Wales Pension Partnership

STEWARDSHIP REPORT 2023–24



Foreword

FOR THE YEAR ENDING 31 MARCH 2024

I am delighted to present the fourth Annual Stewardship Report for the Wales Pension Partnership, covering the year to 31 March 2024. This report summarises our stewardship activity over the year, setting out the actions that we have taken in conjunction with our partners and the outcomes that we have achieved, demonstrating our compliance with the FRC UK Stewardship Code.

We were pleased to have retained our signatory status earlier this year, with progress continuing to be made to enhance our responsible investment (RI) approach. However, we recognised that there were several areas where WPP wished to progress further, notably in how we report to our stakeholders and how we address climate risk. We have made progress in both these areas while also developing further Sub-Funds through which our eight partner funds can implement their respective investment strategies.

The year was certainly one of progress, both at the broader market level, with performance recovering from various macroeconomic shocks and an easing of inflationary headwinds, as well as in terms of WPP's RI ambitions, with the Pool moving forward in a number of key areas.

The Pool completed an extensive climate reporting exercise, looking at how the underlying Welsh Funds have progressed in terms of climate between 2019 and 2022, publishing its first all-Wales Climate Report (AWCR). This collaborative exercise covered all assets, not just those within the Pool. Work has already begun on implementing the various policy recommendations from the exercise, including: the establishment of a WPP climate framework; the development of our own 'climate-focus' list for enhanced scrutiny of climate-affected issuers within materially impacted sectors; and a follow-up climate report, covering the Pool, which is planned for completion over 2024.

One key piece of collaborative RI work came to fruition in July, with the launch of the Sustainable Active Equity Sub-Fund, in which all eight of our partner funds are invested. The Sub-Fund has a specific net-zero target and a number of exclusions related to fossil fuels, highlighting WPP's ongoing commitment to embedding RI.

Progress was also made on broadening our suite of investments through the appointment of private-markets allocators across private debt, infrastructure and private equity, where RI considerations played a central role in the selection of our chosen partners. This progress should continue to allow assets to flow into the WPP over time, emphasising the need for us to continue to raise our stewardship standards and expectations.

We strengthened our stewardship approach with the development of core escalation principles, collaborating closely with Russell Investments, our investment-management solutions provider, and Robeco, our Voting and Engagement (V&E) Provider. This enhanced collaboration has also been reflected in our attendance at two of Robeco's client panels over the year, particularly in the choice of themes selected with our support, Ocean Biodiversity and Hazardous Chemicals.



Elwyn Williams
Chair, WPP Joint Governance Committee
October 2024

On our behalf, Robeco voted on over 15,000 resolutions at over 1,200 meetings across our equity Sub-Funds and had over 900 engagements (across over 600 engagement cases) spanning our listed assets, covering a range of environmental, social & governance (ESG) issues.

Overall, we are delighted with the continued and valued collaboration on RI that has taken place across the eight underlying Local Government Pension Scheme (LGPS) funds in Wales, and how this has been facilitated by our service providers and other stakeholders. WPP recognises the importance of responsible active ownership, and we look forward to progressing our stewardship goals collectively over the coming year and beyond.

A snapshot of 2023/24

Total pooled assets:

£18.5bn

representing **70%**

of total assets

of the Welsh LGPS funds

Listed markets:

£13bn

actively invested through 10 Sub-Funds,

73% in equities

Private markets:

£298mn

across **infrastructure**, **private credit** and **private equity**

Launched our

Sustainable Active Equity Sub-Fund,

with a **net-zero target of 2040**

Developed a set of

escalation principles

Published our first

All-Wales

Climate Report

Conducted our firstreport on

deforestation exposure

Average WACI of our active-equity investments

fell by 12% over the year

Over 15,000 votes

cast across our active-equity portfolio,

at over 1,200 meetings

15%

of our votes were **against management**

On our behalf,

Robeco

engaged across

21 separate themes

WPP supported the launch of two themes:

Ocean Biodiversity and Hazardous Chemicals

WHO WE ARE

Our beliefs

We are fortunate to enjoy a high level of collaboration between all our stakeholders. We believe the continued contributions of the Constituent Authorities (CAs) towards the Pool's evolution and achieving our common goals to be a particular area of strength. To reflect an increasing focus on RI, following consultation with all eight CAs, we added to the Pool's objectives over the year, with an additional, more sustainably focused, objective:

- To provide pooling arrangements that allow individual funds to implement their own investment strategies, where practical.
- To achieve material cost savings for participating Pension Funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other Pools to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.
- To deliver an investment framework that achieves the best outcomes for our key stakeholders: the CAs. The CAs will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers.
- To embed the delivery of long-term, sustainable investment outcomes into decision-making, through capital allocation, the ongoing scrutiny of asset managers, and the exercise of the rights and responsibilities that arise as asset owners.

Our beliefs in practice

We continue to believe our strength lies in our shared beliefs and our ability to collaborate towards delivering collective objectives for the benefit of all WPP stakeholders. These are reflected not only in the WPP's chosen operating model, including the need for external expertise, but also in the importance we attach to the work of the WPP's RI Steering Group (RISG), which meets at least once a quarter to engage specifically on the collective RI objectives and outcomes of the Pool.

Key to implementing our objectives and beliefs is the use of our service providers in delivering investment outcomes, with our operating model continuing to rely on external expertise to support the ongoing management of the Pool, including in our stewardship and RI efforts. The breadth of WPP's assets under management (AUM) has again grown this year, with the Sustainable Active Equity Sub-Fund officially launching and further work completed on WPP's private-market allocations, including the launch of our private-equity programme and beginning the procurement of a real estate allocator.

CONFLICTS OF INTEREST

WPP's CAs have always had to identify, manage and monitor conflicts of interest. The process of LGPS pooling has resulted in WPP also having to deal with the existence of conflicts of interest. This simply reflects the fact that WPP personnel and providers will have a variety of other roles and responsibilities – for example, as members of the underlying LGPS Funds or as an advisor to more than one of WPP's CAs.

WPP's approach to managing conflicts of interest is detailed in our Conflicts of Interest and Procedure Policy. This Policy was designed to demonstrate our commitment to identifying, managing and monitoring conflicts of interest. The key principles of WPP's approach to managing conflicts are:

- **Identification:** parties should be forward-looking in their approach to managing any conflicts of interest that arise
- **Recognition:** parties must acknowledge any conflict of interest they may have
- **Disclosure:** parties should be open with each other on any conflicts of interest they may have
- **Management:** parties should work to adopt practical solution to conflicts wherever possible

Our definition of conflicts of interest includes potential, perceived and actual conflicts. WPP understands that it may not be possible to identify, manage and monitor all potential and perceived conflicts of interest; however, it will endeavour to do so where possible. This Policy has been developed by WPP in consultation with the CAs and is designed to provide guidance to WPP personnel and providers, to ensure that WPP personnel and providers do not act improperly.

WPP has a fiduciary and legal duty to act in the best interest of WPP's stakeholders and beneficiaries. This does not preclude WPP personnel and providers from having other roles or responsibilities that may result in a conflict of interest.

External providers

As part of its Conflicts of Interest and Procedure Policy, WPP recognises that the use of external providers may be a source of conflict and has thus ensured that Service Providers have their own conflicts policies in place.

Russell Investments

WPP engaged with Russell to discuss potential conflicts of interest that may have arisen over the year as stewards of capital. As an investment manager, Russell confirmed they may have structural conflicts of interest that are known and have to be managed, such as being paid based on AUM levels.

As it relates specifically to WPP, Russell has always ensured any potential conflicts of interest are managed effectively, in keeping with its Global Code of Conduct. As part of this, Russell has a cost-plus fee structure in place, which allows underlying cost savings through time to be passed back to WPP. Russell also notes that they do not run any monies in-house for WPP, removing a potential source of conflict.

Russell manages conflicts of interest in accordance with regulatory requirements and subject to the Conflicts of Interest Policy.

No conflicts of interest regarding WPP were identified over this reporting year.

Robeco

Robeco's Stewardship Policy outlines its approach to identifying and managing conflicts of interest. The approach is based on Robeco's 'Conflict of Interest Procedure' and the 'Regulations Regarding Private Investment Transactions'. Examples of conflicts of interest that could arise related to Robeco's stewardship activities are:

- A company that is selected for engagement or is related to its parent company or related subsidiaries
- Robeco has voting rights in a company that is related to its parent company or related subsidiaries
- Clients have differences in engagement preferences

In case a business relationship might threaten the objectivity or the nature of stewardship activities, Robeco's compliance department is consulted. If, after consultation with Robeco's compliance department, V&E activities are to be pursued, different stakeholders – including the Robeco Executive Committee and WPP – are informed.

During the reporting year, no conflicts of interest were identified.

Hymans Robertson

Hymans Robertson has a mandatory policy for the management of conflicts across all of its group companies, which its staff are required to follow. Conflicts may arise where Hymans Robertson are retained to provide investment advice to any of the CAs within Wales, while also providing advice to WPP.

A number of such advisory relationships already exist and have been disclosed to all parties. The conflict is managed on an ongoing basis by ensuring the teams advising WPP are not responsible for the ongoing advice to individual CAs. Where any new instruction may be given, Hymans Robertson has advised both WPP and the relevant party of the potential for conflict.

During the year, Hymans Robertson specifically outlined a Conflicts of Interest Management Plan to ensure that the WPP is aware of the services Hymans provides to any of the individual Welsh Funds, including the scope of the services and the consultant involved in giving advice. Over the year, advice (both ongoing and ad hoc) was provided to five of the eight CAs. The teams responsible for providing the services to each of the CAs remained different from the team working with WPP, though one team member from the WPP team was part of the support team for an ad-hoc RI project. No conflict was found to arise in that capacity.



POLICIES, MONITORING & REVIEW

Our policy framework

WPP has a number of policies in place that govern the manner in which we implement Sub-Funds and exercise stewardship over our assets. Of particular importance to our stewardship efforts are the Responsible Investment Policy, the Climate Policy and the Stewardship Policy.

Reviewing and updating our policies

We review our policies annually, with the latest review taking place in March 2024 (with final approval following year-end), moving to an approach where all three policies are now reviewed concurrently. In general, all three policies were updated to be consistent in their language and definitions, and an acknowledgement of WPP's private-market programmes was also added to all three. The most significant changes to each respective policy are outlined below.

Responsible Investment Policy

Nature

We explicitly recognised nature loss as a systemic risk, highlighting the importance of ecosystem services and nature resilience as vital to climate mitigation and adaptation. This change followed work that WPP progressed on nature risk over the year, including the exploration of deforestation exposure undertaken by our RISG and our ongoing dialogue with the charity Size of Wales. Biodiversity risk will be monitored and reported on as far as data availability permits, in line with recommendations from the AWCR.

Stewardship

We brought the stewardship section of our RI Policy in line with our more detailed Stewardship Policy. This included acknowledging our consideration of LAPFF voting alerts and setting out in greater detail our expectations of service providers.

Securities lending

We updated our policy on stock-lending following the implementation of the proxy-recall service on those equity Sub-Funds in scope for stock-lending (noting that stock-lending is not permitted on the Sustainable Active Equity Sub-Fund). The proxy-recall service allows the WPP to fully apply its voting rights by recalling all stock on loan, as far as is possible, ahead of any general meetings at which voting rights may be exercised.

Climate Policy

The name of the policy was changed from 'Climate Risk Policy' to 'Climate Policy', recognising that risk is only one part of the climate challenge. The policy now also places emphasis on investment opportunities, particularly climate solutions.

Beliefs

WPP explicitly recognised the importance of a just transition in efforts to reach global net zero within its investment beliefs. Such a transition will inevitably precipitate marked systems change, including around energy, as we move away from a global economy that is broadly reliant on fossil fuels. WPP believes the transition should, as far as possible, ensure that no one is left behind.

Climate framework

One of the recommendations of the AWCR was the desire to facilitate greater consensus around climate, including in setting a common taxonomy and understanding around climate, and as a basis for setting climate targets. The thinking here is that it will provide consistency across all eight Welsh partner funds, as well as at the Pool level, in terms of policy evolution, future product development, product evolution, and in monitoring and reporting. The climate framework is also the basis for the climate-focus list, companies (across active and passive equity holdings, in the first instance) where stewardship will be explicitly scrutinised. The list comprises stocks within those materially impacted sectors (or those financing such) where there is the greatest climate risk or potential for change. This will help WPP: support oversight of voting practices on those issuers; further scrutinise engagement activity undertaken with those issuers; and assess (on an ongoing basis) the outcomes achieved.

Stewardship Policy

Engagement

During this year's review, a new engagement section was added that recognises the importance of engagement in shaping corporate behaviours and its status as one of the responsibilities (and benefits) of active ownership.

Escalation

Within the updated Stewardship Policy, we document our escalation strategy, which has been developed in close collaboration with Hymans Robertson, Russell Investments and Robeco.

Voting

WPP's Stewardship Policy directly embeds Robeco's House Proxy Voting Policy (contained within Robeco's Stewardship Policy), as this has previously been deemed to align directly with the WPP's own expectations. Responsibility for reviewing changes to the Robeco House Proxy Voting Policy rests with the RISG, with any material concern communicated to the OWG and JGC for consideration where appropriate.

The RISG completed a review of the December 2023 update to Robeco's Proxy Voting Policy, where we noted minimal changes. One notable change was made to the policy on 'environmental management and climate change', where an addition was made setting an expectation for companies to stop their expansion of thermal-coal capacity. The addition also explicitly sets an expectation for financial institutions to develop robust transition strategies (in line with sectoral best practice). This represented a welcome evolution on voting around climate that strengthens the WPP Stewardship Theme Focusing on Net Zero.

The RISG considered this and the other changes to be in line with expectation, with the changes then applied to the WPP's Voting Policy from early 2024.

Passive investments: stewardship

As part of the review of WPP's passive investments, noting stewardship as an area of necessary evolution, WPP's Oversight Adviser conducted a review of BlackRock's updated Stewardship Policy. Whilst the WPP viewed the changes in positioning and language were nuanced and noted that it remained likely that voting outcomes on passive investments would continue to be in line with those experienced in 2023. The review prompted ongoing dialogue with BlackRock on the application of Voting Choice across the equity passive funds and potential changes to the approach to stewardship. This dialogue has continued following the year end and the WPP is working towards extending its voting policy across passive assets.

Monitoring compliance with our policies

WPP annually monitors compliance with its key policies. Working with Hymans Robertson, the Oversight Advisor, WPP reviewed compliance with its commitments within both the RI and Climate Policies during the year. WPP published the outcome of this review, with a summary of the assessments included as Appendix 2. We recognise we can continue to improve our own processes and the way in which we serve all our stakeholders, and that this process of ongoing review and transparency will continue to improve our ongoing stewardship.

While highlighting areas where progress had been made and actions taken, the detail of which is contained within this report, the reviews also noted some areas for further work:

- **Facilitating discussions around a common climate goal:** the AWCR was the first step in this process. It has already facilitated discussions around a common climate goal, which WPP hopes to progress further over 2024/25, with the climate framework helping to facilitate this.
- **Evolution of the fixed-income Sub-Funds:** one area of future focus for WPP will be on the sustainable evolution of its fixed-income offerings. Work began with WPP's Investment Management Solutions Provider on this, which we hope to progress over 2024.
- **Evolution of the passive mandates:** work has already begun on understanding how WPP could evolve its passive allocations. Initial input has been sought from CAs in whether the current offerings meet WPP's RI expectations and how the passive mandates may be evolved where expectations are not being met.
- **Building a framework for the private-market investment programmes:** given the launch of the WPP's private-market investment programmes, WPP has progressed the development of a framework for manager monitoring and reporting.

Assuring our processes

As Oversight Advisor, Hymans Robertson undertakes periodic reviews of the work being undertaken by Russell, Waystone and Robeco, thus providing ongoing assurance to the WPP. Given the in-depth nature and time constraints necessary, as well as the lack of available internal resource to conduct these reviews, external resource is required to provide this function, a function that allows WPP to ensure that its Service Providers are meeting objectives.

Reviewing stewardship activity

To help review the stewardship activity carried out on WPP's behalf, and to ensure areas of focus meet the stewardship aims of the Pool, Hymans Robertson provides quarterly reporting on its RI activity by Sub-Fund. This includes a review of the work carried out by Robeco over the quarter, as well as any additional engagement activity from Russell, with detail also provided on LAPFF's stewardship work.

Sub-Fund reviews

Over the course of the year, reviews of three of the Sub-Funds (Emerging Markets, Multi-Asset Credit, Absolute Return Bonds) were undertaken. Overall, findings were in line with expectations, but a number of follow-ups were suggested. For example: greater transparency around the overlays (the enhanced portfolio implementation, the currency hedges and the decarbonisation overlay); the sustainable evolution of the fixed-income Sub-Funds (where practicable); and in working with the RISG to develop processes for reviewing stewardship activity. All of these areas are already being progressed.



OUR INVESTMENTS

WPP's role is to facilitate and provide an investment pooling platform through which the interests of the CAs can be implemented. All the CAs are part of the LGPS, an open defined-benefit pension arrangement with a long-term investment horizon. While the underlying benefit provision within the LGPS is common to all, the development of strategy remains the responsibility of each CA, considering their own policies, financial position and underlying membership.

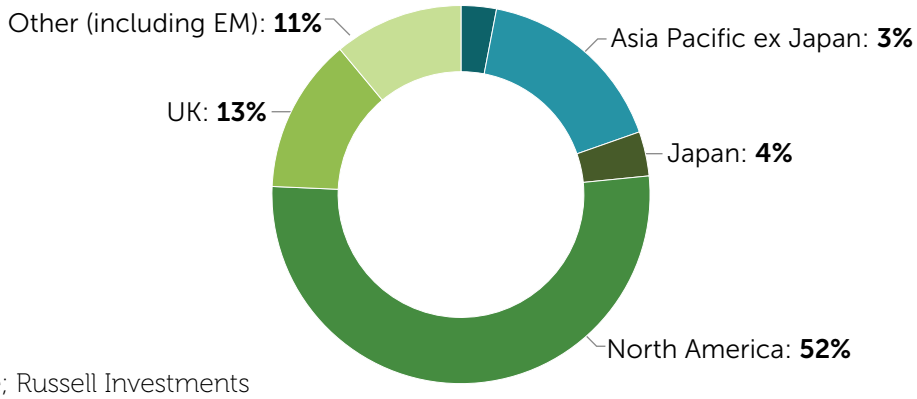
WPP is therefore tasked with the provision and management of investment vehicles through which the CAs can implement their chosen strategy.

WPP managed assets

As at end-March 2024, there were 10 active pooled Sub-Funds and three Private Market programmes, with the proportion of pooled assets remaining around 70% (including passive investments). The range of Sub-Funds offered by WPP provides the CAs with investment opportunities to meet their individual requirements. Each of the Welsh Funds invests in at least two active Sub-Funds, with one Fund investing in as many as seven. Ongoing Sub-Fund development is a key part of WPP's workplan.

Pooled active	Participating CAs	Underlying managers	Total £m 2023/24
Equity: Emerging Markets	4	6	£259.4
Equity: Global Growth	5	3	£3,585.7
Equity: Global Opportunities	5	8	£3,286.4
Equity: UK Opportunities	2	5	£743.5
Equity: Sustainable Active Equity	8	4	£1,570.4
Fixed Income: Absolute Return Bond	3	3	£573.0
Fixed Income: Global Credit	5	4	£1,033.7
Fixed Income: Global Government	2	2	£488.8
Fixed Income: Multi-Asset Credit	5	5	£732.4
Fixed Income: Sterling Credit	1	1	£707.8
Pooled passive	7	1	£5,200.0
Private markets			
Infrastructure	7	4	187
Private Credit	7	1	64
Private Equity	5	1	47
Total			**£18,479**

Regional distribution of actively managed assets



Source: Waystone; Russell Investments

Expanding the range of Sub-Funds

The WPP is committed to ensuring it meets the evolving requirements of its stakeholders by making a range of Sub-Funds available to all underlying CAs within the Pool. The choice available has expanded from the two global equity Sub-Funds in 2019, to 10 Sub-Funds (for listed markets) and three private-market programmes, collectively spanning geographies and asset classes.

Sustainable Active Equity

The summer of 2023 saw the launch of the Sustainable Active Equity Sub-Fund, in which all eight of our partner funds are invested. The Sub-Fund itself is one of the largest funds of its type in the UK (AUM £1.6bn, as at 30 June 2024) and is the first time all eight underlying Welsh Funds have invested into a single Sub-Fund. The Sub-Fund's launch in July 2023 thus confirmed the comprehensive and committed buy-in from all partner funds, following extensive collaboration on its development.

The Sub-Fund has a specific net-zero target, for 100% of assets to be net zero or aligned with net zero by 2040, with a secondary aim of reducing CO2e emissions by 50% by 2030. A number of exclusions related to fossil fuels were incorporated (thermal coal, oil sands, arctic oil and gas, shale energy) in the Sub-Fund design, as well as other exclusions (controversial weapons, gambling, adult entertainment, palm oil, tobacco).

Private markets

WPP launched several private-market programmes over the year, covering: infrastructure (with open and close-ended options made available); private equity; private debt. Work also progressed on the WPP's real estate programme, with contracts awarded following year-end.

Asset class	Allocator/manager appointments
Private Equity	Schroders
Infrastructure	**Closed-ended programme:** GCM Grosvenor **Open-ended programme:** CBRE Global Infrastructure Fund; IFM Global Infrastructure Fund; Octopus Renewables Infrastructure SCSp
Private Debt	Russell Investments
Real estate	**UK core real estate:** Schroders **International real estate:** CBRE **Local/impact real estate:** Schroders

Evolving our existing Sub-Funds

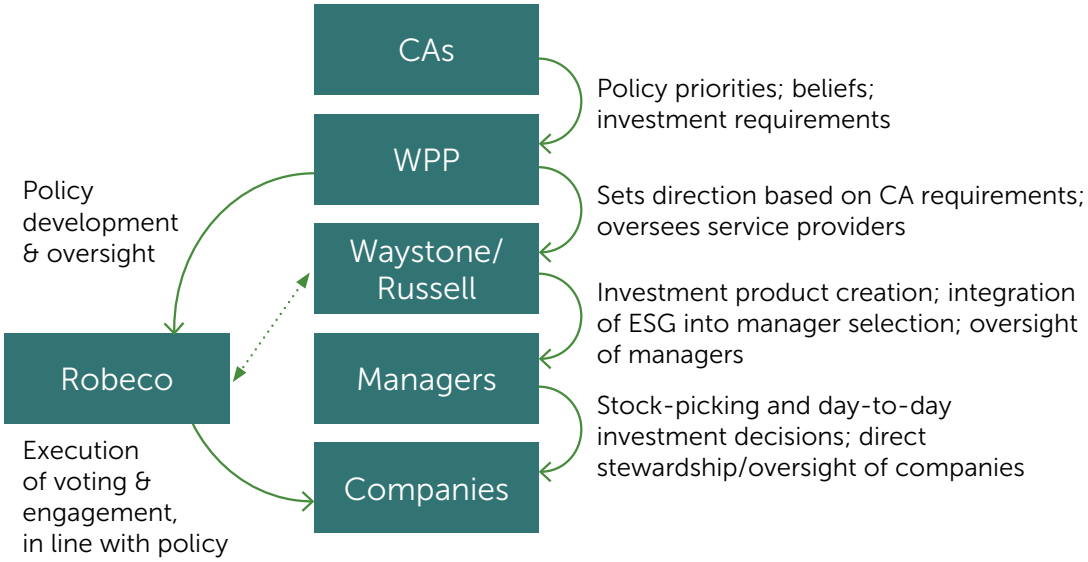
WPP, in conjunction with its service providers, continually monitors its investment vehicles to ensure they meet expectations. As active owners, we may find opportunities to evolve our Sub-Funds to better meet our needs. Within the ongoing management of the Sub-Funds, Russell has delegated authority to adjust the manager line-up, making manager changes in three of the Sub-Funds over the year. WPP has a formal monitoring programme to evaluate the performance of the Sub-Funds and the impact of manager selection activity against expectations, including sustainability metrics.

Case study: Robeco added to the Global Credit Sub-Fund

Russell, in consultation with WPP, made a manager change in the Global Credit Sub-Fund over the year, with the outgoing mandate replaced by one managed by Robeco. The change was based on relative forward-looking expectations and higher conviction in the manager, reflected in Robeco scoring the highest possible rating under Russell's manager-rating framework. The rating is underpinned by Robeco's strength in sustainable investing, as well as its strong credit heritage. Russell's research finds Robeco to be a leader in multi-factor credit and ESG/SDG bond/active-ownership investing. This should benefit the Global Credit Sub-Fund, given the close cooperation between Robeco's credit team and its in-house Sustainable Investing Centre of Expertise.

OUR RI APPROACH

WPP believes that the integration of ESG factors, including the consideration of risks and opportunities, into investment processes is a prerequisite for any strategy, given the potential for financial loss. As WPP's pooled assets are managed externally, WPP sets expectations on how assets should be managed with Russell and other underlying managers to ensure RI views, ESG integration, approach to risk management and stewardship align.



Russell Investments

Russell integrates ESG factors into its investment process via investment-manager evaluations and providing proprietary investment solutions. Russell uses quantitative and qualitative inputs based on three building blocks – ESG annual manager survey; dedicated ESG due diligence; and data & analytics – to assess a manager's ESG awareness and integration. These inputs are then used to assign a rank, which contributes to the manager's overall rank.

For sustainable funds, such as the Sustainable Active Equity Sub-Fund that launched over the year, an additional layer of evaluation is added, through Russell's I-P-O framework:

- Intent: product intent reflects sustainable objectives
- Process: a sustainable-investment process is evidenced by the consistent and effective integration of ESG and RI practices
- Outcome: a sustainable or ESG outcome is evidenced through product characteristics or metrics

The scoring methodology includes four components:

- ESG Commitment: ESG resources are robust and aligned with the investment process. Individuals responsible for ESG have relevant experience and are skilled. There is a variety of high-quality data sources and tools available to investment decision-makers.
- ESG Consideration: strong awareness of the risk-and-return impact of ESG is evident. Breadth and depth of perspective are superior to peers. Insights are derived from primary research and are differentiated.
- ESG Implementation: ESG insights are effectively and consistently translated into portfolio positioning. The manager clearly demonstrates how portfolio positioning reflects the management of relevant ESG risk-and-return drivers.
- Active Ownership: the transparency, quality and duration of engagement with investee companies on ESG issues is consistently superior to peers. Success measures are clearly stated and appropriate. Active Ownership outcomes or Impact Assessments are readily available and recorded. Where applicable, effort is made to make informed use of proxies.

5	4	3	2	1

- The manager demonstrates **strong awareness** of the potential risk and return impacts of ESG issues on individual holdings and the portfolio structure
- The manager can **clearly demonstrate** how portfolio positioning reflects the management of relevant ESG risks
- The manager can **clearly demonstrate** how relevant ESG exposures can add value



- The manager **does not demonstrate awareness** of potential risks and return impacts of ESG issues on portfolio holdings
- **Meaningful discrepancies** between target ESG guidelines and portfolio holdings
- Manager's perspective and analytical **inputs on ESG issues lack rigour**

Russell reports its ESG scores for each of the underlying Sub-Fund managers to the WPP, these being summarised below compared with scores in 2023.

Russell ESG ranking for underlying managers as at 31.03.24 vs 31.03.23



Source: Russell Investments; to note, figures provided for our last submission were not correct; comparisons have been updated to reflect this.

Case study: manager change in the UK Opportunities Sub-Fund

In our last submission, we highlighted one manager we were continuing to monitor, given it was one of the lowest-rated managers within our Sub-Funds. Russell found the manager to be below average relative to UK peers in the incorporation of ESG into the investment-management process and had put the manager on watch. This year, concerns were exacerbated by organisational disruption to the management team, prompting a rethink in allocations to the strategy. The manager was replaced with another UK-focused manager, in which Russell had a more positive conviction. The replacement manager integrates ESG issues into the fundamental research of the team, giving an overall positive view on the manager's commitment.

Engagement with managers

Engaging with our appointed managers on their processes and, where necessary, the assessment of underlying appointees, is an ongoing element of our governance, ensuring we retain confidence in those managing our assets.

WPP noted that there was a positive change to the ESG score of one manager within the Global Opportunities Sub-Fund over the course of the reporting year. WPP had previously agreed with Russell's comfort at a relatively lowly rated manager being included in the Sub-Fund, given they run a quantitative process (high number of holdings, sizeable turnover), with ESG risk-and-return drivers thus generally lacking materiality in such processes. Nonetheless, the manager's decision to incorporate ESG-related signals into the overall model was seen as a positive step, with Russell upgrading the ESG ranking of the strategy as a consequence. Russell notes that ESG-related insights are reflected in positioning only with respect to the manager's governance-related alpha factors and other ESG risk factors.

Oversight and scrutiny are undertaken by the RISG

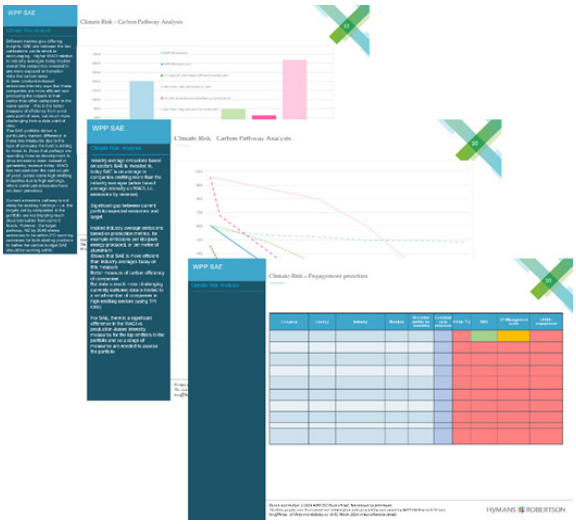
In operating an outsourced model, the WPP is responsible for the direct scrutiny of key Service Providers, with Russell and Waystone then responsible for the direct oversight of the underlying managers employed within the Sub-Funds. Financially material sustainability risks are monitored by Russell and Waystone on an ongoing basis, as with any other risks. Quarterly check-ins take place with the portfolio managers with reference to ESG risks. WPP exercises oversight of Russell's processes on stewardship and ESG integration.

One of the ongoing roles of the Oversight Advisor is in assessing the management of the Sub-Funds and testing the processes that are being employed. In undertaking this exercise, Hymans Robertson undertakes an independent assessment of each portfolio, highlighting aggregate and individual areas of risk to the RISG. Each Sub-Fund is reviewed on an annual basis, with at least one report provided on at least one Sub-Fund each quarter to ensure WPP's investment expectations are met.

The monitoring covers: climate-related risks, including trends in carbon emissions; ESG related risks, including exposure to controversies; and highlights individual companies within portfolios that may be appropriate for further discussion.

Evolving our ongoing scrutiny

We have identified the need to increase our forward-looking climate analysis within the reports, an area highlighted during our policy reviews (Appendix 2). In conjunction with the development of our climate-focus list, we are currently working to evolve our regular reporting to incorporate more detailed, forward-looking analysis to help better focus WPP's stewardship efforts. We are also taking this opportunity to increase our assessment of other priority issues including nature and human-rights-related risks. We expect this enhanced reporting and scrutiny to be implemented over 2024/25. We will continue to review and evolve our reporting in line with stakeholder feedback.



Case study: Sustainable Active Equity: meet the manager

Following the launch of the Sustainable Active Equity Sub-Fund, Russell organised a 'meet the manager' day, where each of the five underlying managers presented on their underlying approach and mandate. One common theme of interest across all managers was systems disruption and the use of technology that can create positively impact, particularly areas such as energy, healthcare and transportation.

We believe these events are important in building an understanding of investments across all the WPPs stakeholders, with attendees including representatives from Pension Committees, Officers and Advisers. In allowing stakeholders to directly question managers, the WPP gains insight into issues of interest or concern, thus providing the ability to improve our communication.

Service Providers and stewardship

To ensure WPP's Service Providers' monitoring and engagement activities continue to be in line with that of WPP, WPP tracks engagements with Russell, Robeco and BlackRock in a Stewardship Log. This log considers any views or concerns that have been raised by members or other stakeholders and presented at any of the regular meetings (most notably the RISG). Conversations over the reporting period have included:

- **Robeco, LAPFF, Waystone, Northern Trust:** WPP, along with other members, was approached by LAPFF on the opportunity to co-file a shareholder proposal (SHP) on the management of water risks at the upcoming AGM of a global mining company, which we highlight later in this report. WPP approached Robeco in the first instance to understand what work had been done in engaging the name more generally and to understand the potential for Robeco to co-file on WPP's behalf. Given a lack of familiarity with the co-filing process, WPP was unable to support the SHP in question. However, this made it clear that a process needed to be in place for any similar opportunities arising in the future. For example, LAPFF is currently considering co-filing opportunities on: (1) lobbying disclosures (various issuers); (2) water-stewardship practices. WPP therefore initiated discussions with Waystone and Northern Trust internally, and the experience of other pools externally, to facilitate this. WPP will report further on the process in our next submission.
- **Robeco, Fidelity, LAPFF:** WPP reached out to its Service Providers to understand concerns around the UK water-utility sector, specifically around governance practices and environmental concerns. We take a deeper dive into our engagements later in this report.
- **Robeco, Russell, Waystone:** the JGC has highlighted the need for greater reporting and tracking of engagements. This has led to discussions with Robeco, Russell and Waystone for greater reporting on engagement cases generally, as well as in the development of WPP's own escalation strategy specifically for cases involving breaches of global norms (something we outline later in this report). Robeco now does a deep-dive into a particular engagement theme at each JGC. The climate & ESG risk reports have already been evolved to include more information on engagements across Service Providers, which will be refined further in the updated versions.

Oversight in private markets

As part of our RI Policy, WPP expects the RI credentials of its Investment Managers to be reviewed and for this to be reported on at least an annual basis. For the listed Sub-Funds, ongoing manager evaluation is carried out throughout the year by both Russell and Waystone, with those findings reviewed and shared with Officers. For the private-market programmes, which were launched over the year and are not overseen by Waystone, WPP has sought to both establish ongoing dialogue with these managers, and to establish a framework for the periodic review of each private-market manager. The framework incorporates general entity-level elements, as well as incorporating issues relevant to each asset class and exploring how managers approach areas of interest to WPP: nature; climate change; human rights. This framework was rolled out following year-end and is expected to inform thinking on impact reporting.

Case study: Octopus: measuring impact in infrastructure

Private-market asset classes are generally further behind listed markets in terms of ESG data availability, which can present barriers to monitoring and oversight. We welcome the approach one of our private-market managers, Octopus, takes to its due diligence of investments to support ongoing monitoring and oversight. Octopus' approach takes a holistic view of all investments through the lenses of 'Performance, Planet, People', embedding this framework into the investment process, the monitoring and management of assets, and reporting. The manager uses these three pillars as the basis for its ESG scoring matrix, which ensures a minimum scoring threshold is achieved before any investment is approved. The framework then allows Octopus to measure and track the impact of its investments and make recommendations through the investment committee.

For more details:

Octopus Energy Generation
Engagement & Stewardship Policy



ADDRESSING SYSTEMIC RISKS

WPP's investment approach includes the effective management of risk, which we believe is integral to good governance. WPP recognises that effective risk management – including RI and climate-risk mitigation strategies, alongside the consideration and management of broader ESG issues – are essential for delivering successful outcomes to our stakeholders. There are two processes in place for the consideration of risk.

Our Risk Sub-Group is a key forum for identifying risks

As per the Risk Policy, WPP recognises that, if left unmanaged, risks can impact on the ability of WPP (and the CAs) to act in the best interest of our stakeholders (and beneficiaries), with WPP's success, to an extent, dependent on our ability to effectively balance risk and return. WPP thus recognises that a robust risk strategy must be in place in order to deliver on our primary objectives, with a dedicated Risk Sub-Group established to maintain and evaluate the WPP's Risk Register on a quarterly basis. The Risk Register is used to document, manage and monitor risk by:

- Outlining the WPP's key risks and factors that may limit our ability to meet objectives
- Quantifying the severity and probability of the risk facing the WPP
- Summarising the WPP's risk-management strategies
- Monitoring the ongoing significance of these risks, the effectiveness of existing risk-mitigation strategies and the requirement for further risk-mitigation strategies

The Risk Sub-Group has a vital role in proactively identifying existing risks and those that may materialise in the future, and in assessing the effectiveness of existing – or the requirements for additional – risk-mitigation measures. The Risk Sub-Group puts forward recommendations to the OWG on what actions should be taken to further mitigate or manage risks, but it is not responsible for enacting the recommended actions.

Our Stewardship Framework in identifying emerging risks and themes



One way in which we seek to identify risk is through the use of our Stewardship Framework, which we outline later in this report. The first stage of this process is critical, drawing on a range of sources to assess emerging areas of risk. These include themes arising from ongoing monitoring; input from the wider investment community; and other bespoke research. By sharing input with, and seeking feedback from, the broader WPP stakeholder base, the WPP captures a broad range of inputs and potential sources of systemic risk. This process was put in place during early 2023 and has been implemented during the 2023/24 reporting year.

Climate change

As part of the ongoing monitoring regime, the WPP monitors a range of different climate-related metrics, including emissions metrics. The table below indicates the change in weighted-average carbon intensity (WACI) over 2023/24, noting that there has been an overall reduction across all Sub-Funds, though only marginally within the Emerging Markets mandate. We also highlight the marked reduction in WACI for the UK Opportunities Sub-Fund, reflecting the implementation of the low-carbon overlay.

Sub-Fund	Weighted Average Carbon Intensity (tCO2e/$m sales)	
	31/03/2023	31/03/2024
Global Opportunities	109.4	88.3
Global Growth	69.6	51.3
UK Opportunities	86.8	59.5
Emerging Markets	227.9	165.3
Sustainable Active Equity	N/A	69.6
Global Credit	247.8	203.6
UK Credit	78.5	33.8

Source: Hymans Robertson. Only Sub-Funds where emissions data coverage is at least 70% is reported

Climate framework

One of the key recommendations of the AWCR was the development of a climate framework, the primary purpose of which is to ensure consistency in communication, policy setting, strategy development and reporting across the WPP, and by its stakeholders. As the underlying CAs work to put in place and implement their climate goals, requiring the WPP to develop investment solutions that directly support these ambitions, a common climate framework and taxonomy has been established, underpinned by four core pillars.

Principles and beliefs
High-level statements that capture the collective views of WPP's stakeholders and guide activity

Strategic goals
Climate goals that collectively reflect the position of all eight CAs, incorporated in the Climate Policy. This may include net-zero commitments

Portfolio characteristics
The attributes of the portfolio that need to be monitored and managed to ensure alignment (eg climate & nature metrics); reflected in monitoring & reporting

Stewardship
This will inform dialogue with WPP's Voting & Engagement Provider and Investment Managers, and will help focus climate stewardship

This framework has already supported activities that have taken place since the year-end, including in the evolution of the passive investments, changes to ongoing reporting and in our manager oversight. In turn, we expect this to support our ongoing understanding of and response to climate-related risks.

Climate-focus list

One of the recommendations that came out of the AWCR was building a list of companies that can be more readily scrutinised from a climate perspective, helping in WPP's climate-stewardship efforts. The list comprises the most significant holdings from a climate perspective, across the listed-equity investments in the first instance, and is balanced across sectors. Such a list helps focus climate-stewardship efforts, as well as monitoring and reporting, and creates a point of focus for future discussions with stakeholders. Work on this list was started over the year, with the first monitoring report issued following year-end for discussion with the RISG. We will report more on this in our next submission.

Nature

WPP recognises nature loss as a systemic risk, noting the interrelated aspects of climate change, deforestation and biodiversity. To understand WPP's exposure to deforestation risk in the first instance, WPP undertook analysis of the Pool's exposure to such in its active-equity Sub-Funds. The analysis used data collated from Forest 500, capturing those companies deemed at the greatest risk of contributing to deforestation. Findings showed that WPP's greatest exposures were in three sectors: Food, Beverage & Tobacco; Household & Personal Products; and Consumer Staples.

To address this, the analysis recommended building nature into WPP's climate framework, developing broader policy commitments to nature, and incorporating nature considerations into WPP's stewardship oversight. All these recommendations were progressed over the year, with an updated analysis being undertaken as at end-March 2024.

Case study: engagement on deforestation exposures

WPP engaged with non-profit Size of Wales (SoW) to discuss a report the organisation was intending to publish, prepared in conjunction with Global Canopy, on the Welsh LGPS funds' exposure to deforestation risk. The report considered the Welsh funds' potential dependencies and impacts on nature. WPP organised a meeting with SoW to discuss the report, which coincided with the completion of our own analysis. Outcomes from this engagement and analysis included the WPP:

- Developing policy commitments to nature
- Identifying significant contributors to deforestation risk for more detailed ongoing scrutiny, with relevant companies subsequently added to our climate-focus list
- Engaging with our V&E Provider on deforestation
- Exploring options to improve data coverage and undertake further complementary analysis

Case study: Robeco: targeting nature loss

Over the year, Robeco, in conjunction with the Worldwide Fund for Nature Netherlands, finalised its biodiversity investment framework, assessing companies' impact on nature loss. Though this is to be used in Robeco's investment processes – and is thus only applicable in an investment sense to WPP's Global Credit Sub-Fund – the framework highlights Robeco's commitment to addressing nature loss.

The indirect impact on WPP has been through Robeco's Proxy Voting Policy, which is applied to WPP's equity Sub-Funds, targeting companies with high exposure to deforestation risk that have inadequate mitigation procedures to limit and reduce impact. Robeco has also engaged on deforestation within sovereign exposures, including in Brazil and Indonesia. Robeco's dialogue with the government of Brazil has included looking for solutions that are systematic and socially beneficial. This is being sought on multiple fronts. For example, increasing the transparency and traceability of cattle-supply-chain data, which would empower companies to track their own exposure, as well as allow for greater monitoring and reporting more generally. At the investment level, discussions also took place on unlocking green financing, in sustainable credit markets, for example. Though Brazil faces multiple headwinds from anti-environmental lobbying, Robeco is confident in the new president's commitment to addressing nature risks.

Finally, acknowledging the interconnected nature of climate change and biodiversity, Robeco extended and expanded the 'Climate Transition of Financials' engagement theme to also include engaging such institutions on biodiversity. This was launched during WPP's year-end, with seven relevant financial institutions targeted.

Geopolitical risks

A number of ongoing conflicts were flagged by the Bank of England as relevant concerns over 2023/2024, including Russia/Ukraine and Israel/the Occupied Palestinian Territories (OPT). Waystone currently tracks WPP's exposure to Israeli companies and continues to monitor the current situation as part of its oversight process.

Russell continuously evaluates what the likely transmission mechanism of any geopolitical event might be and then looks to quantify what the impact on portfolios could be. Political risks are evaluated from both an investment-risk and an operational-risk standpoint. Political risks in an investment context are assessed as part of Russell Investments' market and credit-risk management processes, which include periodic stress testing and scenario analysis, along with other risk analysis. In the case of the escalation of conflicts in the Middle East, Russell considered the likely impact via oil markets and any impacts on real economies. Russell interacted with underlying sub-advisors as the conflict arose, although, based on their analysis, did not take any direct action in relation to the Sub-Funds over the reporting period. To date, there has been a very limited investment impact from these events.

Cyber attacks

Over the reporting period, Russell identified three potential cyber risks:

1. Third-party risk: Russell has implemented a risk-management programme, which includes an initial cybersecurity assessment and annual assessments for all key third parties. Addressing third-party risk on an ad-hoc basis is also carried out when industry cybersecurity events are discovered, including to understand the extent of effect, how third parties have addressed the event and how they will prevent it in the future.
2. Data loss: Russell Investments has implemented robust Data Loss Prevention systems to detect and prevent both intentional and accidental scenarios. These systems cover various avenues and include the blocking of USB removable media, posting to social media, file-sharing sites and emailing sensitive content outside the firm.
3. Phishing/ransomware: in addition to controls in place to filter this content at the perimeter, having endpoint protections in place with Russell's EDR (end-point detection and response) and immutable back-ups, Russell Investments has invested heavily in end-user training. The cybersecurity team sends out training videos to all associates and contractors on a quarterly cadence and also performs frequent phishing tests (at least quarterly).

Russell did not experience any related cyber incidents over the period.

UK economy

Inflation weighed on consumer confidence amid a cost-of-living crisis. Interest-rate hikes by the Bank of England and expectations for rates to remain higher than anticipated caused mortgage refinancing pressures, with consumers ending low fixed-term rates and refinancing into much higher rates. However, consumers and the economy proved more resilient than expected, with hopes of rate cuts from the Bank of England in 2024 also providing some relief. Political risk remained, particularly towards the end of the period and expectations for the general election. The UK Opportunities Sub-Fund adjusted exposures accordingly throughout the period, with Russell maintaining close communication over the period, viewing the actions taken to be appropriate.

Emerging markets

China was heavily impacted by foreign-investor outflows. The strength of the economy, softening domestic consumer spending and high debt levels within the property sector weighed on confidence. In response, the People's Bank of China made numerous interest-rate cuts amid 'insufficient' domestic demand and injected liquidity into the banking system. To manage risk here, Russell carefully considered exposure to China, keeping the China specialist manager below its target weight during the period.

WORKING TOGETHER

We continue to work with other LGPS stakeholders

WPP recognises that collaboration with other like-minded investors and representative bodies can maximise the influence of WPP's assets on investee companies. One area of direct collaboration undertaken by WPP is through the Cross-Pool RI Group. The group includes LGPS pools from England, Scotland and Wales, and includes both funds and pool operators. The forum allows for discussion between LGPS investors, which operate in the same regulatory environment, and with similar expectations from CAs and beneficiaries on RI and ESG topics.

WPP, together with all CAs, is a member of LAPFF, which undertakes engagement with companies on behalf of all its members. LAPFF is a forum for LGPS funds and is the UK's largest collaborative shareholder-engagement forum, engaging across a broad range of ESG themes with investee companies. WPP is a pool member of LAPFF and feeds into the annual engagement work plan. WPP draws directly on LAPFF's voting alerts, which are fed into the Voting Policy. Further, information gained from LAPFF engagement provides a basis for ongoing dialogue and challenge of BlackRock, Russell and Robeco's own activities, thereby ensuring that discussions are constructive.

Representative on the SAB RIAG

Formed in 2019, the RI Advisory Group (RIAG) of the Scheme Advisory Board (SAB) meets once a quarter to discuss RI matters as they pertain to the LGPS. WPP has continued to have a representative on the RIAG, where it has actively contributed to a number of discussions over the year, including on:

- Impact and levelling up in the LGPS
- Building a common approach to climate-risk reporting
- The review of the UK Stewardship Code
- The Taskforce on Social Factors

Robeco LGPS panel

This year, in addition to its active-ownership panel, Robeco hosted an LGPS-specific panel in November. The meeting was a chance for LGPS clients (both engagement and investment clients) to share their objectives and priorities for the LGPS sector, and feed into Robeco's Active Ownership team's work areas over the year. WPP was pleased to attend the session, where a number of priority stewardship focus areas were discussed, including around: human rights (especially in conflict areas); the cost-of-living crisis in the UK; marine biodiversity and coastal ecosystems; artificial intelligence; and the mining sector. The discussions also helped strengthen the theme-selection discussion at the Active Ownership panel at the end of November, which we discuss later in this report.

External partners

As WPP's view on maximising impact through mutual priorities and collaboration is in line with Robeco's, WPP relies heavily on the V&E Provider to undertake any relevant industry collaborations on our behalf and to report back on any progress. Robeco actively collaborates with the following:

- UN PRI
- Net Zero Asset Managers Initiative
- Climate Action 100+ (CA100+)
- Taskforce on Nature-related Financial Disclosures
- Platform Biodiversity Accounting Financials
- Finance for Biodiversity Pledge
- Cambridge Institute for Sustainable Leadership
- World Wide Fund for Nature Netherlands
- Investor Mining and Tailings Safety Initiative
- Investor statement on the UN Treaty on Plastics
- Investor Alliance for Human Rights
- Nature Action 100 (NA100)
- PRI Human Rights Stewardship Initiative (Advance)
- Global Commission on Mining 2030
- Finance Sector Deforestation Action (FSDA)
- Eumedion: Ahold, Unilever
- ACGA Korea Working Group: Hyundai Motor, Samsung Electronics
- Asia Research and Engagement: Sumitomo Mitsui Financial

Case study: Nature Action 100

Robeco is a founding signatory of the investor-led collaborative engagement programme, Nature Action 100. The initiative seeks to drive corporate ambition in tackling nature and biodiversity loss, concentrating on a number of key sectors. As part of its commitment, Robeco reviewed its investment exposure to biodiversity risk, as well as that of clients, then selected a number of sectors and companies that it wished to engage under Nature Action 100. The review found the greatest risk to be found in three key segments: chemicals; retail, food & beverage; and household & personal products. Robeco will therefore concentrate its engagements on 11 companies within those sectors, with each engagement tailored to the individual company, looking for the establishment of meaningful targets and reporting frameworks, for example around biodiversity loss and nature impact. The theme launched at the end of the reporting year, and we hope to provide an update on progress in our next submission

WPP also benefits from the stewardship efforts led by Russell Investments. This includes engagement initiatives by Russell, its partnership with Sustainalytics supporting four key themes, and various industry collaborations that Russell has joined.

Russell Investments Engagement Focus Areas

Environment		Social		Governance	
Climate Change Resilience	**Natural Capital Management**	**Human Capital Management**	**Diversity & Inclusion**	**Board Composition & Accountability**	**Executive Compensation**
Focus Promote increased transparency on climate related disclosures and practices	**Focus** Encourage responsible environmental management and sustainable usage of resources	**Focus** Action on how companies attract, develop, and retain employees while providing appropriate working conditions	**Focus** Increasing awareness of the impact of diversity on firm's investment performance and culture	**Focus** Action of board of directors which is the focal point of corporate governance	**Focus** Alignment of executive compensation with corporate performance

Sustainalytics Themes

Biodiversity & Natural Capital	Human Capital	Human Rights	Material Risks Japan

Collaborations

Climate Action 100+ **IIGCC** **Nature Action 100**

In addition, Russell also participates in a number of industry initiatives and collaborations. Over the year, this specifically included participation in the following:

- HM Treasury consultation on the Future regulatory regime for ESG ratings providers
- Investor Group: letter calling for Ofgem to be given a net-zero mandate
- UN PRI: Global Stewardship Resourcing Survey
- CDP: SBT Engagement Campaign
- IIGCC: Stewardship Alignment Questionnaire
- DWP: Taskforce on Social Factors consultation
- NA 100 Feedback on Draft Benchmark Indicators
- TNFD: Capacity Building Survey
- FRC: UK Corporate Governance Code Consultation

STEWARDSHIP

WPP's Stewardship Framework

WPP uses its Stewardship Framework as a basis for its annual stewardship review. As well as identifying any potential stewardship gaps and evolving risks, which can be used to enhance monitoring and reporting, the annual review serves two main purposes: (1) to consider whether any of the WPP's existing themes need to be evolved; (2) to feed into Robeco's annual Active Ownership client panel, where new stewardship themes are chosen.

Associated SDGs	Core Theme	WPP Stewardship theme	LAPFF Implementation	Robeco Implementation	
 **7. Affordable & clean energy** **13. Climate action**	Climate Change	Focusing on net zero	Climate: 'Net' zero, Paris-aligned accounts; strategic resilience; Fair and Just Transition; electric vehicles Sustainable Commodities and Deforestation, Biodiversity, Plastics, Public Health	Acceleration to Paris Climate transition of financial institutions Just Transition Net zero carbon emissions	SDG engagement | Global Controversy Engagement | AGM engagement | Sovereign engagement
 **6. Clean water & sanitation** **14. Life below water** **15. Life on land**	Environment		Climate and Strategic Resilience Environmental Protection Fair and Just Transition (ECE): including *Water Companies and Sewage and Water Security* Sustainability and Shareholder Value	Biodiversity Nature Action 100 Natural resource management Ocean biodiversity Palm oil	
 **1. No poverty** **2. Zero hunger** **3. Good health & wellbeing**	Health & Wellbeing			Hazardous chemicals	

	Associated SDGs	Core Theme	WPP Stewardship theme	LAPFF Implementation	Robeco Implementation	
	**4. Quality education**	**Diversity & Inclusion**	**Supporting people**	Promoting Good Governance: including *Diversity (GOV)*	Diversity & inclusion	SDG engagement | Global Controversy Engagement | AGM engagement | Sovereign engagement
	**5. Gender equality**					
	**10. Reduced inequalities**					
	**8. Decent work & economic growth**	**Society & Community**		Employment Standards and Supply Chains, Covid, Human Rights, Diversity Human Rights and Employment Practices (EMP)	Fashion transition Human rights DD for conflict-affected areas Labour practices in a post-Covid world Modern slavery in supply chains Sound social management	
	**9. Industry innovation & infrastructure**					
	**11. Sustainable cities & communities**					
	**12. Responsible consumption & production**					
	**16. Peace, justice & strong institutions**	**Good Governance**	**Delivering sustainable outcomes (governance)**	Promoting Good Governance: including *Anti-Bribery and Corruption and Technology and Governance* Reliable Accounts, Capital Market Regulatory Reform (REL) Leadership: Emerging and Developing Initiatives (LEAD) Holdings Based Engagement, AGM Attendance (HBE) Policy Engagements (CONS)	Corporate governance standards in Asia Good governance Responsible executive remuneration Tackling tax transparency	

The annual review process draws on a broad range of inputs, including:

- **Themes arising from ongoing monitoring:** the ongoing monitoring of Sub-Funds can help identify potential stewardship gaps. For example, issues that should be raised with companies or trends that need to be addressed.
- **Input from the wider investment community:** including research, upcoming legislation, emerging issues of concern, monitoring of RI news and views, and input drawn from the wider stewardship expertise within WPP's Oversight Adviser.

Given 2022/23 was the first year of evolving our voting priorities into stewardship themes, we did not feel there should be any significant changes/additions to these focus areas. However, it was felt that two of the themes could be evolved:

Supporting people

Identified in discussions with officers, WPP felt more could be done to engage on the living wage in the UK, highlighting collaboration initiatives here such as the Good Work coalition. We noted that Robeco's engagement on human capital focused primarily on companies within the US and emerging markets.

Focusing on net zero

This theme had already evolved to go beyond the mere expectation of the management and disclosure of climate risk, incorporating expectations around transition planning and net-zero alignment, as well as highlighting the particular importance of addressing these in materially affected sectors. We felt another area that will increasingly need further scrutiny is around the reliance on offsetting and carbon capture within companies' climate plans. As we approach 2030, there has been a rise in companies looking to use carbon-capture-and-removal technologies and/or offsetting projects to meet net-zero targets. We believe caution should be applied in their use, given it is currently a largely unregulated market, and given issues around permanence and additionality.

While the above were considered worth discussion with Robeco at the annual engagement-theme-selection client panel, three themes were also considered relevant by the WPP RISG and other stakeholders.

Sovereign engagement

One area where the WPP believes more action is needed is on sovereign/policy engagement. While a more complex area than with corporate issuers, with less means to effect change on a country's policies, we see sovereign engagement as particularly relevant in emerging markets with quasi-sovereign issues. We highlighted feedback from one of WPP's underlying investment managers, about a Mexican miner, where the manager felt successful stewardship with the company is predicated on its engagements with the Mexican government.

Artificial Intelligence (AI)

The rise of tools such as ChatGPT and the increasingly mainstream use of AI has created a need to ensure that AI is being used responsibly and with the necessary protections for people. In the early stages of deployment of any new technology, growth can often be exponential, with companies seeking to establish how such tools can be integrated into business. It is essential that safeguards are built into processes at the same time as the use cases are being established, rather than after the fact. WPP highlighted that stewardship should be focused on the development and deployment of such safeguards, particularly in considering both the societal downsides (such as job losses) and the broader existential downside risks.

Marine environment

The increased focus on water quality in the UK, particularly with levels of sewage discharge, created a focus on freshwater and marine biodiversity. With a coastline of around 1,700 miles and 139 Marine Protected Areas, covering 69% of inshore waters, achieving a sustainable marine economy is a part of the Welsh Government's strategy, with ocean health important in achieving global climate and biodiversity goals. However, WPP noted that the marine environment is one of the lowest areas of focus for investors and those targeting progress against the SDGs.

Stakeholder feedback

One key input for the evolution in the stewardship themes was the incorporation of feedback from wider stakeholders. Of the responses received, the evolution on the net-zero theme was considered highly important. All stakeholders also agreed there should be greater scrutiny of UK companies in terms of human-capital management. It was also agreed that Protecting the Marine Environment and the Societal Impact of AI should be put forward to the Robeco client panel in November 2023.

Case study: Robeco engagement client panel

WPP played an active role in Robeco's Active ownership client panel with both Ocean Biodiversity and the Responsible Application of Generative Artificial Intelligence being shortlisted for consideration by Robeco's broader client base. Clients selected the Ocean Biodiversity theme as one for ongoing adoption by Robeco, this being launched late in 2024. WPP was delighted to see its input being directly reflected in action.

A second theme, Hazardous Chemicals, was also supported by the WPP given this had been a previously identified concern. This theme will also be launched in late 2024.

Our Stewardship Themes

Incorporating the annual review outlined above, WPP has determined a set of Stewardship Themes. The role of these themes is to provide areas of focus for informing Robeco of WPP's voting and engagement expectations, and for scrutinising the stewardship activity that is carried out on WPP's behalf, to ensure the focus reflects those topics that are most relevant to the WPP, and that stewardship activity achieves the desired outcome. The themes are used as key focus areas for the voting & engagement work carried out by Robeco, as well as WPP's scrutiny of its managers.

Stewardship Theme	Rationale
Focusing on net zero	Organisations, particularly those in materially affected sectors, should be developing and implementing transition plans to ensure that the long-term migration to a low-carbon economy is orderly. Companies should ensure that plans are published, and climate management disclosures are comprehensive and available for investor scrutiny. Any consideration of carbon offsetting in companies' net-zero plans should be in line with the Oxford Principles, and stakeholders should be made aware of any reliance on carbon-removal technologies, including the extent to which these technologies are used.
Supporting people	An organisation's workforce is one of its most valuable assets, and it is incumbent on the organisation to ensure that its people are properly managed and rewarded. This includes the consideration of people within supply chains, which can often be areas of lower scrutiny. While acknowledging that engagement may be nuanced, given unique regional, sector and size circumstances, WPP is particularly supportive of engaging with UK companies on the alignment of their wage structures with the Living Wage Foundation's guidance.
Delivering sustainable outcome (governance)	Organisations should be managed with a longer-term horizon so as to ensure that practices become more sustainable. This can ensure that executive remuneration is better linked to long-term goals, including ESG criteria.

Stewardship in private markets

While stewardship focus is often on the listed space, we must also acknowledge the importance of activity in the private-markets space, where impact and influence can be marked, given the nature of the investment relationship in these asset classes. Having recently launched our private-market programmes, we here offer a number of examples of how WPP is practicing active ownership over its unlisted investments.

Private debt

WPP's private-debt investments are managed by Russell Investments, which applies the same ESG due diligence and enhanced-oversight approaches to private-market investments.

Case study: engaging with private-debt portfolio companies

WPP is invested in a private-debt fund focused on renewables and infrastructure to fund the energy transition and support decarbonisation, with credit generally being anticipated to be a large source of capital to fund decarbonisation globally. During pre-investment due diligence, the manager identified engagement opportunities to support portfolio companies in meeting the fund's environmental and social expectations. For example, the manager offers a measurement service in partnership with a third-party ESG consultant for portfolio companies to measure their operational carbon footprint. Given the increasing need for availability of climate data in private markets, this is a welcome initiative. The manager has also sought any collaborative opportunities here, partnering with another WPP manager on the private-equity side to help an underlying portfolio company measure its GHG emissions and record an inventory of operational carbon-footprint data.

Private equity

WPP's private-equity allocation is managed by Schroders Capital, which invests in a number of different ways: primaries; secondaries; as well as direct and co-investments. There is a focus on five key sectors: healthcare; technology; consumer; business services; and industrials. Schroders uses a proprietary framework, RISE (Raising Impact, Sustainability and Engagement), when it comes to its investments and reports on a number of ESG KPIs, including: GHG emissions; renewable energy; work-related accidents; and diversity.

Case study: investing in the energy transition

One of WPP's investments is in a private-equity fund that focuses on the energy transition, targeting a number of themes, including: electrification; renewables; energy storage; and digitalisation. ESG considerations are integrated into the investment thesis and process. Schroders assesses both the General Partner (GP) and the fund itself to identify areas of improvement, considering both current practices and setting out a post-investment plan that can be continually assessed. Schroders has identified a number of stewardship areas, which the manager will continue to report on and WPP can use to monitor progress:

GP level:

- Encourage the team to add impact-investment-specific ambitions in its ESG policy, given the thematic nature of the Fund
- Encourage the team to get more active in industry initiatives
- Encourage appointment of one dedicated ESG officer

Fund level:

- Actively engage to further standardise climate-risk assessments
- Monitor PAI and impact data quality and performance and engage where necessary
- Actively engage on exit from an impact perspective, following the Operating Principles for Impact Management

Infrastructure

WPP's closed-ended infrastructure investments are managed by GCM Grosvenor, while CBRE, IFM and Octopus implement the closed-ended infrastructure programmes. All of WPP's infrastructure managers integrate ESG into their investment process, both at the approval (pre-investment) stage, as well as through monitoring and oversight. While ESG considerations are integrated as standard in risk-management processes, going further, a key area of focus for WPP is in the local and impact space, and WPP's ability to use its capital to create local impact within Wales.

Case study: impact investment: renewables within Wales

WPP allocates to an impact-investment fund, which invests in the energy transition with the aim of mitigating climate change and avoiding carbon emissions. In keeping with the impact definition of the Global Impact Investing Network, the manager seeks to generate positive and measurable social/environmental impact alongside a financial return. A number of the fund's assets are already within Wales, with a number of companies also expected to invest in Wales. Projects cover a number of areas fundamental to the energy transition:

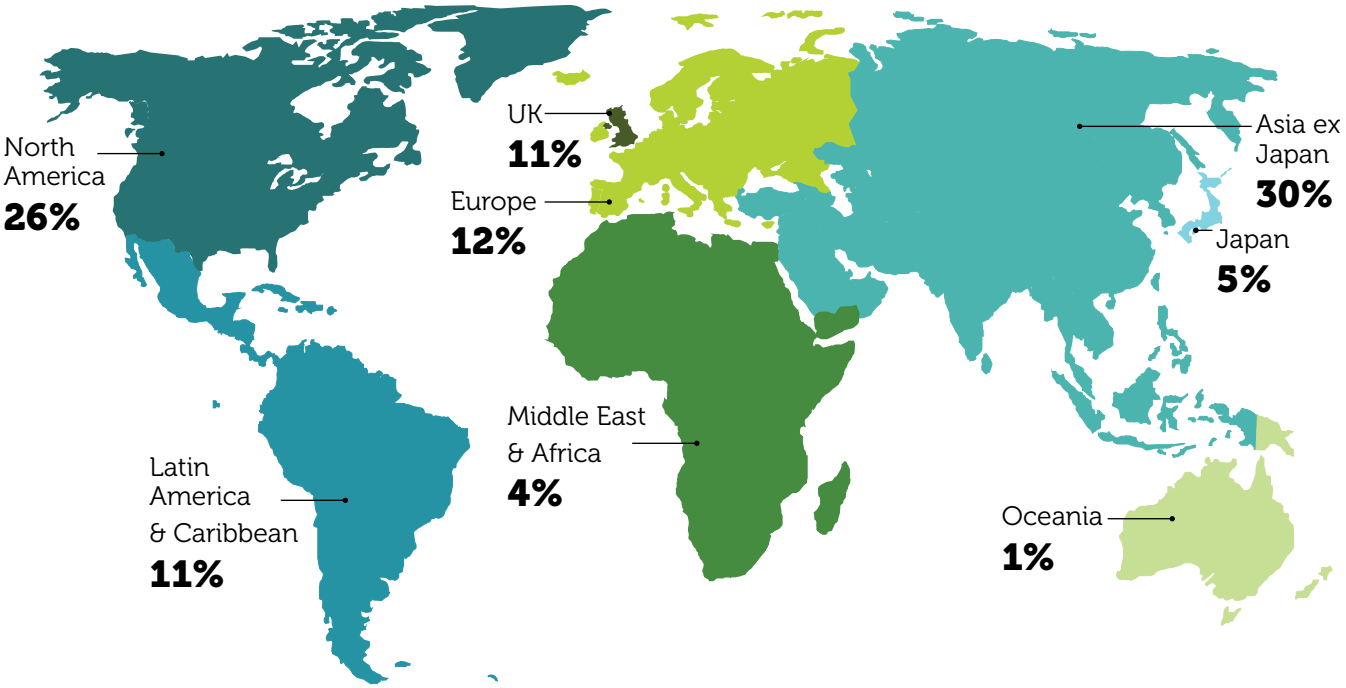
- Electric vehicles: a UK-based chargepoint installer looking to expand its operations into Wales
- Wind: developing onshore wind sites in Wales, helping to deliver clean green energy within and beyond Wales
- Fossil-fuel alternatives: targeting Welsh industrial names to use green hydrogen as a chemical or energy feedstock instead of fossil fuels
- Energy distribution: an independent distribution network operator, already invested in grid connections in Wales with a material pipeline for more investment



HOW WE VOTED

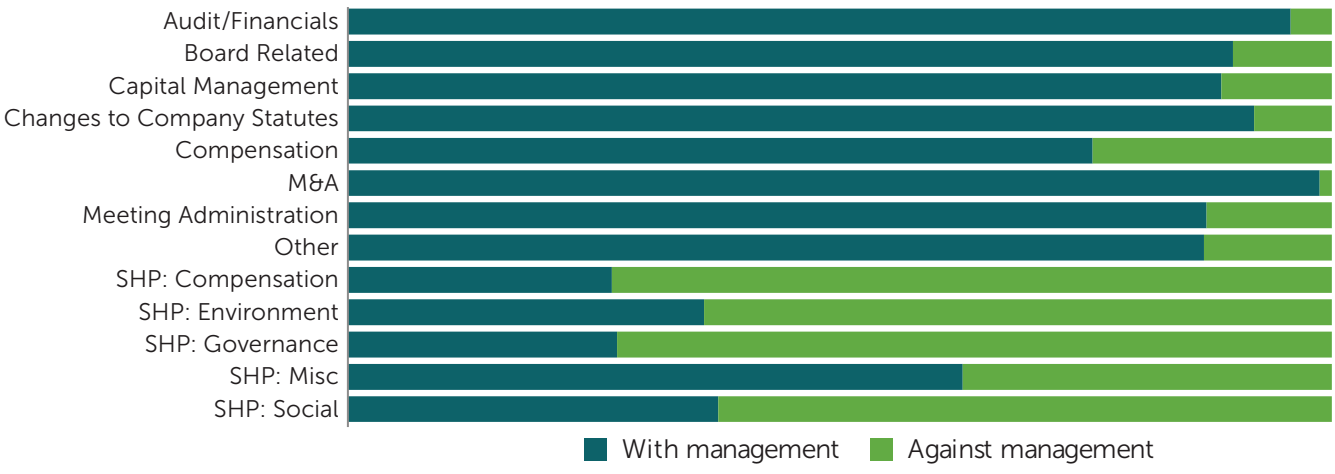
Our voting outcomes

The map below illustrates the regions in which votes were cast over the year to 31 March 2024, determined by the underlying regional distribution of assets within the WPP's equity Sub-Funds.



	2023/24
Number of meetings	1,255
Number of agenda items voted	15,045
With management	13,200
Against management	2,323
Meetings with at least one vote against management	56%

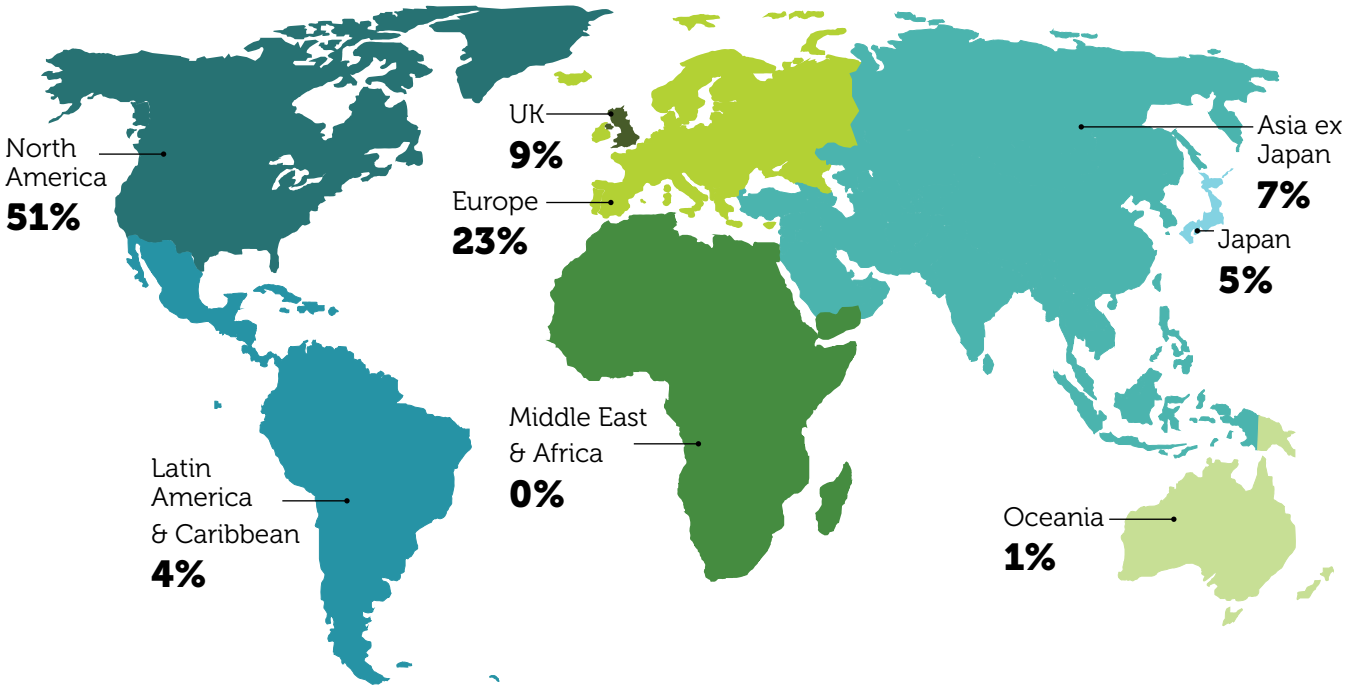
Voting per proposal category



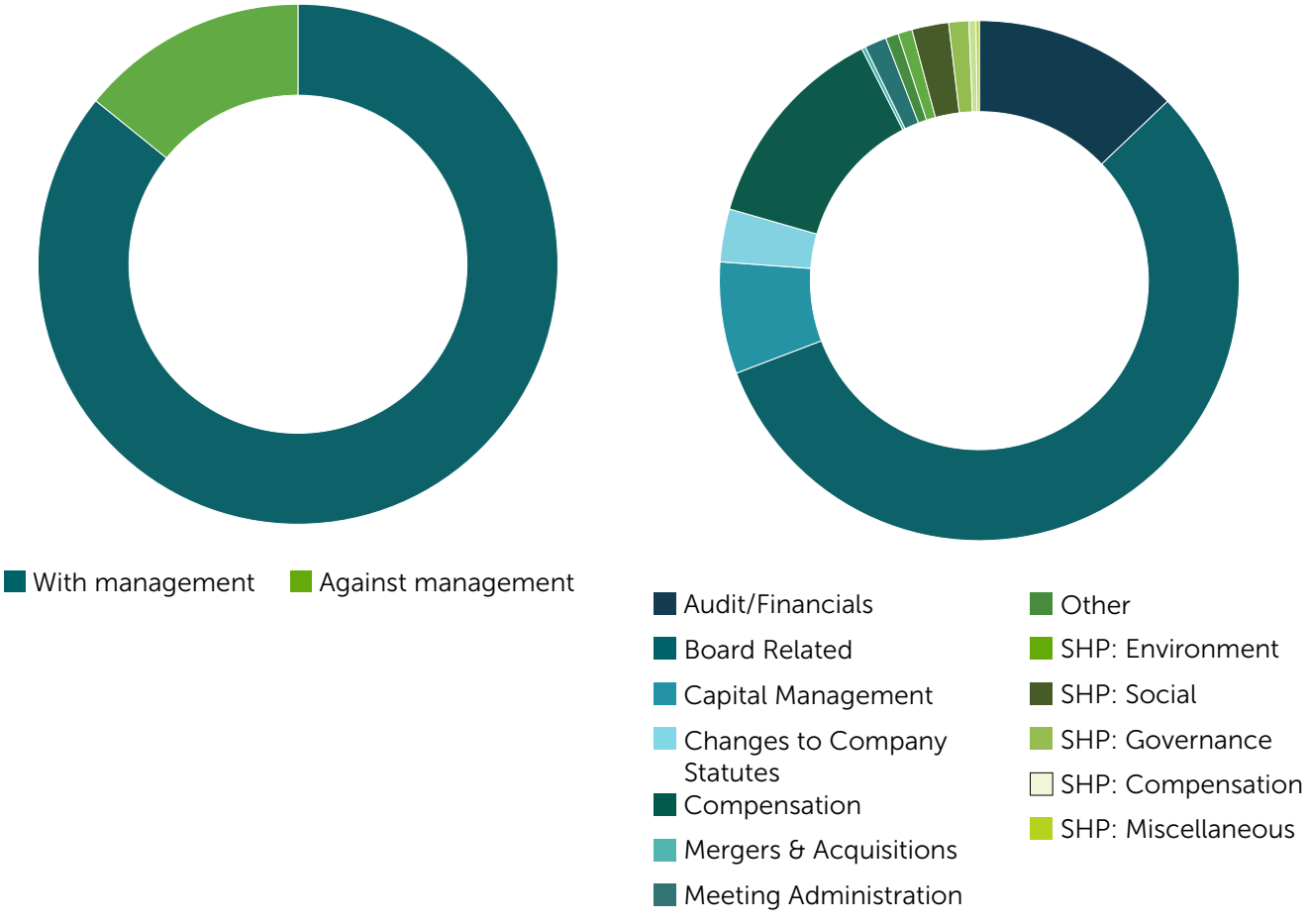
Source: Robeco; note, totals may not sum due to rounding

Voting outcomes by Sub-Fund

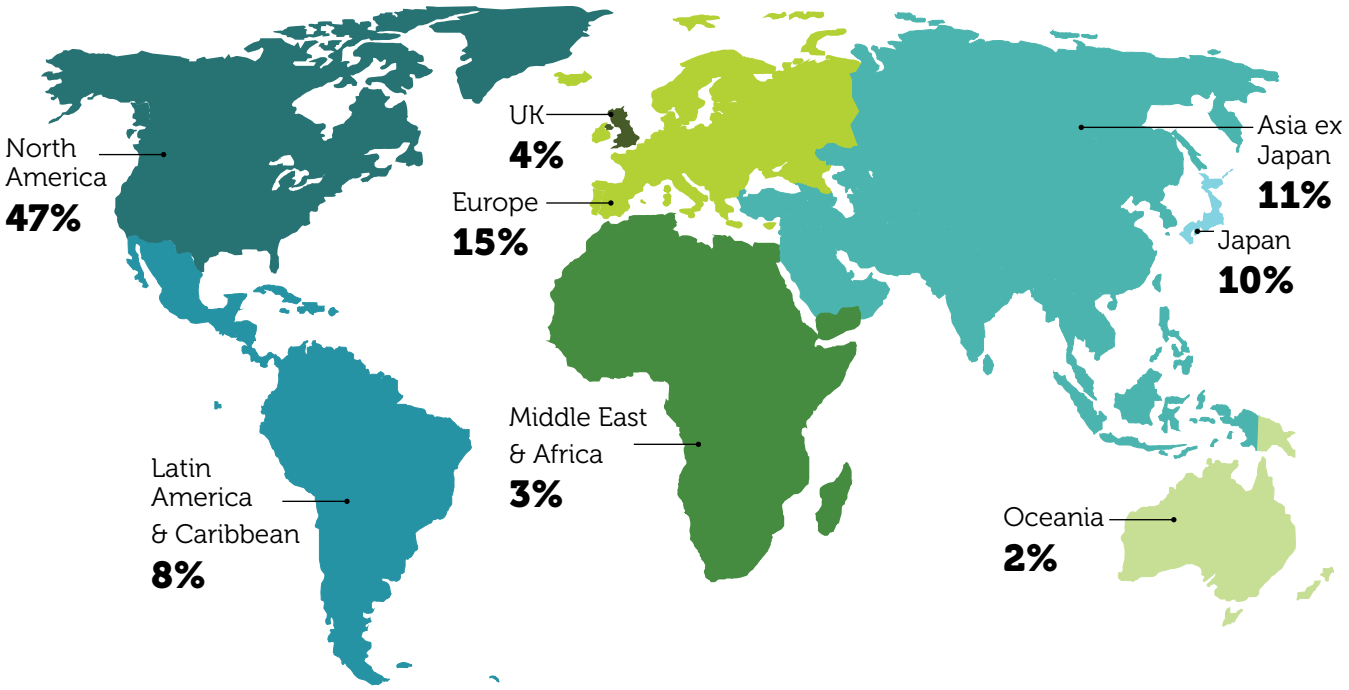
GLOBAL GROWTH



Meetings voted: 171
Agenda items voted: 2,491

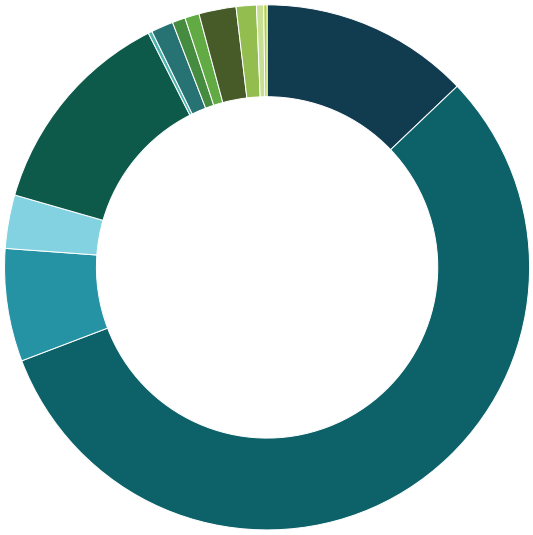


GLOBAL OPPORTUNITIES

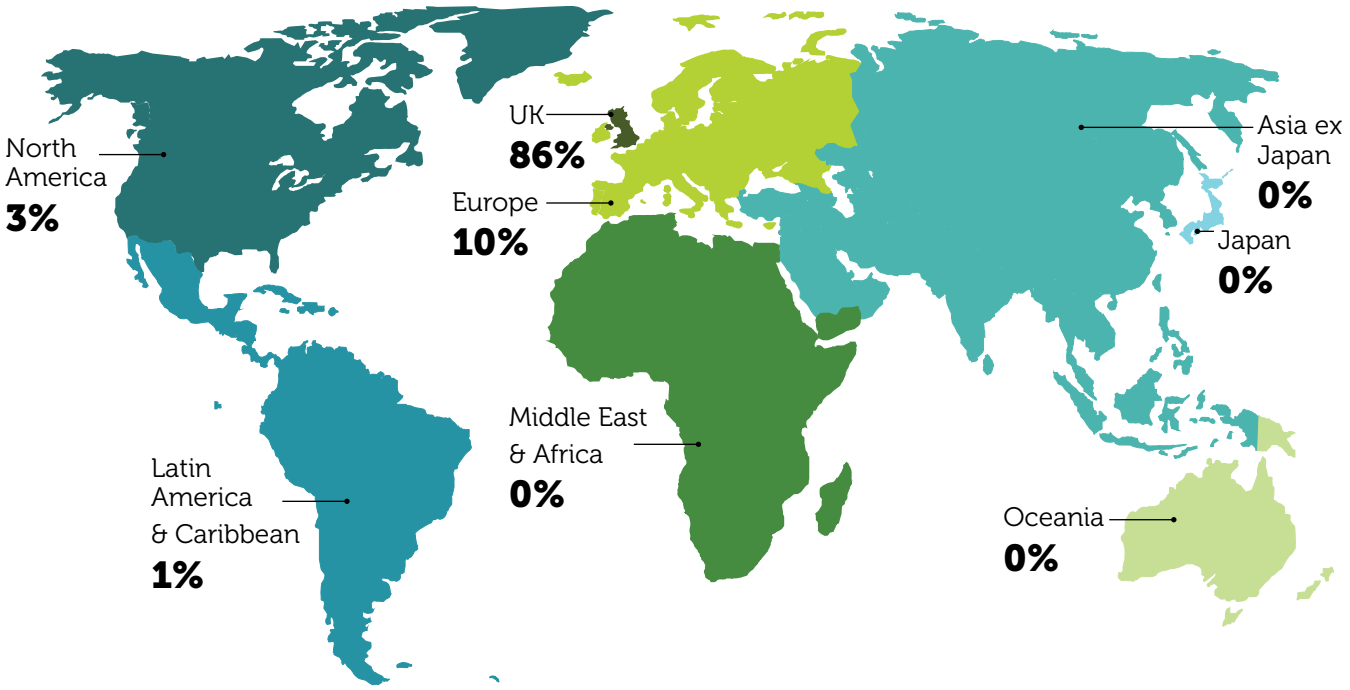


Meetings voted: 562
Agenda items voted: 7,445

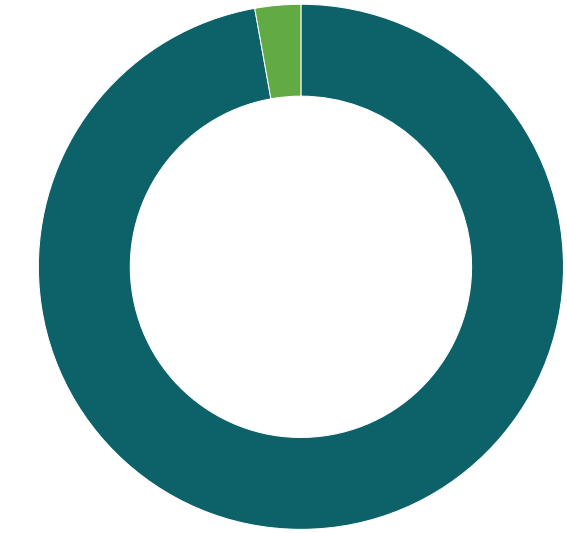


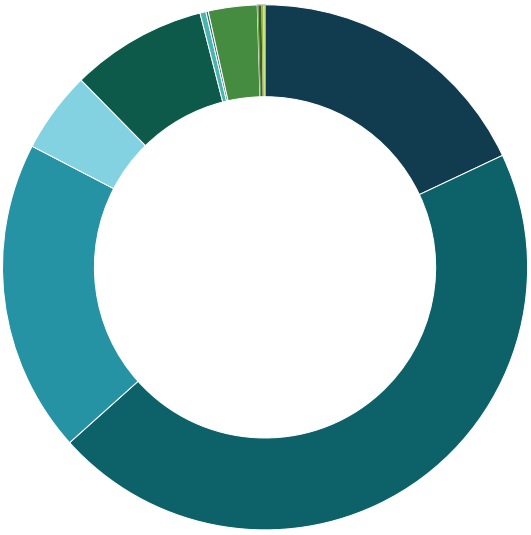


UK OPPORTUNITIES

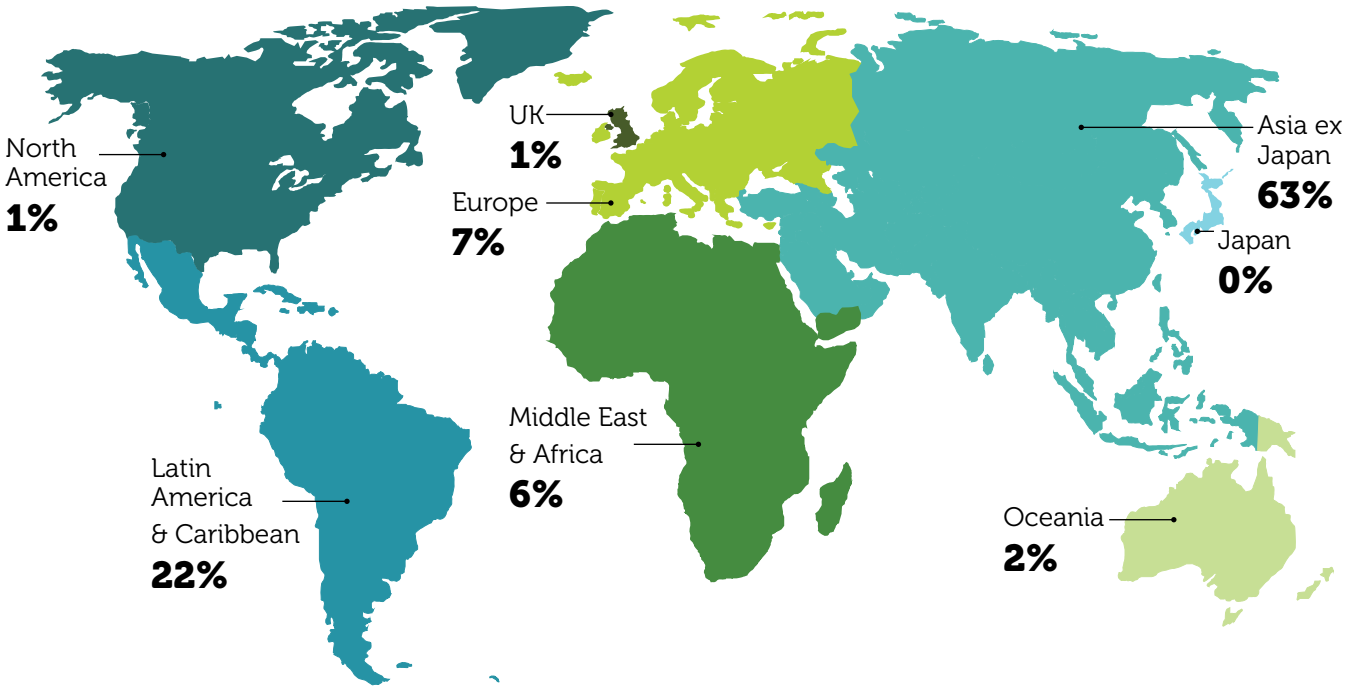


Meetings voted: 153
Agenda items voted: 2,735

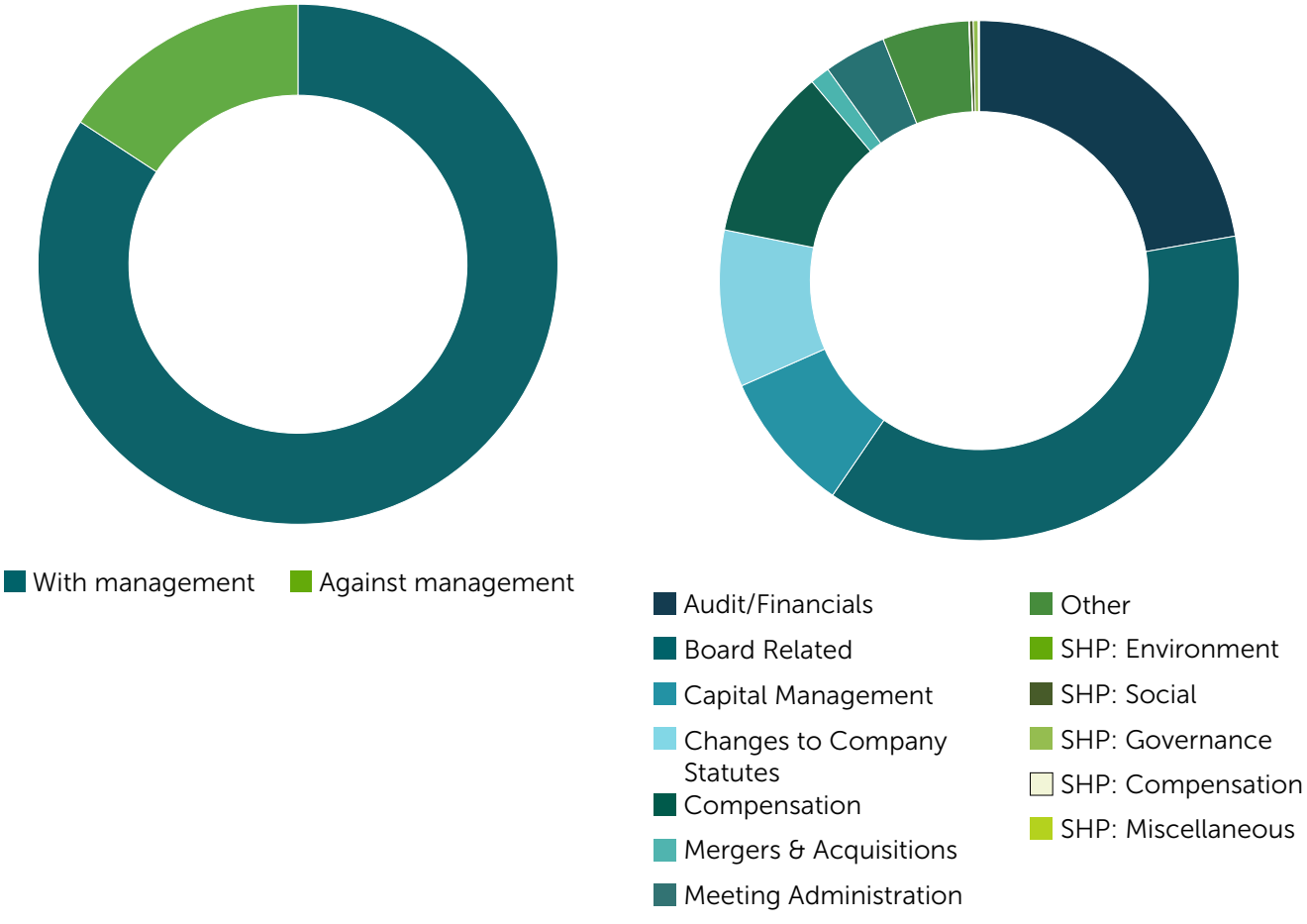




EMERGING MARKETS



Meetings voted: 579
Agenda items voted: 5,122



Ensuring that voting is in line with policy

WPP reviews the voting activity undertaken by Robeco on its behalf on a quarterly basis and notes that, across a range of resolutions, votes have been cast in line with the WPP's intentions. Examples of this are given below:

Company: Alphabet | US technology company

Date: 02 June 2023

Vote (rationale and outcome)?

Alphabet's AGM featured 13 shareholder proposals. As in previous years, none of the resolutions passed, due to the company's multi-class share structure, which allows insiders to hold a majority of the voting power and largely determine voting outcomes. Considering this, Robeco voted against the election of the Chair of the Board (who also chairs the Governance and Nomination Committees), as this structuring was deemed by Robeco to not be in the best interests of wider shareholders and is a deviation from best governance practices.

Due to multiple concerns regarding the company's pay practices, such as discretionary annual bonus awards and the lack of sufficient recovery provisions, Robeco also chose not to support the advisory vote on executive compensation.

Robeco supported the proposals regarding climate lobbying, including the shareholder resolution around the alignment of Alphabet's lobbying practices with its climate commitments, in line with LAPFF recommendations.

Company: Amazon.com | US technology company

Date: 24 May 2023

Vote (rationale and outcome)?

Amazon's 2023 AGM included a series of management proposals covering director elections, the auditor's ratification, executive compensation, an amendment to the stock plan and 18 shareholder proposals. One of these was co-filed by Robeco, requesting that Amazon commission a report assessing its customer due diligence process to determine whether customers' use of its products and services with surveillance, computer vision, or cloud storage capabilities contributes to human rights violations. Robeco voted in line with LAPFF.

The proposal received 34% support, indicating the company's customer due diligence on human rights is deemed material for shareholders.

Robeco voted against Amazon's Say-on-Pay proposal, given concerns that the company fails to align pay and performance.

The proposal was opposed by 32% of the votes cast at the meeting.

Company: Shell | UK oil & gas company

Date: 23 May 2023

Vote (rationale and outcome)?

The remuneration proposals on the meeting agenda drew scrutiny over the major increase in CEO pay recorded by Shell in 2022. Robeco analysed the remuneration report and policy using their proprietary remuneration assessment framework and had participated in a remuneration roadshow hosted by Shell in Q1 2023.

Shell scored well in the framework and Robeco supported the remuneration proposals, which both won overwhelming support (c.95%).

Robeco voted against the management proposal on the company's energy-transition progress, in line with LAPFF recommendations, identifying concerns with Shell's shorter-term targets to reduce carbon intensity.

The proposal was opposed by c.20% of votes cast.

Robeco voted for the shareholder resolution (put forward by Dutch shareholder group Follow This), in line with LAPFF recommendations, requesting Shell align its existing 2030 Scope 3 emissions reduction aims with the goals of the Paris Agreement.

The proposal garnered a level of support of 20%.

Company: BP | UK oil & gas company

Date: 27 April 2023

Vote (rationale and outcome)?

Oil and gas majors, including BP, have faced high criticism over concerns that their executives are cashing in on Russia's invasion of Ukraine, which led to soaring oil and gas prices. Robeco's analysis, while recognising the shortcomings of the remuneration report and policy, on balance, concluded that these were supportable.

The remuneration report was supported by 82% of the votes cast, while the policy garnered support from 94% of the votes cast.

Robeco voted against the chair of the board and were part of the c10% of votes to stand in opposition to the chairman's election. This decision was made following the scrutiny of BP's announcement that it would backtrack on its previous climate ambitions and its decision not to put the revised climate transition plan up for vote at the 2023 AGM.

Company: FedEx | US logistics company

Date: 21 September 2023

Vote (rationale and outcome)?

A number of shareholder proposals were up for discussion at FedEx's annual general meeting. We note two of particular relevance. The first called for FedEx to prepare a report disclosing how it is addressing the impact of its climate change strategy on relevant stakeholders, including employees, workers in its supply chain and communities in which it operates, in line with the Just Transition guidelines. Robeco determined that FedEx's current disclosures here were limited, so supported the proposal, in line with the LAPFF alert.

The shareholder proposal received over 30% support but did not pass.

The second proposal requested disclosure on the company's permanent paid sick-leave policies. Robeco determined that, given the upcoming reorganisation of its operating companies (including a review of policies that impact the company's global workforce), additional disclosures as requested in the shareholder proposal did not add value, so voted against it. That said, Robeco will continue to monitor management and disclosure around this subject going forward.

The shareholder proposal received over 10% support and did not pass.

Company: Walt Disney Co | US media company

Date: 03 April 2023

Vote (rationale and outcome)?

Robeco voted against the advisory vote on executive compensation, citing issues with both total compensation and structure, as well as insufficient disclosure of performance goals.

The management proposal received 86% support from shareholders.

Shareholder proposals regarding the Report on Corporate Operations with China and the shareholder proposal regarding Charitable Contributions Disclosure were deemed to be anti-ESG, and Robeco voted against both. Robeco concluded that the proposals were driven by political activism promoting anti-ESG rhetoric and there was concern that the objective of the proposals was to hinder the company's ESG efforts.

Both resolutions received around 7% support from shareholders.

Company: Prosus | Dutch-listed investment company
Date: 23 August 2023
Vote (rationale and outcome)?
Prosus put forward a proposal to approve a share buyback that would enable the board to repurchase shares representing up to 50% of the issued share capital over a period of 18 months. Robeco supported the proposal regarding the share buyback, seeing this as an effective means of addressing the issuer's steep valuation discount.

The management proposal passed with over 91% support.

There was also a management proposal to approve the company's remuneration report. Following last year's remuneration report, which was aimed at incentivising the executive team to reduce the discount to net asset value, this year's remuneration report outlined that the discount had been reduced from 54% to 38%. That said, Prosus failed to disclose the ex-ante targeted discount. Robeco noted that Prosus did not award a special short-term incentive award for 2023/24, instead awarding a long-term incentive award with a similar mix to prior years. However, on balance, given concerns around pay magnitude and transparency, and in line with Robeco's remuneration framework, Robeco voted not to approve the remuneration report.

The management proposal passed with over 84%.

Company: Apple | US technology company
Date: 28 February 2024
Vote (rationale and outcome)?
Robeco again voted against the 'Say on Pay' management proposal. While Robeco recognises the positive steps that have been taken in terms of reducing the amount of the CEO's payout (vis-à-vis last year), there were still structural concerns around the compensation policy more generally. For example, the long-term incentive plan is based on one metric only, high compensation for below-median performance (versus peers), no alignment with ESG metrics and the short vesting period for the time-based long-term awards (less than three years). This vote was in line with the LAPFF recommendation.

The management proposal passed with over 92%.

Robeco also voted against the election of two of Apple's Board directors. It was noted that the chairs of the audit and compensation committees had served on the Board for more than 12 years, which Robeco feels could compromise the objective judgment of independent directors.

The management proposals passed with at least 94%.

There were five shareholder proposals put forward at the meeting. On three of these, there were concerns that the motivation behind raising them were to hinder Apple's ESG practices. Robeco voted against these, in line with LAPFF guidance.

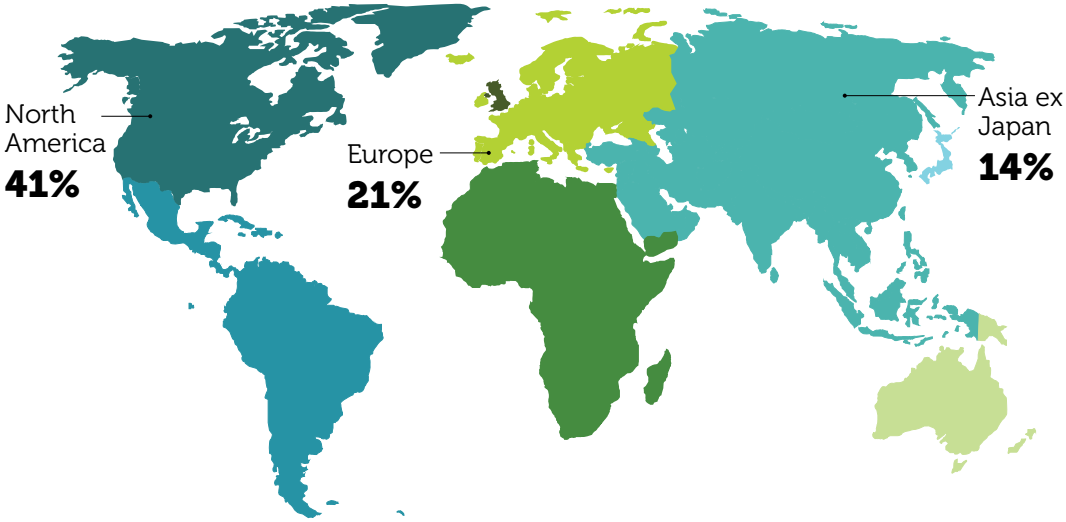
The three shareholder proposals received less than 2% of the vote and did not pass.

The remaining two shareholder proposals concerned the use of artificial intelligence (AI), and median gender and racial pay equity, both of which were voted for by Robeco, in line with LAPFF guidance. On AI, the proposal asked for disclosures on how Apple is using AI technology and how it will do so in a responsible manner where used. On diversity & inclusion (D&I), the proposal requested additional disclosures to assess Apple's performance on D&I, including around unadjusted pay gaps (an assessment of equal opportunities to high-paying roles).

While both shareholder proposals received significant support (AI: 37.5%; D&I: 31.1%), this was not enough for either to pass.

HOW WE ENGAGED

Engagement during 2023/24



Over the year, the regions within which Robeco engaged the most were: North America (41%), Europe (21%) and Asia ex-Japan (14%), with the remaining regions combined representing 24% of engagement activity.

Robeco undertakes three types of engagement on behalf of WPP:

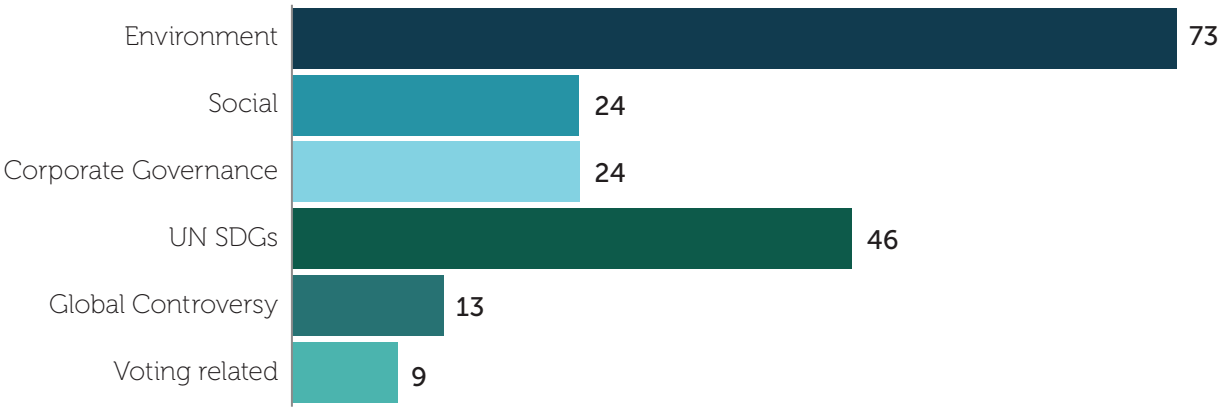
- **Value:** proactive approach, focusing on long-term, financially material opportunities and risks that can impact valuation.
- **Enhanced:** focused on companies that severely and structurally breach minimum behavioural norms in areas such as human rights, labour, environment and anti-corruption.
- **SDG:** drive a clear and measurable improvement in a company's SDG contribution over three to five years.

Engagement activity is reported for the year to end-March 2024. We note that Robeco does not differentiate between the nature of holdings in their engagement activity, given they represent multiple clients, issuers are chosen based on theme, so will cover both fixed-income and equity holdings.

Given the global nature of WPP's investments, engagement activity took place across multiple regions, with the split of activity as illustrated above.

On behalf of the WPP, Robeco employed several different routes for engagement, including conference calls, letter writing, emails and active voting. In total, 2023/24 saw 540 total engagement activities across 148 companies, covering a broad range of themes as illustrated below.

Engagement theme



Source: Robeco

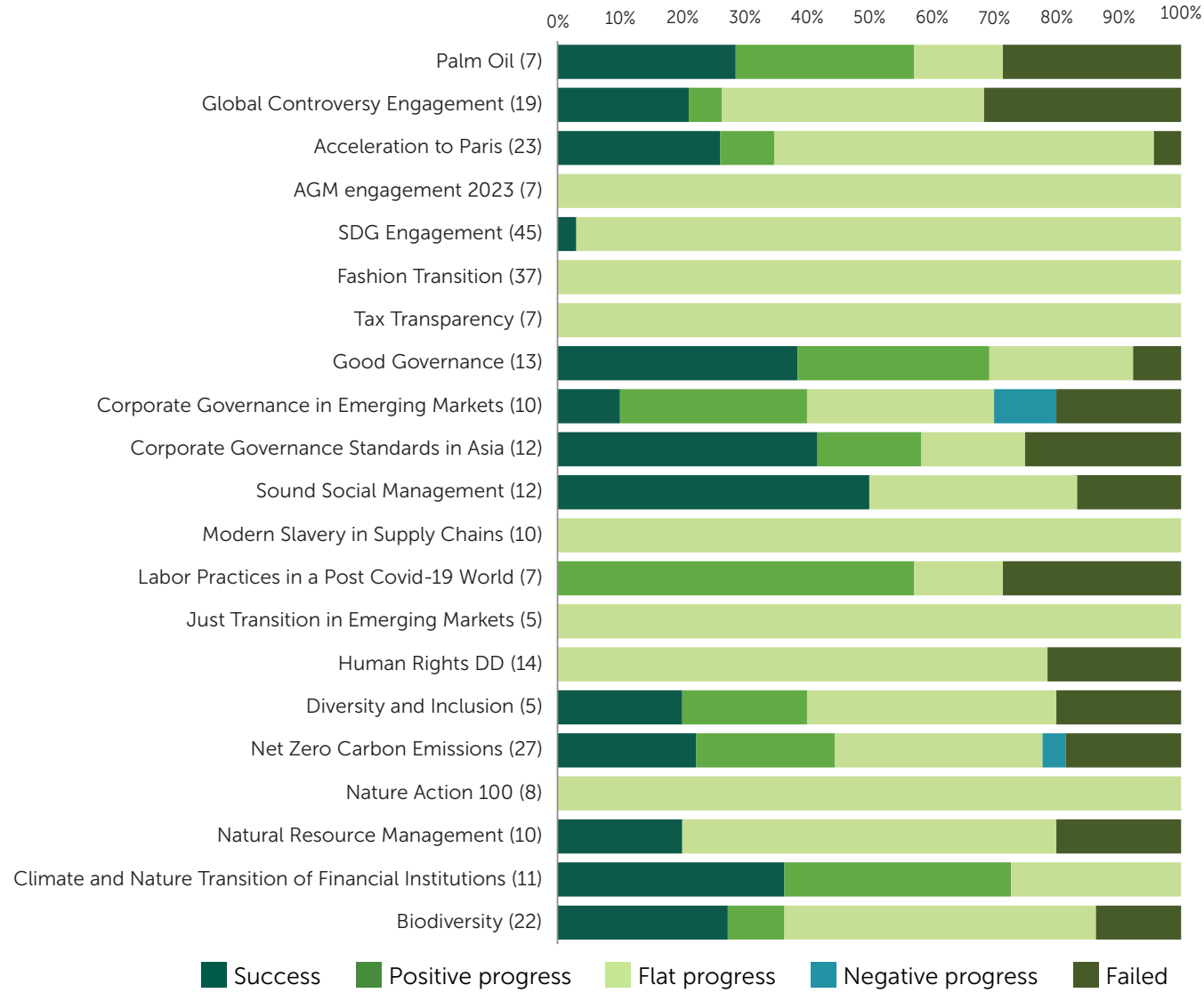
Engagement route



Source: Robeco

As noted above, these broad themes comprise a range of additional sub-themes, against which various progress has been made. In the table below, we detail each theme, the number of companies within WPP's portfolios that have been actively engaged and provide some indication of progress against each theme (as at end-March 2024). The chart also indicates the number of companies engaged under each theme (figure shown in brackets), noting that some companies are being engaged on multiple themes.

Progress on engagement by theme



Source: Robeco

The WPP is provided with significant information, both on each theme and the detail of the activity being undertaken over the course of each year. We summarise five themes below that are of particular interest to the WPP, given our Stewardship Themes and other discussions over the year.

Human rights

Under international norms, companies have a responsibility to respect human rights, which is reflected in an increasing regulatory requirements being placed on companies to ensure human-rights due diligence in their operations and supply chains, and to provide disclosures on this. In recent years, there have been a number of ongoing and emerging conflicts globally. Where companies fail to manage and mitigate adverse human rights impact, this can negatively affect the business and expose it to regulatory, legal, financial and reputational risks. To address this, Robeco launched the theme on Human Rights Due Diligence in Conflict-Affected and High-Risk Areas (CAHRAs) in 2021. The theme focuses on companies with significant exposure to certain CAHRAs, including the OPT, Myanmar and China/Xinjiang. More recently, additional companies have been added to the theme, given the Russia-Ukraine conflict and more attention on Xinjiang.

Case study: Booking Holdings

Booking Holdings, the world's largest online travel agency by sales, lists accommodations in conflict areas such as the OPT. Several controversies were highlighted by civil society organisations, including Booking Holdings' lack of a human rights policy and disclosures, which formed the basis of Robeco's engagement with the company. Over the last year, the company has published a human rights policy that aligns with international standards. The policy explicitly includes heightened due-diligence requirements on listings located in conflict areas. The company also hired a human rights officer, who will be responsible for integrating these commitments, and increased its disclosures on its approach to human rights and CAHRAs. Going forward, Robeco will focus its engagement on Booking Holdings' implementation of its human rights policy.

Biodiversity

Biodiversity loss is increasing at an alarming rate, with impacts felt not only within the natural world and ecosystems, but also within the financial sector. Studies have shown that financial institutions have hundreds of billions of assets that are highly dependent on ecosystem services (such as clean-water provision). The theme was initially focused on biodiversity loss linked to deforestation among companies exposed to high-risk commodities, but this has now expanded to include engagement on other drivers of biodiversity loss (such as pollution). The engagement expects companies to assess their biodiversity impacts and dependencies, and to set a biodiversity strategy. Robeco also expects reporting on key impact indicators in line with recognised reporting frameworks, such as the Taskforce for Nature-related Financial Disclosures.

Case study: Mondelez

US firm Mondelez is one of the world's largest snack companies. With many of the company's products based on chocolate, the company is a major importer of cocoa, one of the five key forest-risk commodities. Robeco has been in an ongoing dialogue with the company to push Mondelez on integrating its forest-restoration efforts within its operating model. In 2023, under the company's new sustainable cocoa-sourcing models, Mondelez has for the first time included clear off- and on-farm restoration targets. While affected areas continue to be insignificant compared to the company's sourcing footprint, this is the first step to a more ambitious biodiversity approach.

Case study: Suzano

Suzano is Brazil's largest pulp and paper producer, sourcing most of the wood from its own plantations. Under the Finance Sector Deforestation Action, Robeco led a collaborative engagement with the company, including a field visit to the company's plantations in Brazil. Suzano solely plants on previously degraded pastures and undergoes high-conservation value assessments for each plantation, leading to, on average, 30–40% of each plot being protected. To enhance the biodiversity value of these plots, the company is actively connecting conservation areas, both through biodiversity-enhanced plantation models and restoration efforts. The company aims to connect half a million of hectares of native forest and tracks the number of monkeys on their land as a proxy for forest connectivity.

Governance

In the Corporate Governance in Emerging Markets theme, Robeco focuses on improving transparency around corporate practices. This includes in: reporting, encouraging companies to provide meaningful reporting and disclose targets that will improve their accountability; and in capital allocations, around their financial strategies and in implementing consistency policies, for example around dividends.

Case study: Samsung Electronics

Robeco has been engaging with South Korean electronics company Samsung Electronics since 2017, including on improving disclosure of its non-financial strategy, capital expenditure and board composition. This has also included collaborative engagement with other investors. Since the beginning of the engagement, Samsung has increased the diversity and number of independent directors on its board. All key investment decisions are now reviewed by the entire board, with board sub-committees composed entirely of independent directors. Samsung also started to publish its strategy for each of its businesses and has strengthened its environmental reporting.

Responsible Executive Remuneration

Robeco launched its Responsible Executive Remuneration theme in 2020, which targeted US and European companies, and focused on: remuneration policies and disclosures; key performance indicators (KPIs); and incentive structures. How corporates approach total pay quantum and react to 'Say on Pay' votes provides insight into how well executives act in the interests of shareholders. Engaging on executive remuneration helps align incentives by guiding boards towards KPIs that long-term investors see as relevant and material. Bringing attention to potential unintended consequences of equity compensation structures can also help avoid costly misincentivisation and ensure the long-term orientation of management.

Robeco reported on the engagements with each company within the theme. Five engagements were closed as successful, while three were closed as non-effective. Engagements ran to the end of 2023.

Fast fashion

Last year, Robeco launched the Fashion Transition engagement theme, which aims to help shift the industry from one of 'take, make, waste' to one that's based on more circular operational structures and better management in supply chains. Robeco believes that 'by pushing for more circular and less wasteful production and sales structures, companies can lead meaningful improvements in the real economy'. As part of the engagement, Robeco has developed a sustainability framework, ranking companies from nascent to maturing, pioneering and advanced in terms of how well they integrate environmental and social factors into their business models. Robeco is collaborating with Platform Living Wage Financials to address some of the social risks within the industry, on issues such as child labour, gender discrimination and living wages.

Labor practices in a post-Covid world

In 2021, in the aftermath of the Covid pandemic, Robeco began a series of engagements with companies most impacted by the effects of the pandemic, in the online food delivery, hotel and food retail sectors. The theme engaged on areas such as the gap in living wage and social-benefits agreements with workers. Companies were also faced with regulatory changes, with governments acting on concerns around labour practices and introducing requirements around employer/employee contracts. The engagement sought to discuss labour risks and encourage responsible labour practices, especially among vulnerable workers.

Over the three years, Robeco found a number of companies progressing against objectives – social dialogue; wages and benefits; occupational health and safety; human-capital management; social governance; transparency – including in their accountability across their indirect workforce. However, Robeco found that a number of structural concerns remained, with the 57% success rate of the overall engagement reflective of more work needing to be done to change underlying operational structures. Over the year, Robeco signed a collaborative letter to the IFRS Foundation's International Sustainability Standards Board asking it to prioritise the development of a global reporting standard for companies to disclose on human capital and human rights. While this engagement theme has now closed, Robeco will continue to engage on these issues, for example, through its work with the Taskforce on Inequality and Social-related Financial Disclosures.

Engaging in the UK water sector

The UK water sector has been under scrutiny recently over financial, governance and environmental concerns. This has led to an ongoing class-action suit against companies within the sector, which are accused of underreporting sewage pollution and overcharging customers. WPP sought views from its Service Providers on their stewardship efforts in the sector, which we outline below.

Fidelity

Fidelity is one of the underlying managers in WPP's Global Credit Sub-Fund, as well as the sole manager in the Sterling Credit Sub-Fund. Given its experience in the fixed-income market and considering a number of the financial concerns about water utilities flagged related to debt issuance, WPP welcomed input from the manager.

Fidelity highlights the historic backdrop of the UK water sector, in that the infrastructure itself is of Victorian design and the legal system, designed to prevent flooding but which results in excess sewage making its way into waterways, was designed prior to the privatisation of the sector. Increasing pressures, including growing population, climate change and urbanisation, have resulted in increasing instances of pollution.

Fidelity has been encouraged by its engagement with companies in the sector that progress is being made to tackle the issues. Companies' intention to remedy the concerns flagged has been demonstrated, with issuers more proactive in addressing risks. Fidelity is using its position as a bondholder to drive better practice across the industry.

Robeco

Robeco has been engaging with Severn Trent under the Natural Resource Management theme.

Background: The UK water company supplies 4.6 million households and businesses across the Midlands and Wales. Its peers in the industry have come under severe pressure over poor performance in their tackling of leaks and sewage contamination.

Actions taken: Robeco started the engagement on water and waste management with Severn Trent to support management with the ongoing concerns related to UK pollution incidents, sewage spillages and the management of river-water quality.

Outcomes: During this dialogue, the company presented its 2025 reduction targets for both sewage and leakage spills. Severn Trent aims to reduce sewage spillages to an average of 20 per year, while it plans to achieve a 15% reduction in leakages by 2025. The company is already leading the sector concerning total and serious pollution incidents. Robeco felt that, with these new targets also confirming the company's commitment to remain best in class, the engagement could be closed successfully.

LAPFF

Background: LAPFF has been engaging with water utilities since 2022, following concerns about the pollution of rivers and coastal areas caused by storm overflows. Storm overflows are used to ensure at times of high rainfall that sewage does not back up into homes. Under government plans to 2050, the number of overflow incidents is expected to fall over time, delivered by additional investment. As a highly regulated sector, this additional investment has to go through a review process with Ofwat every five years. Meeting environmental objectives set under the five-year plans not only has reputational impacts but, as a regulated system, these performance outcomes also result in either financial awards or penalties.

Action taken: As part of its engagements, LAPFF wants to ensure that progress is being made to reduce the number of overflows and that the next five-year business plans will be delivered cost efficiently while meeting broader environmental and social commitments. This year's engagements took place against the backdrop of significantly wetter weather resulting in an increase in overflows. Nevertheless, LAPFF wanted to understand whether the companies were on track to meet their targets of reaching an average of no more than 20 incidents per overflow per year by 2025. LAPFF met with a number of representatives over the year to discuss the environmental and financial challenges that persist in the UK water utilities sector and how they plan to address longer-term ambitions, including overflow targets.

Outcome: LAPFF will continue to engage the companies to ensure that progress is being made against their targets on overflows. LAPFF will also be following the final determinations by the regulator and ensuring that plans will be delivered cost efficiently to the benefit of shareholders and their wider stakeholders.

Additional engagements are undertaken by Russell

While Robeco formally carries out WPP's stewardship function, WPP also benefits from the stewardship activity Russell undertakes with the portfolio holdings in WPP Sub-Funds. Russell has six engagement focus areas, which align with WPP's views, including as defined by WPP's voting priorities. These focus areas are:

Area	Focus
Environment	**Natural Capital:** encouraging responsible environmental management and the sustainable use of resources across a company's value chain **Climate change resilience:** promoting increased transparency on climate-related disclosures and practices. This includes how they may be impacted by climate-related risks and opportunities; how they have embedded climate change into their strategy; and how they ensure that the benefits of a shift to net zero are shared, while supporting those most impacted by the change
Social	**Human capital:** action on how companies attract, develop and retain employees while providing appropriate working conditions **Diversity & Inclusion:** increasing awareness of the impact of diversity on firm's investment performance and culture
Governance	**Board composition & accountability:** action of board of directors, which is a focal point of corporate governance, ensuring boards promote the long-term best interest of the company while giving due regard to stakeholders **Executive compensation:** alignment of executive compensation with corporate purpose, ensuring remuneration policies are well designed to avoid excessive and imprudent risk-taking

Russell follows a similar process to Robeco in the identification, initiation, implementation and evaluation of their engagement activity. Russell takes a multi-channel approach to engagement:

- Engaging with issuers directly
- Engaging through and with sub-managers as partners
- Joining collaborative engagement efforts with third-party market participants

The underlying sub-managers within WPP's Sub-Funds also execute their own programmes of engagement, in line with the particular objectives of the mandate in question. This benefits from a 'double-active' approach, whereby both Russell and the underlying sub-managers will engage issuers, with Russell monitoring Sub-Fund activity internally through its enhanced oversight capability.

Climate change

Russell has been engaging with a US industrial name to improve transparency in its climate-change strategy, in line with the company's global climate-mitigation strategy: eliminate (primary focus); reduce; substitute; offset. The ongoing engagement focuses on transparency around emissions-reduction (including Scope 3) efforts by encouraging specific, measurable actions to reduce greenhouse-gas emissions. The expectation is that the company's next sustainability report will give more clarity on their decarbonisation strategy and that there will be greater efforts to ensure effective climate oversight at the board level.

Human-capital management
Russell Investments engaged with a large US-based internet software and services company on its human capital management practices, seeking to improve transparency and accountability. Since the engagement began in 2022, the name has made significant progress in reporting and transparency. One area on which Russell engaged was around safety-related data, noting that this was provided on a three-year cycle, covered only the US, and that there was a lag of two years in terms of reporting. Russell therefore requested more up-to-date interim data that covered the company's global operations. Russell notes the company is conducting an independent third-party civil-rights assessment to address safety concerns and will continue to engage the name on transparency around health-and-safety practices in particular.

Engagement with other parties

The WPP also engages with other stakeholders, seeking constructive engagement wherever possible. Over the course of the year, the WPP continued our regular engagement with Friends of the Earth Cymru to discuss WPP's approach and progress on RI, and climate specifically. WPP also engaged with Size of Wales on deforestation risk. WPP responded to the government consultation on investments in the LGPS, including around pooling, levelling up, reporting and cross-pool investments. WPP also took part in the UN PRI Global Stewardship Resourcing Survey.



HOW WE ESCALATE CONCERNS

WPP can escalate issues of concern directly with Service Providers to address, but also relies on Service Providers to escalate issues where progress is not being made during the engagement process. The ongoing scrutiny by the RISG offers a forum for discussion and escalation, although escalation may similarly arise because of discussion in other fora.

Escalation by Robeco

The WPP notes that there were several examples of escalation undertaken by Robeco in its engagement activity over the reporting period, which we highlight below.

Case study: escalating concerns on remuneration in US tech companies

Oracle (US, 15 November 2023)

There has been significant scrutiny over US technology company Oracle's remuneration practices over recent years. While Robeco notes that practices have improved recently, including an expansion of the company's clawback policy, this was not enough to support the Say on Pay proposal. Among Robeco's concerns was the discretionary nature of the long-term incentive awards for certain executives. This was coupled with pay/performance alignment, and the performance-based stock-option awards for Oracle's CEO and CTO. To escalate concerns, Robeco chose to vote against the re-election of all members of the remuneration committee. The remuneration-committee elections held at least 76% support, while the Say on Pay proposal passed with 73% of the vote (up from 67% in 2022).

Electronic Arts (US, 10 August 2023)

The 2023 annual general meeting of Electronic Arts saw a number of governance topics under scrutiny. Robeco has voted against Electronic Arts' executive compensation plan on numerous successive occasions, deeming it to be excessive and with an insufficient underlying structure. That was also the case on this occasion, with the proposed plan this year continuing to exhibit these features. The management proposal passed with over 92% support. In order to escalate concerns around executive remuneration, Robeco also voted against the chair of the compensation committee for the second time. The management proposal passed with over 96% support.

Agilent Technologies (US, 28 September 2023)

Robeco had voted against the tech name's Say-on-Pay proposal for the third consecutive year, given concerns around pay misaligning with performance. To escalate concerns, in 2023, Robeco voted against the chair of the remuneration committee. The name reached out to discuss the firm's compensation programme on a conference call. Robeco will continue to monitor practices and will report on any improvements.

Case study: escalating concerns on climate

Issue: US financial company scoring poorly in terms of climate performance (risk mitigation, target setting, opportunity management).

Action taken: Robeco uses a traffic-light assessment to score companies on climate performance, looking at ambition on targets and the concrete actions associated with a company's decarbonisation strategy. The US finance name scored poorly on both, with very little disclosure around the assessment and managed of climate-related risks and opportunities, and no GHG targets set. Robeco therefore co-filed a SHP focusing on how the audit committee was overseeing climate-related risks and how this was reflected in the annual reports & accounts.

Outcome: While the SHP only received 17% support from shareholders, the continued poor performance from the company saw the engagement (under the Focusing on Net Zero theme) close unsuccessfully, with the company now being engaged under the enhanced engagement Acceleration to Paris.

Case study: escalating concerns on human rights

Issue: US aerospace and defence company associated with human-rights violations in the Middle East under the US government arms-sales programme.

Action taken: Since 2022, Robeco has reached out to the company on its human-rights approach, including a request for a conference call, to understand the company's due diligence in ensuring the responsible end use of its products in conflict-affected areas. The nature of the engagement specifically related to the use of the company's products in military interventions in Yemen and the associated human-rights issue, including possible war crimes. While the company has been receptive to communication, it had not committed to Robeco's repeated requests for a conference call. At the start of the year, Robeco therefore sent an escalation letter, reiterating concerns and requesting a call.

Outcome: The company agreed to a call, following year-end, where it outlined human-rights-risk assessments and mitigations. While Robeco acknowledges an improvement in the company's practices versus the start of the engagement, it has requested more information around mitigation actions and human-rights strategies. The engagement is ongoing until 2025.

Escalation with others

Case study: working with LAPFF to escalate concerns

WPP was presented with the opportunity to co-file a SHP on the management of water risks at a global mining company at its upcoming AGM. In engaging directly with the issuer on the substantive elements of the SHP, there had been constructive dialogue, which has resulted in the company issuing a water report in relation to one of its mines. Given positive progress, LAPFF therefore decided not to file the SHP in 2024. Instead, it will monitor progress and take a view following the 2024 AGM on whether the SHP needs to be progressed at the 2025 AGM. Positively, on collaboration, LAPFF representatives advised that 15 member funds had signalled interest in co-filing.

WPP's escalation principles

Until last year, WPP had not explicitly set out its own approach to escalation. Rather, this was employed directly by Robeco and WPP's investment managers. Following engagement with stakeholders, WPP developed a series of escalation principles in conjunction with its service providers, which are now embedded in WPP's Stewardship Policy:

- There should be clear and regular communication of the engagement target and objectives between parties
- The goals of the engagement should be set against the ongoing investment case for the holding
- Progress should be reported to all stakeholders
- Escalation actions being taken by the WPP's delegates during the engagement should be clearly identified
- An (enhanced) engagement that is reported as having failed by WPP's V&E Provider should trigger greater ongoing reporting by WPP's Investment Managers
- WPP's V&E Provider should continue to make voting recommendations on stocks that are retained after a failed engagement
- While WPP's Investment Managers, as fiduciary, shall retain responsibility for all sell decisions, divestment will be considered if escalation fails

One gap identified in the stewardship process that should help facilitate the application of the principles has been around transparency between Service Providers. It was noted that there was a lack of consistent visibility between Service Providers in what stewardship work was being carried out by them. Since then, WPP has conducted a mapping exercise as a basis for collaboration and information sharing. This will help WPP be more proactive in seeking input from its underlying asset managers in instances where engagement (specifically on the enhanced engagements) is not progressing as expected. This will also ensure consistency in terms of engagement dialogue and outcome, and flag where this is not the case.

Background

While WPP has not adopted a policy of exclusion within its investment arrangements generally, WPP believes the process of stewardship should not be without consequence, particularly where engagement is deemed to have been unsuccessful. Unsuccessful engagements may include a lack of responsiveness from the issuer, a failure to acknowledge the concerns raised within the engagement or a refusal to adequately address the concerns that have been raised. In each case, success will look different. For example, the success criteria for a disclosure related engagement would be addressed by the company agreeing to report on the information requested. However, the success criteria for a reported human rights violation would be different. It may be that the company acknowledges the report (which they may dispute) or that the company takes some form of action.

WPP recognises that it has a number of tools at its disposal to take further action in situations where engagement is deemed to have been unsuccessful. While not an exhaustive list, in the first instance, WPP may seek to escalate concerns further by:

- Participating in collective engagement with other likeminded investors to address concerns;
- Expressly voicing concerns in written correspondence with the Board;
- Using proxy voting as a tool on related proposals or as they relate to relevant Board nominations;
- Filing shareholder resolutions that directly address concerns.

The goal of the policy is not to say what form of escalation will take place in each situation, but to acknowledge that there are a range of potential forms of escalation appropriate to difference circumstances, some or all of which may be employed.

Engaging stakeholders

In order to engage wider stakeholders on how these principles will be enacted in practice, WPP organised a workshop with the JGC following year-end. This was a positive dialogue and provided a forum for stakeholder input, with the intention to organise similar workshops regularly. The policy will be reviewed again in 2025, allowing for experience to be taken into account and the policy updated, if necessary.



WHAT NEXT?

We recognise that one of WPP's unique strengths is the level of collaboration that exists between all of the Pool's underlying LGPS funds. We would like to thank each of the CAs for their continued contribution and support in progressing our work on RI, stewardship, and in steering discussions through the RISG. We believe we can continue to build on what is a solid foundation, in particular on:

- Passive funds
- Sustainable fixed income
- Climate stewardship: framework focus list
- Climate goal and transition planning
- Manager monitoring framework
- Evolution of the climate & ESG risk reports
- Real estate launch
- Impact and levelling up
- Escalation principles

While the intentions outlined above have all been progressed in some way following year-end, we hope we can continue to progress not only in these areas, but in all the work we do as a Pool. We look forward to further collaboration over the next 12 months!



APPENDIX 1: POLICY REVIEW SUMMARY

In the tables below: ● indicates that the commitment was met; ● indicates some progress made against the commitment; ● indicates that no progress was made.

Responsible Investment Policy

Status	Ref	Commitment/ Policy Statement
●	3.3	WPP will consult with CAs on at least an annual basis to determine their individual investment requirements and longer-term aspirations.
●	3.4	The WPP will consider opportunities arising from a greater understanding of ESG factors.
●	4.3	WPP will engage with its providers to ensure that a common mechanism for monitoring climate-related risks can be developed in respect of all WPP assets.
●	4.4	WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the TCFD.
●	5.3	WPP will endeavour to identify and engage organisations on human rights issues both through WPP's membership of LAPFF and via the engagement activity undertaken by WPP's V&E Provider.
●	5.4	The WPP will report on how engagement activity undertaken by its delegates has addressed human rights issues on an annual basis.
●	7.1, 7.3	The WPP expects that all the investment managers employed within WPP will properly consider climate-related and other ESG risks in decision making within their respective portfolios. WPP will engage with its investment managers on an ongoing basis to ensure that ESG factors are transparently reflected in decision-making processes and that the approach taken to the management of ESG factors can be properly evidenced.
●	7.2	WPP expects that, in all relevant circumstances, its investment managers will be signatories to the Principles for Responsible Investment and the FRC UK Stewardship Code.
●	8.4	WPP will engage with its passive-investment manager to consider how WPP's voting principles can be extended to assets managed by its passive investment manager.
●	8,5	WPP will receive a report on all voting activity, including details of any votes that have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its V&E Provider, Investment Managers or other delegates as necessary.
●	8.6	WPP will review the Voting Policy in conjunction with its V&E Provider, advisors and investment managers on an annual basis.
●	8.8, 8.9	WPP will not lend 100% of the holding in any single stock, so WPP can express its views and make a policy stance on any topic it deems worth through its right to vote. WPP will continue to monitor the impact of this policy stance over time and revise its policy if required.
●	8.12	WPP will receive reporting on any engagement undertaken by its Investment Managers on an annual basis.
●	9.1	In conjunction with its V&E Provider, WPP will continually assess potential collaboration opportunities, and will inform and seek input from the CAs on any such opportunity that it deems to be relevant.
●	9.3	In conjunction with its V&E Provider, WPP will seek to identify investor-led RI initiatives and collaborations that can be actively supported.
●	9.4	WPP will encourage underlying investment managers to participate in or support collaborative engagements where it is deemed to be in the best overall financial interests of the CAs.

Responsible Investment Policy

Status	Ref	Commitment/ Policy Statement
●	9.5	WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.
●	10.1	In consultation with CAs, Advisors and Investment Managers, WPP has developed appropriate monitoring metrics for existing portfolios and will continue to agree appropriate metrics in respect of all new portfolios. WPP will require Investment Managers to include such metrics in their quarterly reporting to CAs.
●	10.3	WPP requires that the responsible investment credentials of all appointed investment managers are subject to annual review. In conjunction with the relevant parties, the WPP will develop an appropriate reporting framework for its Investment Managers.
●	10.4	On an annual basis, the WPP will prepare and publish a stewardship report detailing the actions undertaken in fulfilment of this policy and the results achieved, following the principles of the 2020 FRC UK Stewardship Code.
●	11.1	WPP will ensure there is at least one formal training session directly focused on RI.
●	11.2	WPP will also explore the possibility of incorporating the UN SDGs into its RI beliefs and its monitoring and measurement mechanisms.
●	11.4	WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of their assessment in a public report.

Climate (Risk) Policy

Status	Ref	Commitment/ Policy Statement
●	13	The WPP's role is to consult with each CA in relation to their climate objectives, on at least an annual basis, and to fully understand what implementation solutions they require to meet their objectives and commitments.
●	14	Following its consultation with each CA, the WPP will endeavour to develop and facilitate investment solutions that enable each and every CA to achieve their climate objectives and commitments.
●	15	Where possible, the WPP, and its CAs, will seek to collaborate and work together to develop investment solutions that meet the climate objectives and commitments of all the CAs.
●	16	If unified and collaborative investment solutions that simultaneously meet the objectives and requirement of all CAs cannot be developed, the WPP will work with any CA to develop tailored investment solutions that will enable them to achieve their own local objectives and requirements.
●	18, 19	On an annual basis, the WPP will assess whether its consultation exercise with the CAs has identified a common climate-related objective that all CAs are willing to support. The WPP's Climate Goal will be regularly reviewed, following consultation with the CAs, and will always be driven by the collective requirements of the CAs. If the WPP's consultation exercise with the CAs fails to identify a common climate-related objective that all CAs are willing to unanimously support, then no WPP Climate Goal will be formulated until there is unanimous support for a given Climate Goal.
●	21	Recognising its current investment arrangements and offerings, the WPP's immediate focus will be on climate-related risk exposure within its equity and fixed-income holdings. The WPP will, however, consider climate-related risks in other asset classes when circumstances allow or require them to do so. The WPP will endeavour to provide climate risk solutions across all of its Sub-Funds, including private market assets.

Climate (Risk) Policy

Status	Ref	Commitment/ Policy Statement
●	22	The WPP receives quarterly Climate Risk Monitoring Reports for its Equity and Fixed-Income Sub-Funds. The WPP will continue to explore and investigate market developments that enhance its ability to assess climate risk exposure within its Sub-Funds.
●	23	The WPP will endeavour to continually facilitate climate scenario analysis across assets held within the WPP to ensure that the CAs are aware of the potential climate risks within the WPP Sub-Funds.
●	24	The WPP has committed to hosting at least one annual climate risk-related training session for its stakeholders. The WPP carries out an annual training needs identification exercise, in conjunction with the Cas. This is the mechanism by which the WPP gauges the climate risk training requirements of its stakeholders.
●	27	The WPP will work with its Investment Managers to ensure that they account for and integrate climate-related risks within their investment processes. The WPP will, on at least an annual basis, will review each of its Investment Managers' approach to Climate Risk integration.
●	29	WPP will emphasise the importance of engagement on climate-related risks through its V&E Provider. In particular, WPP will encourage its V&E Provider to engage with investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors and on the formulation of transition plans aligned with the goals of the Paris Agreement.
●	30	WPP monitors exposure to climate-related risks within its Sub-Funds on a quarterly basis. The metrics monitored include, but are not limited to, exposure to fossil fuel producers, carbon emissions and carbon intensity. WPP will monitor changes in market practice to ensure that WPP is fully aware of changing best practice.
●	31	The WPP will require its Investment Managers to provide monitoring on climate-related risk exposure in their quarterly reports to WPP and the CAs.
●	33	The WPP will report in line with the TCFD requirements, including a report on the actions taken in fulfilment of this policy, and will support the CAs in their own TCFD reporting.
●	34	The WPP will encourage, through its V&E Provider and Investment Managers, all investee companies to disclose in line with the requirements of the TCFD.

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