what interventions or modifications could improve this aspect of pension schemes' risk management. The event was attended by policy makers and regulators, as well as senior industry practitioners, and so had good potential to influence future developments in this area. Moreover, the academics expressed the intention to continue convening discussions between industry stakeholders, as part of a long-term conversation on improving pension schemes' risk management.

¹¹ Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics



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

Manager research

On page 19 of last year’s report, we provided an overview of our research process. Central to this are the discussions we have with managers, covering the issues which are relevant to the funds they manage, to their organisation and to markets as a whole. We maintain research coverage on around 600 products. Over the current year, we conducted around 300 formal manager research meetings and reviewed nearly 400 different products with approximately 120 different managers. In addition, we held about 80 interim manager review meetings plus several other less formal catchups on more general research matters. This corresponds to over 20,000 hours dedicated to manager research.

Our Core RI team spent a further 4,000 hours dedicated to specific responsible investment related areas.

Annual Manager Forum

As part of our desire to engage with managers and hear their views, on stewardship and other matters, we hold an annual manager forum. We invited over 120 managers to our November 2022 forum, of whom 96 attended. This provided an opportunity to let managers know first-hand our views on markets, managers and manager offerings and what they needed to do to meet evolving client needs. Part of the evening was spent describing how we are looking to incorporate DEI assessments into our manager selection exercises ([see Box 4](#)).

LCP’s manager research



20,000

Hours dedicated to research per year



c.400

Meetings with managers



c.600

Products under research



9

Key criteria - both investment and operational due diligence

UK Stewardship Code

As the FRC’s list of Stewardship Code signatories is periodically updated, we continue to engage with managers who did not feature on this list to ask why they are not signatories.





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

Across the firm, we responded to around 30 consultations during the year, spanning both investment and non-investment matters. These included:

- The Glasgow Financial Alliance on Net Zero (GFANZ) consultation on “Measuring Portfolio Alignment: Enhancement, Convergence and Adoption” which builds on previous industry work to develop portfolio alignment metrics;
- The IFoA’s proposals for regulatory requirements on DEI;
- The Network for Greening the Financial System (NGFS) consultation to inform the ongoing updates and improvements to its climate scenarios, to express our view that more realistic models of the impact of climate change on both the economy and the financial system were needed; and
- The Principles for Responsible Investment’s “PRI in a Changing World” consultation whose aim was to understand the changing expectations of responsible investors, and how the PRI can better support its signatories in achieving their goals. As well as a written response, our Head of RI attended a PRI workshop to provide further input to the consultation process.

In addition, we contributed to several consultations in collaboration with other industry bodies.

Participation in industry initiatives

As mentioned earlier in the report, we are involved with several industry initiatives. These span a wide range of topics and disciplines. Below, we have described those which are most relevant in an RI / stewardship context.

Our Head of RI was a member of the FCA’s Vote Reporting Group (VRG) which was set up in November 2022. The group was established to develop proposals to enhance shareholder vote reporting by asset managers operating in the UK through a standardised template and public registry, which were released for consultation in June 2023. As well

as contributing to LCP’s response on the issue, our Head of RI has also coordinated the preparation of the ICSWG’s response, incorporating input based on the experiences of LCP and those of other investment consultancies. In addition, as part of the outreach before the consultation was published, our Head of RI organised a meeting for the FCA and VRG chair with ICSWG members to help to shape the proposals for consultation.

In February 2023, the DWP launched the Taskforce on Social Factors, which aims to deliver guidance and recommendations to the UK pensions and investment industry on social factor principles, standards, and metrics. The Taskforce has three sub-groups and an individual from LCP is a member of the subgroup designed to help trustees understand and manage the risks posed by modern slavery.

During the year, one of our RI team members sat as a member of the IFoA’s Sustainability Board. The members of the board are split into 6 sub-portfolios (events, policy and regulations, communities, sustainable development goals (SDG), education and research). We were represented on the SDG portfolio, attempting to bring sustainability issues other than climate change to the profession. This was done in a variety of ways, including via articles in the profession’s magazine (The Actuary), through podcasts, as well as presentations to regional actuarial societies. The group has created a sustainability learning resources guide for actuaries, which is in the process of being released and is sponsored by our portfolio representative, the current IFoA Board Chair and deputy, and a past IFoA president.

Our work on the NZICI – which was launched in September 2021 – has been focused on establishing the initiative’s terms of membership, governance and reporting requirements. During the year, we also contributed to the NZICI response to two consultations issued by the GFANZ Portfolio Alignment group: the consultation

to which LCP responded, as described above under “Consultation responses”, and an earlier consultation on a precursor “concept note”. We produced our own **NZICI interim report** in January 2023 and will publish our first full progress report in 2023 in line with NZICI’s agreed reporting framework.

Our firm is a member of the ICSWG, along with 18 other firms. We are represented on the Steering Committee and three of the four workstreams (following consolidation of the original six workstreams). The group has made less progress than anticipated, with reasons including the gilts crisis and the fall-out from this which meant that UK investment consultancy resources were under a great deal of pressure for an extended period of time which inevitably diverted attention away from RI and contributed to delays and reduced activity levels across the industry.

The most active workstream during the year was “Raising the bar” (which aims to encourage best practice in sustainable investing across the industry). Our representative had direct input to the following areas of activity over the year:

- Enhancements to, as well as further promotion of, the engagement reporting guide (ERG), with the group responding to investment manager feedback via the Investment Association and working with CAMRADATA (an independent asset manager research platform) to host the guide on its website;
- Reviews and feedback on alternatives to the ERG to ensure a consistent approach to the provision of engagement information; and
- Continued discussions and research into how investment managers are incentivised and the challenges to improve stewardship practices and accountability with a response being provided by the group to the FCA’s Discussion Paper 23/1 “Finance for Positive Sustainable Change” consultation (post year-end).



OUR SERVICES SUPPORT OUR CLIENTS' STEWARDSHIP

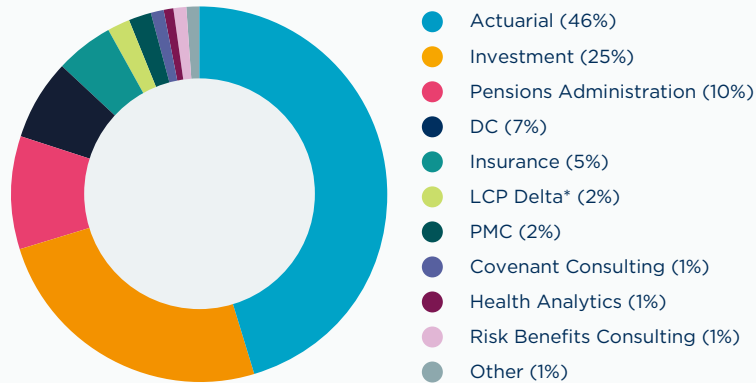
Principle 5

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

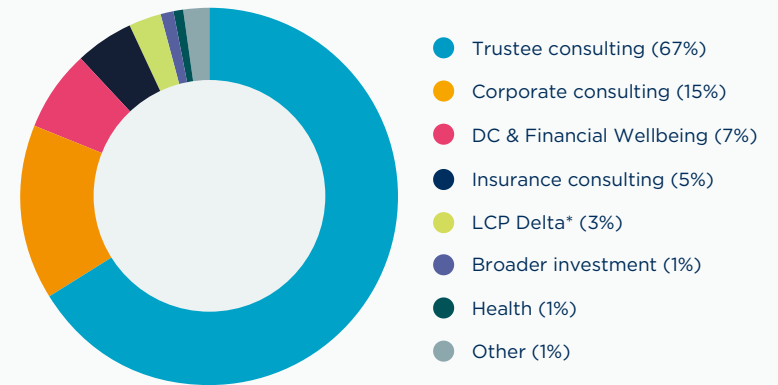
Our clients

Our business is institutional with a focus on UK clients although many of these are international in nature (we advise 43 FTSE 100 companies) or have an overseas parent. Over 90% of our investment department's revenue originates from UK-based clients.

LCP Revenue by department for year ending 31 March 2023



LCP Revenue by client for year ending 31 March 2023



*LCP Delta since January 2023

Figures may not sum to 100% due to rounding.



OUR SERVICES SUPPORT OUR CLIENTS' STEWARDSHIP

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

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

We support our clients' stewardship in several ways:

- Working with our clients to agree appropriate ESG, voting and engagement policies and incorporating suitable wording into their SIP to reflect these;
- Ensuring that our trustee clients' implementation statements and SIPs comply with the DWP's stewardship guidance released in June 2022, as described in more detail below;
 - the new guidance was a step-up in expectations for trustees' stewardship activities which is continuing into the next reporting year to 31 March 2024. Our initial work was to make sure our clients are compliant with the new guidance requirements and then developing our stewardship offerings to support clients going beyond compliance.
- Exploring the use of FinTech solutions to support our clients' stewardship activities. For example, tools which enable us to analyse investment manager votes on the resolutions for the equities they hold;
- Helping them incorporate ESG / stewardship criteria into their manager selection exercises by aiming to design our research process so that:
 - we ask the right stewardship questions of managers, our research notes include sufficient detail on their responses, these points are included in our internal discussions when grading managers, our process for shortlisting managers gives due weight to stewardship, and managers who present are given sufficient time to address the topic;
- Helping them to monitor and assess their managers' stewardship policies and the implementation and effectiveness of these;
- Supporting them in engaging with their managers, using an enhanced approach which we introduced when we published the results of our 2022 RI survey in January 2022;
- Working with our pension trustee clients to produce, as and when required, their annual Implementation Statement;
- Developing tools and services that clients can use to improve their stewardship; and
- Producing a wide range of documentation and training for our clients on ESG and stewardship – for example, news alerts, our quarterly "Markets macro and strategic portfolios" analysis, various blogs and our climate resource centre for pension trustees – and running roundtables and webinars on topical issues.





OUR SERVICES SUPPORT OUR CLIENTS' STEWARDSHIP CONTINUED

Revisions to our SIP and implementation statement templates

As described under **Principle 2**, during the year we worked with our clients to address the requirements of DWP's June 2022 stewardship guidance, providing them with training and materials to help with this. We used this increased focus on stewardship to review and update our recommended approach to the issue by incorporating a series of revisions into our standard SIP and implementation statement templates. We now have a separate sections in our SIP and implementation statement templates which outline:

- The trustees' chosen stewardship priorities and why they have been chosen;
- How the trustees will take stewardship into account when selecting managers;
- How the trustees will take stewardship into account when monitoring managers, both on a regular and annual basis;
- How, since responsible investment and stewardship are developing rapidly, there will be a need for managers' stewardship practices to evolve and how the trustees will engage with their managers to encourage improvements where areas of weakness are identified;
- How the trustees may engage in industry initiatives and collaboration; and
- How the trustees will select the most significant votes for inclusion in their implementation statement.

We recognise that trustees, depending upon resources and inclination, may choose not to implement all of the actions above in full but believe it is important that trustees are aware of what can be done, if they wish to do so.

Manager research process

We continue to research a wide range of asset classes as well as managers offering funds and services within those asset classes. Meetings are held with managers on a regular basis, and usually at least annually for funds where clients are invested, by members of our specialist research teams (eg global equity, UK property, infrastructure etc). Ahead of meetings, managers are asked to provide factual information about the investment product, including completing a questionnaire covering their ESG assessments, climate risk management, net zero and stewardship activities, including voting and engagement. Researchers then assess these responses using an RI grading framework that is consistently applied across all asset classes and use this to identify areas for further discussion which are added to the meeting agenda. Following the meeting, the factual information provided by the manager before the meeting and the discussions in the meeting are discussed by all the relevant research team members. The manager is scored against a number of criteria, including our assessment of their RI capabilities in relation to that specific fund.

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

RI practices of bulk annuity providers

Our second RI survey of bulk annuity providers, which was released in December 2021, and covered eight insurers, identified that two were signed up to the Code as asset owners. We commented publicly on the position, receiving coverage in the press. Throughout 2022 (both before and during our reporting year), we fed back our findings to the insurers, and highlighted our expectations for them to sign up to the Code. As at 31 March 2023, three out of the eight insurers were signatories to the Code with others having signalled their intention to sign up. Three more were announced as signatories in August 2023.

More broadly, we are highlighting to clients considering securing their DB scheme's benefits with an insurer the influence they have with insurers to encourage improvements in their ESG and stewardship practices, as well as the need for them as trustees to consider tail risk exposure from climate change when selecting an insurer. Our internal checklists include a reminder to consider RI factors – including climate risk – in the insurer selection process, for example by asking insurers to cover these topics when they present.

Work on our next RI survey of bulk annuity providers commenced in March 2023, with results released internally in September 2023. We will comment on this in next year's report.



WE SEEK OUR CLIENTS' VIEWS AND FEEDBACK

We seek client feedback on an ongoing basis on all aspects of our work with them and do this in a variety of ways, for example, our client survey in which all clients are encouraged to participate. Please see [Box 2](#) for the headline results of the 2022 survey.

These triennial client satisfaction surveys are a genuine attempt to understand how we can continuously improve our service in line with the evolving needs and expectations of our clients (see [Box 9](#)).

We also run one-to-one client-specific client care meetings where clients can discuss with someone senior from LCP, not on the client team, the service that they receive from us and ways it could be improved. As is normal, given the amount of time and effort that goes into the client survey, we did somewhat less client-specific client care visits this year, with these returning to their normal frequency next year.

Our Professional Trustee team also hold various meetings – both formal and informal – with Professional Trustee firms and request feedback on our services. The team considers any key themes coming from these discussions and the best way to disseminate these throughout the company.

And of course, our client teams seek regular feedback from their clients themselves about whether what we are delivering to them is what they want, including in relation to ESG and stewardship matters. This feeds directly into the research we carry out and how we develop our services. The rationale for our approach is as follows. First, we believe that, as a firm, it's important that from time to time we gather insight from our clients as a whole, through the client survey, as to how we are performing across the range of services we provide to them. If there are any widespread issues or opportunities, we want to be able to address those.

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

And we also note that the detailed and high frequency comment that comes via regular client meetings and informal conversations is invaluable in establishing what works and what doesn't work and in fine-tuning things to make them more effective.

In addition, as noted on [page 22](#), where we provide investment consulting services to pension trustee clients, they are required to set strategic objectives for us and to assess our performance against these objectives on an annual basis, which provides feedback to client teams. We are considering how best to capture this information firmwide, especially where it relates to assessments against RI-related strategic objectives, so that we can identify any common themes and share these with the rest of the department.





HOW WE COMMUNICATE WITH OUR CLIENTS

We communicate regularly with clients in a wide range of ways, including:

- Face-to-face, either in person or via a video call;
- Through regular client-specific written reporting as well as publications such as our “Markets, macro and strategic portfolios” documents and our **Vista** magazines;
- Webinars;
- Via our **website** and by providing them with tailored online access to their own scheme-specific information.
- Through our **insight hubs** which curate news and content from our experts;
- Blogs;
- **Podcasts**; and
- **Events** such as webinars and conferences.

The frequency of communication is very much down to the client but would typically vary from quarterly to daily, depending upon the client, their circumstances, as well as developments in the broader market environment.

We will normally meet with our investment clients face-to-face once a quarter as part of their formal meeting cycle, but of course we are always available to discuss matters with them whenever they wish to do so. For example, when there are major market developments, such as the mini-budget-induced gilts crisis, we proactively approached clients. We often find that shorter, more frequent meetings work best.

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

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

For items of general interest which are not client-specific, we use a variety of communication means – eg blogs, podcasts, webinars. Our website contains lots of relevant information for clients, including a **specific area devoted to RI / stewardship** and a **climate change and sustainability insights hub**. Each quarter we produce our “Markets, macro and strategic portfolios” analysis for investment clients.

Following the launch of our Investment Uncut podcast series in February 2020, we have continued to host regular podcasts. Our LCP hosts are joined by internal and external guests on a regular basis to discuss issues that impact investment markets. Over the year, we had nearly 15,000 listens.





HOW WE COMMUNICATE WITH OUR CLIENTS CONTINUED

BOX 8: INVESTMENT UNCUT PODCAST

We have included some highlights of our podcast series over the year below:

The Future of Infrastructure

This episode discussed insights from recent research on a raft of new infrastructure assets and funds generally known as “infrastructure 2.0”, including battery storage, electric vehicle charging, data centres, sustainable transport and, of course, renewable energy. The discussion covered the assets’ key characteristics relative to traditional infrastructure, the investment case, and the vehicles used to access them, as well as how more traditional infra-assets could be decarbonised.

The Future of Energy

The episode focused on the work of our energy team, LCP Delta, looking at the “demand side” of the energy system, addressing energy efficiency, storage and smart meters. Having addressed some of the features of the UK energy market that have contributed to its current structure and how these might change, the episode covered:

- how the low-carbon energy transition relates to the current energy crisis.
- how the solutions being deployed for the transition also help address today’s issues.
- trends in the energy industry including efficiency, electrification, flexibility and storage, and how the demand side is set to take centre stage in the energy transition.
- how fundamentally different a decentralised energy grid based around renewables is compared to the current system and the implications.

Asset Manager Diversity: The Stats are in

This episode discussed a new set of data on diversity and inclusion within the asset management industry, the coverage provided by the data, the challenges in collecting it, as well as what the Diversity Charter entails.

Grow the Pie

For this episode LCP were joined by Alex Edmans, Professor of Finance at London Business School, author of “Grow the Pie” which argues for a new approach to business that focuses on creating social value rather than maximising profits. This challenges the conventional wisdom that companies have to choose between serving shareholders and serving stakeholders and shows how they can do both.

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





WE TAKE INTO ACCOUNT OUR CLIENTS' VIEWS AND FEEDBACK

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

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

In addition to feedback from our survey (see [Box 9](#)), we consider seeking client feedback in other ways. For example, when developing the technology that we use to advise clients, we often let them see early versions so that we can quickly adjust what we are doing to take account of what works – or doesn't work – for them. So, for example, during the year we worked on new functionality in LCP Monitor which we subsequently discussed with a group of c25 of our clients to obtain feedback on how they would use that functionality and how it could be improved upon.

BOX 9: ACTING ON OUR CLIENT SURVEY INSIGHTS

Our triennial client satisfaction surveys are a genuine attempt to understand how we can continuously improve our service in line with the evolving needs and expectations of our clients.

In order to do this, we ensure that each survey takes things one step further than the last and we constantly challenge ourselves to examine our strengths and weaknesses. In previous surveys we identified the importance of things like 'added value' and 'proactivity', but this time we wanted to really unpick what that looked like in practice.

As a result of this, we embarked on The Client Landscape Project, to understand a typical LCP client journey and the highs and lows that clients may experience along the way. In order to do this, we ran a series of workshops, facilitated by a market research firm, with our people internally to understand what they thought we did well or needed to improve on and then we asked our clients. Combining the two provided us with a unique perspective on what differentiates us, but also any gaps in service too.

We recognise that what's important now is how we act on the feedback from our survey. As a first step, we have analysed at length and discussed the feedback with the relevant individuals/departments internally and we are starting to implement a number of solutions to respond to our clients' comments and views. We look forward next year to describing the changes we make as a result.



WE TAKE INTO ACCOUNT OUR CLIENTS' VIEWS AND FEEDBACK CONTINUED

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

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

And as we note elsewhere in the report, our client teams seek regular feedback from their clients themselves about whether what we are delivering to them is what they want, including in relation to ESG and stewardship matters.

We have worked with many of our clients to understand their needs when setting out ESG themes / stewardship priorities to provide a focus for trustees' monitoring of their schemes' investment managers' voting and engagement activities. For one of our charity clients, having established the scheme's current priorities – climate change, biodiversity, and corporate transparency (which are set out in the scheme's SIP) – we then helped the trustees agree a set of questions to ask the scheme's investment managers to monitor the managers' delivery against those priorities with a view to escalation should the managers fall short of expectations. In devising the questions, we sought feedback from the Charities Responsible Investment Network which proved helpful in refining the questions.

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

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

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

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

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





Principle 6

Signatories review their policies and assure their processes.

REVIEW AND ASSURANCE

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

We review our investment-related policies and activities in a number of ways. During the year, this included:

- Reviewing our investment Office Standards and checklists, overseen by our various professional committees, making sure they remain fit for purpose;
- Undertaking focussed reviews by our compliance team of particular activities – for example the analysis of our effectiveness in carrying out asset transfers during the gilts crisis;
- Making changes to our asset transfer process to make use of software that allows us to see “all in one place” the documentation relating to a particular transfer, improving the efficiency with which transfers are carried out;
- Talking internally often and at length about what's worked and hasn't worked with clients when trying to help them with their stewardship – this very much remains work in progress. As an area that's developing and expanding rapidly, it's a challenge for all involved to keep up with all of the developments taking place and to then turn that understanding into specific actions. With so many different aspects to stewardship, one of the key things we've found – and are still working on – is how to clearly show the interconnectedness of the various types of stewardship activity available to clients and how they can reinforce / build upon one another. So, for example, during the year, we've introduced the revised RI grading framework (as also outlined on [page 52](#)) as well as the changes to our SIP and implementation statement templates (as also outlined on [page 52](#)) to better integrate stewardship into trustee investment policies;

- Carrying out deep dive research into third party ESG scoring methods in mid-2022, leading to an updated view on the suitability of ESG scores for use in index-tracking products;
- Undertaking periodic reviews by our manager researchers of their “what we look for in managers” lists for each asset class;
- Reviewing how we structure our client teams and the support they receive from other groups within the firm. For example, over the year we recruited a number of operational analysts to help with the production of a range of reports for investment clients aimed at improving the timeliness and quality of those documents;
- Analysing and taking steps to address the findings of our 2022 client survey aimed at improving further the quality of the service we provide (see [Box 2](#));
- Ensuring we are open and receptive to comments as part of our regular meetings with clients; and
- Looking at what is happening in the wider world – whether that's what managers are saying, what regulators and legislators are proposing, or what our competitors are saying and doing.



REVIEW AND ASSURANCE CONTINUED

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

Our main assurance processes are unchanged from last year:

- “Do”, “check”, “review” – as with everything we produce, all materials we develop for clients are subject to this process, ensuring that fresh eyes and additional perspectives critique the advice;
- Work produced by any of our client-facing teams falls within the risk monitoring programme managed by the Compliance team. The team uses a risk-based approach for assessing compliance with internal processes. If it is found that any aspect of the relevant process has not been followed, the findings are quickly communicated to the senior individual responsible for the advice who is required to oversee any required corrective action and confirm when it has been completed; and
- Our Compliance team also conducts ‘deep dive’ focused reviews of selected business areas from time to time to ensure internal processes and controls remain fit for purpose. This type of review can be carried out in a range of circumstances. For example, where we want to assess the work we are doing in a relatively new business area, to ensure that we pick up on any issues early, or when we may have carried out a lot of similar pieces of work over a short period of time. Examples of focused reviews from 2022/23 include:
 - As previously mentioned, a focused review to assess the robustness of the risk controls in place for asset transfers completed during the gilts market crisis; and
 - A review of our covenant consulting department to ensure it continues to operate effectively and manages all risks associated with covenant advice.

Reports from the monitoring programme are made on a quarterly and annual basis to the senior partners in each department who are responsible for implementing any changes needed to departmental practices. Findings requiring action are reported to the relevant department ProfCo, RiskCo and ExCo.

We ensure our stewardship reporting is fair, balanced and understandable

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

In terms of our reporting to clients on our assessment of managers' stewardship practices, we discuss internally our views on the manager, including their stewardship processes, following our research meetings with the managers. As described under [Principle 5](#), input is provided by other members of the research group as appropriate before the views are finalised. We will often subsequently hold feedback calls with the manager, giving them an opportunity to hear what we think as well as the chance to challenge what we are saying.



WE INCORPORATE FEEDBACK INTO OUR CONTINUALLY EVOLVING AND IMPROVING STEWARDSHIP PRACTICES



The feedback we receive from our review and assurance processes is directly reflected in the materials we produce for clients and the way that we deliver advice, as well as how we organise ourselves.

We would point to a range of areas in which improvements have been made to our stewardship practices.

For example:

- Changing how we organise our RI activities (as described on [page 18](#)) to be more action-oriented, highlights how we are trying to ensure that our policies and activities are more effective in delivering timely, practical input to clients;
- The update to our method for assessing investment products' approaches to ESG integration, voting and engagement and climate risk management, and adding an assessment of their net zero practices (see [page 52](#));
- The training materials we have put together to illustrate to clients and others the importance of stewardship, noting that it is really the only way in which systemic risks (eg climate change, biodiversity loss) can be addressed by investors. Such risk cannot be diversified away or avoided through careful asset selection and so need to be tackled through voting and engagement;
- The updated SIP and implementation statement templates we have put together which provide investors with a comprehensive framework for monitoring and engaging with their managers (see [page 52](#));
- The training materials and polling facilities we have made available to clients to help them select their stewardship priorities and the documentation that helps them communicate those priorities to their managers; and
- The case studies we have put together (see [page 31](#)) which aim to bring to life and bring home the real-world consequences of the voting and engagement undertaken by managers on our clients' behalf.



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

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