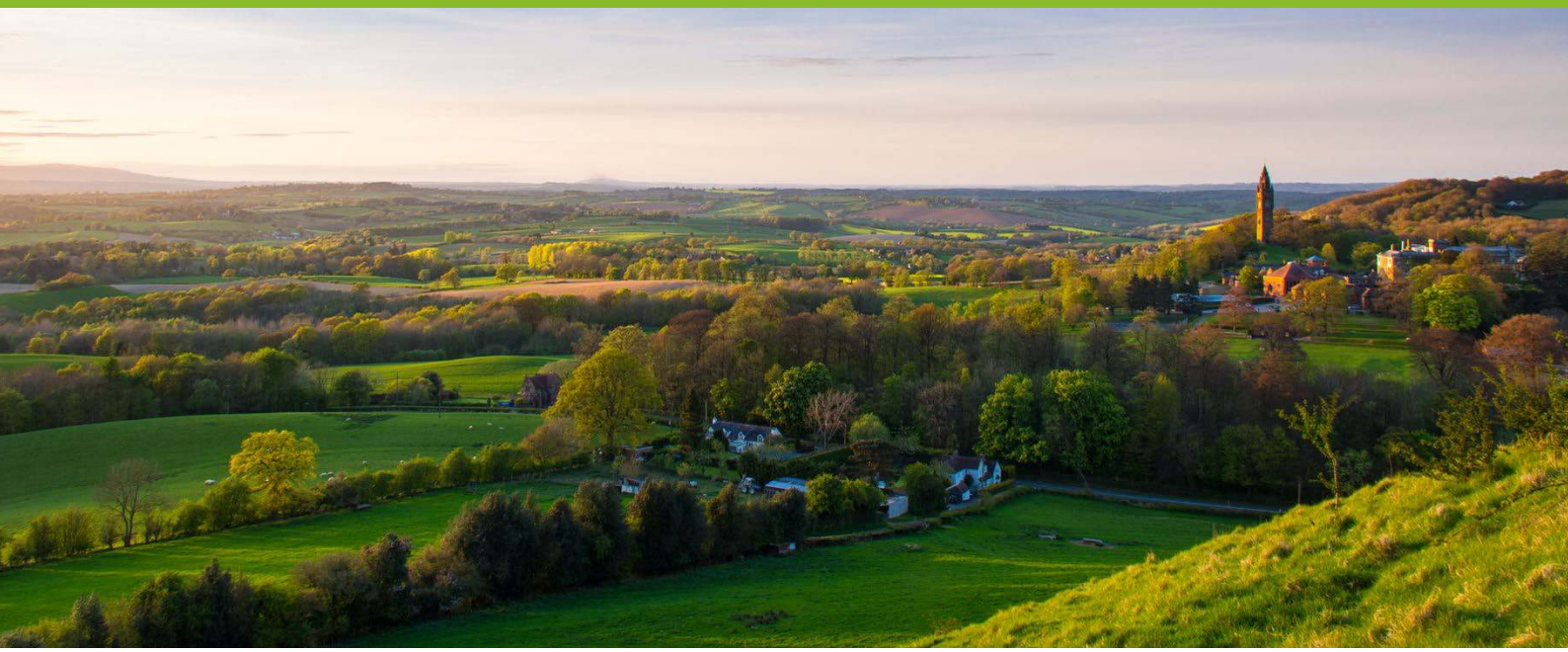
LGPS Central Limited

Quarterly Stewardship Report

FOURTH QUARTER, 2019-20 (JANUARY-MARCH 2020)



CHESHIRE PENSION FUND

Derbyshire Pension Fund

Leicestershire County Council PENSION FUND

Nottinghamshire County Council

SHROPSHIRE COUNTY PENSION FUND

Staffordshire Pension Fund
Local Government Pension Scheme

West Midlands Pension Fund

Worcestershire Pension Fund

Responsible Investment & Engagement

LGPS Central's approach

LGPS Central's approach to Responsible Investment & Engagement carries two objectives:

OBJECTIVE #1

Support investment objectives

OBJECTIVE #2

Be an exemplar for RI within the financial services industry, promote collaboration, and raise standards across the marketplace

These objectives are met through three pillars:

*Our **Selection** of assets*

*Our **Stewardship** of assets*

*Our commitment to **Transparency and Disclosure***

This report covers Central's stewardship activity. Our stewardship efforts are supplemented by global engagement and voting services provided by EOS at Federated Hermes (EOS). For more information please refer to Central's Responsible Investment & Engagement Framework and UK Stewardship Code Compliance Statement.

ADDITIONAL DISCLOSURES

Responsible Investment & Engagement Framework

Stewardship Code

Voting Principles

Voting Disclosure

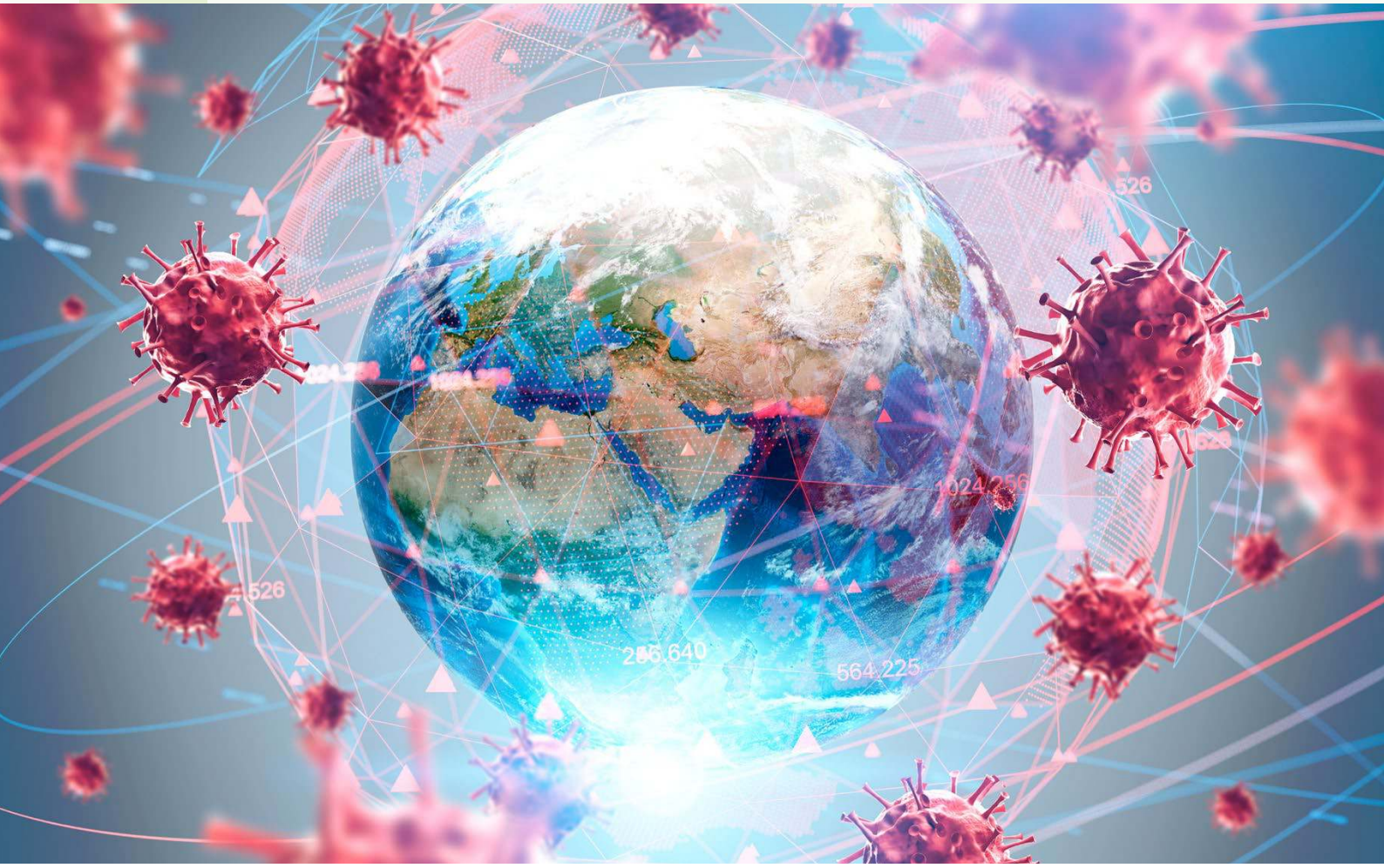
Signatory of:

PRI Principles for Responsible Investment

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

01 Introduction and Market Overview

The first cases of coronavirus disease (COVID-19) emerged in Wuhan province, China, in December 2019. By late January 2020 the virus had spread to the UK. Lockdown measures in most major economies have created economic and financial uncertainty, and there have also been knock on effects for environmental, social and corporate governance issues.



Media reports suggest the lockdowns have improved air quality, reduced GHG emissions, and even cleaned up Venice's canal water. In order to avoid climate catastrophe, we need global GHG emissions to peak by around 2020 and reach net zero by around 2050. Given recent experiences, must attainment of the Paris Agreement come at the cost of jobs and economic prosperity? We believe that suggestions of mutual exclusivity between economic growth or green issues is a false dichotomy. You can have both, if we have the right policy measures plus strategic corporate planning. Of greater importance than the short-term reduction in GHG emissions is the policy agenda after the pandemic subsides. We think the IIGCC's recent statement urging governments to prioritise human relief, job creation and the Paris Agreement, strikes the right tone. COP26 in Glasgow – along with planned pre-conference policy announcements – has been postponed from December 2020 to an unknown[1] 2021 date. Meanwhile, there have been calls for central bank asset purchases to be dependent on climate-related factors, and for government bailouts to weigh climate issues when providing financial assistance to carbon intensive industries, such

[1] At the time of writing, May 2020

as airlines. Following coordinated investor engagement, we have seen net zero commitments from Barclays, BP, Rio Tinto, and Royal Dutch Shell. In our view Coronavirus will not destabilise the climate agenda, and climate-related risks remain a major uncertainty for long-term investors.

From a corporate governance perspective, the main pandemic-related issues are capital raising, distributions, remuneration, and shareholder voting. Shareholders have historically been unreceptive to virtual-only AGMs, but leeway might be afforded as a one-off in 2020, or for 'hybrid' (in-person and virtual) AGMs. Due procedure requires company articles to be amended to permit AGM format changes and LGPS Central along with its stewardship provider will be keeping a close eye on companies to ensure shareholder rights are not permanently affected. The pandemic will be a good test for the design of remuneration policies, and whether Remuneration Committees are able to exercise discretion to defer executive pay awards until the virus passes. It will also be a test for corporates' recent embrace of 'stakeholder capitalism' (for example the Business Roundtable or the Davos Manifesto). Will the costs of the crisis, and any post-crisis gains be public or private? Possibly in response to the 2019 experience (during which at least 62 FTSE All Share companies had over 20% voting opposition to pay-related resolutions), and in some cases as a result of regulatory pressure, there has been a trickle of company announcements relating to cuts or deferrals in executive pay awards. As ever, remuneration will be a key area of focus for LGPS Central in the 2020 proxy season.

Climate change aside, the global pandemic could divert attention from important ESG issues, including the control of inappropriate content by the mega-cap technology companies. It has been over a year since the deadly Christchurch attacks and we, along with a coalition of investors, think social media companies have failed to properly respond (the Christchurch attacks were, tragically, livestreamed on social media temporarily). Subsequent atrocities in Germany and Thailand have since been livestreamed across various social-media platforms. On the anniversary of the attacks, LGPS Central co-signed an investor letter asking Facebook, Twitter, and Alphabet to do more to protect the public from similar events in the future (see further detail under Section 3 below). Despite attention being diverted as a result of the pandemic, LGPS Central continues to press companies on material issues on behalf of our partner funds.

02 Engagement

This quarter our engagement set[2] comprised 1045 companies with 1351 engagement issues[3]. There was engagement activity on 631 engagement issues and achievement of some or all engagement objectives on 428 occasions. Most engagements were conducted through letter issuance or company meetings, and we or our partners in a majority of cases met or wrote to the Chair or a member of senior management.

In order to use our resources efficiently, our engagement work focusses mainly on key stewardship themes that have been identified in collaboration with our partner funds. These themes are touched on in more detail under Section 3 below. We continue, however, to employ a broad stewardship programme – beyond just our targeted themes – covering issues like fair remuneration, board composition, diversity, and human rights, to name but a few. We also employ a diverse range of engagement tools including filing of shareholder resolutions when this ties in with our overall engagement effort.

[2] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider. This quarter's total includes 726 companies written to as part of the International Mining and Tailings Initiative collaboration.

[3] There can be more than one engagement issue per company, for example board diversity and climate change.

REMUNERATION AND FAIR PENSION ARRANGEMENTS

Remuneration has long been a key area of corporate governance for LGPS Central and is probably the dominant theme in our Voting Principles. We expect the 2020 voting season to be even busier than usual when it comes to executive pay. Ideally our vote – whether For or Against – will be the result of engagement and will not come as a surprise to the Board. A good example of this has been a recent engagement with a UK-listed Bank, whose remuneration policy we opposed at the 2019 AGM. Following our oppose vote, we wrote to the company and scheduled calls to explain our key concerns with the policy, which related primarily to the difference in pension arrangements for the CEO compared to the wider workforce. As a result of engagement, the pension arrangement for the executives have been reduced from 20% to 10% of salary. In addition, the CEO will forgo his cash bonus in light of the Coronavirus. We were able to vote for the remuneration-related resolutions at the bank's 2020 AGM – a sign of progress.

MODERN SLAVERY

It is a blight on our society that slavery exists in modern form. Modern slavery is an illicit trade worth an estimated US$150 billion, involving approximately 40 million people in sectors ranging from food retail to hotel chains. The introduction in 2015 of the UK Modern Slavery Act was supposed to herald a sea change in the disclosure and management of modern slavery in corporate supply chains, but the Business and Human Rights Resource Centre's (BHRRC) annual reviews show underwhelming performance by large UK-listed companies, and a corporate preference for disclosure and aspiration, rather than action.

Rathbones Brothers Plc convened an investor group, which LGPS Central has joined, to press 23 laggard companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. Though each investor's voting decisions remain at the investor's discretion, some participating investors used their shareholder rights as leverage in the engagement, promising to vote against the Annual Report & Accounts should compliance not be achieved. It is pleasing that since the engagement began, 16 out of the 23 companies on the target list are now compliant and there are ongoing constructive talks with the remaining companies, working to target completion date of October 2020. Though Coronavirus has had a particularly acute impact on companies whose supply chains are prone to modern slavery risk, and this has delayed progress somewhat, we are pleased at the rate of improvement in this continuing engagement.

03 Stewardship Themes

In order to be efficient and targeted in our engagement, we prioritise specific Stewardship Themes

In collaboration with our Partner Funds, we identified four themes at the start of the current financial year which are given particular attention in our ongoing stewardship efforts.

These are:

- Climate change
- Single-use plastics,
- Fair tax payment and tax transparency
- Technology and disruptive industries

Identifying core themes that are material to our investment horizon helps direct engagement and it also sends a signal to companies of the areas we are likely to be concerned with when we meet them. Given that engagement requires perseverance and patience, we expect to pursue the same themes over a one to three-year horizon, and in some cases – like with climate change – a longer time period. In our Annual Stewardship Plan (ASP) we have adopted a strategy of seeking to combine collaborative engagement alongside direct engagement with companies. We also aim to encourage the establishment and promotion of best practice standards through industry standard setting or regulation.

CLIMATE CHANGE

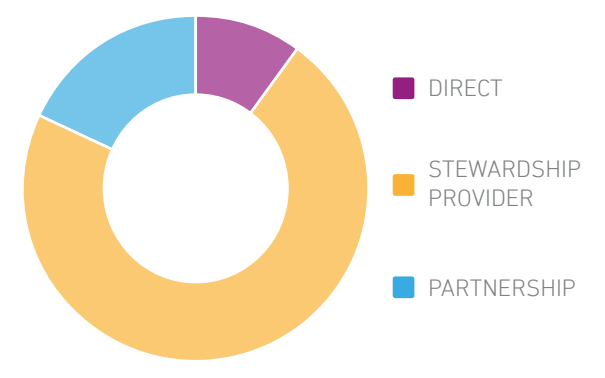
This quarter our climate change engagement set comprised 175 companies with 210 engagements issues[4]. There was engagement activity on 195 engagement issues and achievement of some or all engagement objectives on 64 occasions.

Since inception, LGPS Central has been an active member of the Climate Action 100+ initiative (CA100+), alongside the Transition Pathway Initiative (TPI) and the Institutional Investor Group on Climate Change (IIGCC). We are currently co-leading or in the focus group of ongoing engagements with eight companies that are part of the CA100+ initiative. These engagements are with oil and gas and mining companies, as well as one industrial technology company and one integrated energy company. We held meetings, in some cases multiple meetings, with five of these companies during the quarter at Chair or CEO levels. Scope 3 emissions, emissions that occur downstream of a company's business activities, i.e. as part of the activities of the company's customers, remain a particular challenge both in terms of measuring and of ensuring corporate accountability. Scope 3 emissions are often the largest category of emissions from a company and it is therefore critical to bring Scope 3 emissions into the scope of companies' climate targets, alongside direct emissions. Over the last quarter, TPI and their team at the London School of Economics has initiated consultations on a methodology for assessment of carbon performance (progress on transition to a low-carbon economy that aligns with the Paris Agreement on climate change) for diversified mining companies and European oil and gas companies. The availability of a credible and objective standard that shows whether or not a company's trajectory aligns with the Paris Agreement is a critically useful tool in company engagement.

Together with 10 other investors, LGPS Central co-filed a shareholder resolution at Barclays Plc asking the company to disclose targets to phase out the provision of finance to companies, starting with those in the energy and utility sectors, that are not aligned with the Paris climate change goals. The resolution aligns with LGPS Central's responsible investment beliefs on climate change as a materially financial risk. During the last quarter we continued engagement with Barclays. Following multiple meetings with investors, Barclays recently announced an ambition to become a "net-zero bank" covering emissions across Barclays' own operations and those of its clients. We view this as a reflection of positive engagement pressure, and the bank's willingness to listen. As was the case with BP Plc in 2019, Barclays' board sponsored a resolution to its AGM that captured this commitment. Barclays has invited investor scrutiny and dialogue as they work to establish metrics and nearer-term targets that correspond meaningfully to the long-term net-zero ambition. We are keen to see evidence that all of Barclays' lending activities, including those that bear the most climate risk, will be addressed with Paris agreement urgency.

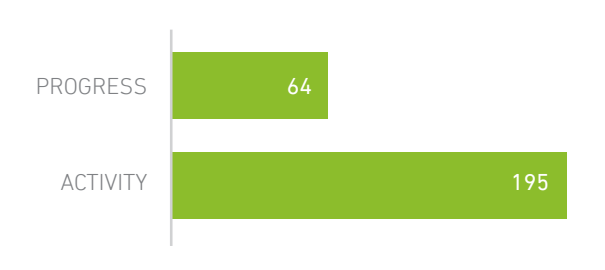
During the last quarter and going into the next, we have engaged two US companies following our co-filing of shareholder resolutions asking for enhanced transparency in corporate lobbying. We are generally concerned that companies across sectors and markets do not always disclose their lobbying activities. In many instances industry associations that a company is a member of advocate in a manner which is not aligned with the Paris Accord on climate change, or with other stated corporate ambitions. Without necessary disclosures – provided in an easily accessible manner – we are not able to assess risks and/or benefits associated with a company's participation in the public policy process. LGPS Central continues to view "negative" climate lobbying as one of the most corrosive blocks to achieving the goals of the Paris Climate Agreement in that it hinders the development of necessary regulation to support the transition to a low-carbon economy.

*ENGAGEMENT VOLUME BY **TYPE***



- 210 engagements in progress
- Majority of engagements undertaken via CA100+
- Shareholder-resolutions to escalate engagement with several companies

*ENGAGEMENT VOLUME BY **OUTCOME***



[4] There can be more than one climate-related engagement issue per company.

SINGLE-USE PLASTICS

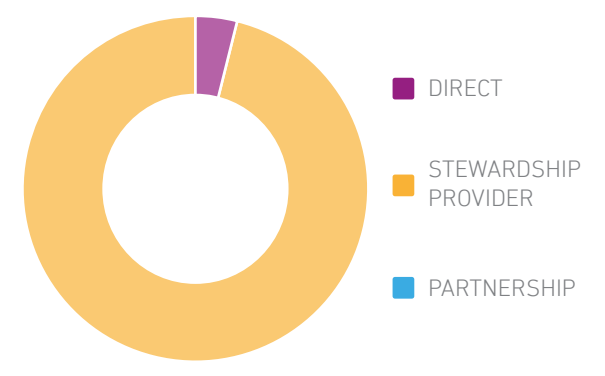
This quarter our single-use plastics engagement set comprised 22 companies with 26 engagements issues. There was engagement activity on 26 engagements and achievement of some or all engagement objectives on 6 occasions.

Alongside five other investors, we engaged a multinational food manufacturing company headquartered in the US to discuss their packaging strategy and how they are managing risks stemming from plastic pollution across their product development, operations and value chain. In 2019 the company reported plastic packaging data for the first time to the Ellen MacArthur Foundation (EMF)[5] and is reporting to have already achieved 32% recyclability for plastic packaging. We were encouraged to hear that the company is working towards a goal of 100% reusable, recyclable or compostable packaging by the end of 2025. The company acknowledges the challenge in that plastics currently used, such as multilayer laminate films, are not in compliance with the EMF definition for recyclability. The company emphasised the importance of establishing partnerships along their value chain, including with retailers, fossil fuel industry, waste management and public sector, in order to achieve their 2025 ambition. We were informed that there is board oversight on these risks and on the sustainable packing ambitions through a board sub-committee on public policy and sustainability. We expect the company to publish new packaging data in the next quarter and will seek further engagement following that. We would also like to discuss with the company whether the COVID pandemic may set plastic reduction targets back as a result of potential pressure to shift back to more single-use plastic items.

We are pleased to announce that we have joined the PRI's Plastics Working Group. This collaboration will primarily aim to define good practice and to build performance and assessment tools and engagement guides across key sectors (chemicals, retailers, plastic packaging, waste management) in collaboration with relevant experts including the EMF. The working group will maintain a focus on plastics but also consider the circular economy concept (eliminating waste and the continual use of resources). While the PRI does not currently coordinate specific engagements for the working group members, we will seek engagement collaboration with peer investors, leveraging the best practice standards that are being defined for particular sectors.

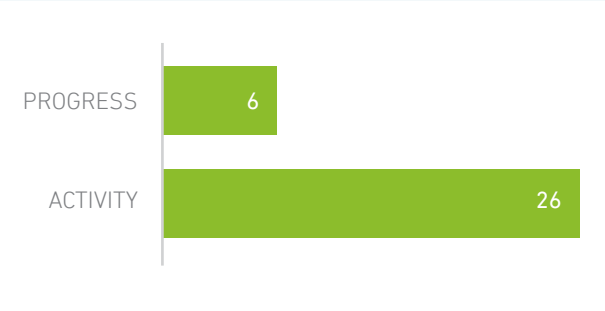
During the last quarter our stewardship provider, EOS at Federated Hermes (EOS), has on our behalf engaged with a European beverages company on sustainability goals including packaging. The company provided an in-depth update on the 2025 sustainability goals it launched in 2018, focused on smart agriculture, water stewardship, circular packaging and climate action. EOS commended the company for focusing on issues material to its operations and for taking an impact-oriented approach. The company is working on impact metrics to track performance over time, something EOS has encouraged.

*ENGAGEMENT VOLUME BY **TYPE***



- 26 engagements during the quarter
- Collaborative engagement initiated with US food manufacturer
- PRI Plastics Working Group aiming to define good practice across key sectors

*ENGAGEMENT VOLUME BY **OUTCOME***



[5] https://www.ellenmacarthurfoundation.org/ The Ellen MacArthur Foundation works with business, government and academia to build a framework for an economy that is restorative and regenerative by design.

FAIR TAX PAYMENT AND TAX TRANSPARENCY

This quarter our tax transparency engagement set comprised 12 companies with 12 engagements issues. There was engagement activity on 12 engagements and achievement of some or all engagement objectives on one occasion.

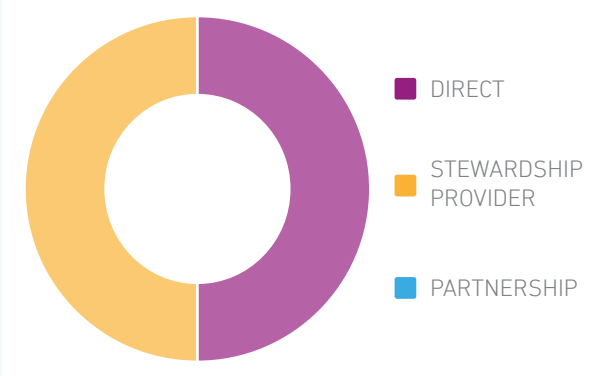
We actively seek collaboration with like-minded investors and have during the last quarter continued collaboration with five fellow European investors to engage a selection of companies across technology, telecommunication, finance and mining sectors. We have sent letters to five companies to assess and discuss some key tax-related elements including:

- board oversight of tax policy and risk assessment;
- disclosure of tax strategy and policy;
- link between company's purpose, sustainability goals and tax strategy;
- engagement with tax policy makers and other stakeholders.

During the last quarter, the investor group held a meeting with a multinational telecommunications company that welcomed engagement on tax transparency. The company has developed and strengthened its tax policy and strategy over the course of the last 10 years following previous controversies and increasing stakeholder interest. This has resulted in increased capacity across tax teams (across markets), more engagement at board level on the tax strategy, as well as formal reporting to the Audit and Risk Committee twice a year. The company takes a forward view of tax risk management and assesses it through the lens of broader sustainable development. Last year the company published country-by-country tax reporting, which it views as unproblematic from a competitive perspective and as useful not least in communication with various stakeholders. The company engages tax authorities both directly and through industry groups, on issues such as country-by-country reporting and the expansion of digital services. From the investor group perspective, this engagement, which the company is open to continue, helps increase our own learning and better capture best practices in responsible tax behaviour as they evolve.

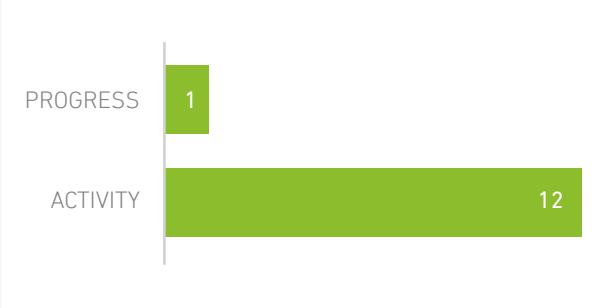
On our behalf, EOS has continued engagement with a multinational bank setting out requests for improvements on its tax policy transparency, both on conduct in client services and its own tax obligations, and for its annual tax reporting. This follows on from EOS' engagement with a number of banks on the issue allowing for comparison of practices across the sector. EOS has asked the bank in question to go beyond standard policy and financial reporting to articulate the company's responsible approach to tax practices, in particular with regard to the products and services provided by the bank including subsidiaries. This would also ensure alignment with its commitment to be a responsible bank. Further to this, the bank should clearly show how it is confident that it has the right culture to avoid any controversy in future.

*ENGAGEMENT VOLUME BY **TYPE***



- 12 engagements during the quarter
- Collaboration with peer European investors to engage a selection of companies across vulnerable sectors
- We expect clear articulation of companies' responsible approach to tax

*ENGAGEMENT VOLUME BY **OUTCOME***



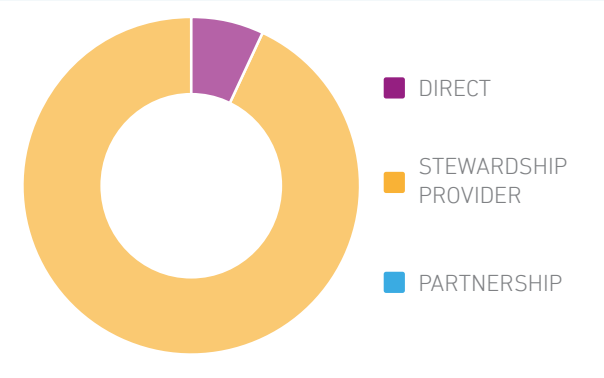
TECHNOLOGY AND DISRUPTIVE INDUSTRIES

This quarter our technology and disruptive industries engagement set comprised 29 companies with 46 engagements issues. There was engagement activity on 46 engagement issues and achievement of some or all engagement objectives on nine occasions.

We have this quarter continued our collaborative engagement, led by the New Zealand Crown-owned investors, aiming for social media companies to strengthen controls around the live streaming and distribution of objectionable content. The engagement is targeting Alphabet, Facebook and Twitter. This quarter saw the anniversary of the Christchurch terror attacks in March 2019, which were tragically streamed live on Facebook. Through an open letter we communicated to the social media companies a need for better oversight and more action to align with their shareholders on serious social harm and business risks. While progress has been made, especially on the technology side, we are concerned that it is not sufficient to prevent livestreaming and/or dissemination of content should another attack occur. We are of the view that stronger governance and accountability at executive and board level are needed alongside greater openness and engagement with investors in order to properly manage inherent risks. While we advocate for a stronger response from companies, we also encourage modernised regulation that keeps up with the changing environment.

On our behalf, EOS engages technology companies on a broad spectrum of vulnerabilities via its Social and Strategy, Risk and Communication themes. As an example, EOS engaged Ping An Insurance Group Co of China during the last quarter on the need for responsible AI (Artificial Intelligence) practices. Last year, Ping An became one of the first major financial institutions globally to publish a set of AI ethical principles, which explains key ethical issues of AI specific to the company's businesses, and key principles that guide AI applications. EOS provided detailed feedback to these principles. Although an AI governance framework is in place with the sponsorship of the co-CEO, plus members of the management committee and research committee, EOS has recommended that the company considers appropriate board level oversight.

*ENGAGEMENT VOLUME BY **TYPE***



- 46 engagements in progress
- Collaborative engagement with social media companies (Alphabet, Facebook and Twitter) on content control
- Emerging practice of Artificial Intelligence ethical principles

*ENGAGEMENT VOLUME BY **OUTCOME***

04 Voting

POLICY

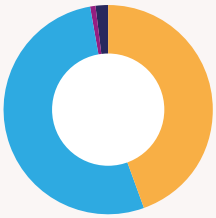
For UK listed companies, we vote our shares in accordance with a set of bespoke UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor.

COMMENTARY

On behalf of our clients, we continued to vote shares at company meetings between January and March 2020[6].

[6] The data presented here relate to voting decisions for securities held in portfolios held within the company's Authorised Contractual Scheme (ACS)

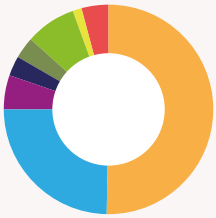
GLOBAL



- Total meetings in favour **44.5%**
- Meetings against (or against AND abstain) **52.8%**
- Meetings astained **0.9%**
- Meetings with management by exception **1.8%**

Over the last quarter we voted at 436 meetings (4,680 resolutions). At 230 meetings we opposed one or more resolutions. We voted with management by exception at eight meetings and abstaining at four meetings. We supported management on all resolutions at the remaining 194 meetings.

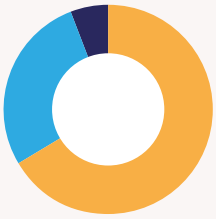
GLOBAL VOTES AGAINST AND ABSTENTIONS BY CATEGORY



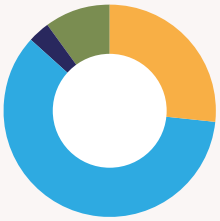
- Board Structure **50.6%**
- Remuneration **24.5%**
- Shareholder resolution **5.3%**
- Capital structure and dividends **3.1%**
- Amend articles **3.3%**
- Audit and accounts **8.0%**
- Poison pill/Anti-takeover device **1.4%**
- Other **3.9%**

UK

We voted at 54 meetings (733 resolutions) over the last quarter. We voted against or abstained on 30 resolutions out of the total resolutions voted.



- Total meetings in favour **66.7%**
- Meetings against (or against AND abstain) **27.8%**
- Meetings with management by exception **5.6%**

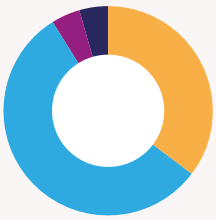


- Board Structure **26.7%**
- Remuneration **60%**
- Capital structure and dividends **3.3%**
- Poison pill/Anti-takeover device **10%**

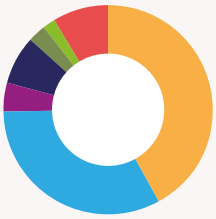
At TUI AG's AGM (an Anglo-German multinational travel and tourism company) we voted against the election of Vladimir Lukin to the Supervisory Board because of the failure to establish a sufficiently independent board. As stated in the LGPS Central Voting Principles we expect the majority of board members to be independent. At TUI AG, the board is only 30% independent. We also voted against TUI's Remuneration Policy over a combination of concerns, including our view that there should be more detailed disclosure on the annual bonus targets. In line with best practice, targets for both financial and non-financial aspects should be disclosed in detail, which is not the case for TUI. Further to this, the Remuneration Committee of the Supervisory Board is majority non-independent, which is contrary to best practice.

EUROPE EX-UK

We voted at 68 meetings (1,137 resolutions) over the last quarter. We voted against or abstained on 107 resolutions out of the total resolutions voted.



- Total meetings in favour **35.3%**
- Meetings against (or against AND abstain) **55.9%**
- Meetings astained **4.4%**
- Meetings with management by exception **4.4%**



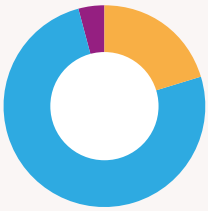
- Board Structure **42.1%**
- Remuneration **32.7%**
- Shareholder resolution **4.7%**
- Capital structure and dividends **7.5%**
- Amend articles **2.8%**
- Audit and accounts **1.9%**
- Other **8.4%**

At the AGM of Novartis AG, we voted against the re-election of PwC as external auditor of the company. PwC has been in place as Novartis' external auditor since 1940. We consider this excessive tenure. According to LGPS Central's Voting Principles we expect companies to regularly tender and rotate the external auditor, tendering at least every 10 years. We also voted against the re-election of the current audit and compliance committee chair, Elizabeth Doherty to emphasise the fact that we view the issue of auditor independence is fundamental. A rotation will provide the opportunity for Novartis to be examined with a fresh pair of eyes. It should be noted that Switzerland does not intend to adopt the EU Audit Reform regulations or to change the existing legal

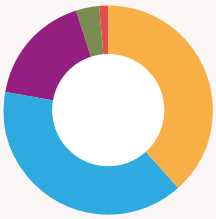
requirements related to auditor independence. Lacking regulatory pressure that would align with our Voting Principles, it is all the more important that we express our expectations through voting. LGPS Central provided a Power of Attorney to our stewardship provider so that they could attend Novartis' AGM to express this view on our behalf.

NORTH AMERICA

We voted at 49 meetings (562 resolutions) over the last quarter. We voted against or abstained on 81 resolutions out of the total resolutions voted.



- Total meetings in favour **20.4%**
- Meetings against (or against AND abstain) **75.5%**
- Meetings with management by exception **4.1%**



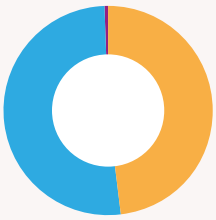
- Board Structure **38.3%**
- Remuneration **39.5%**
- Shareholder resolution **17.3%**
- Amend articles **3.7%**
- Other **1.2%**

At Apple's AGM we voted in favour of all agenda items, though this included three instances in which we voted contrary to the company's recommendation to oppose shareholder resolutions. We voted for Apple's executive compensation and the chair of the compensation committee. Despite being the largest company in the world, executive compensation is modest by comparison to its US peers and shows exemplary performance compared to the US technology sector. Apple's compensation is largely aligned with LGPS Central's expectations on fair remuneration, including a higher base salary (i.e. lower variable pay), high share ownership and strong alignment with long-term performance. A favourable vote on executive remuneration also creates a point of leverage for engagement on two shareholder proposals related to increased disclosure on freedom of expression, and production of a board report considering potential use of ESG metrics in executive compensation decisions. Against the board's recommendation, we voted for these two resolutions, alongside a shareholder proposal asking for improved proxy access.

DEVELOPED ASIA

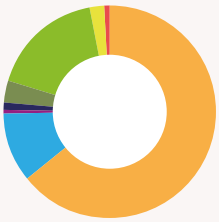
We voted at 205 meetings (1,688 resolutions) over the last quarter. We voted against or abstained on 107 resolutions over the same quarter.

At Samsung Electronics we voted for all resolutions but are continuing to push for improvements via engagement. We approved the company's financial statements and view the proposed dividend as acceptable in light of Samsung's positive developments in capital efficiency. We also voted for the election of two Inside Directors, while encouraging the company to consider increasing diversity of background, expertise and gender on the board. Samsung stated its aim to appoint at least one international board member during



- Total meetings in favour **48.3%**
- Meetings against (or against AND abstain) **51.2%**
- Meetings abstained **0.5%**

next year's AGM. It would in our view be counterproductive to vote against these Directors' appointments as their expertise is likely to strengthen the board's expertise (including in visual display development, IoT (Internet of things), capital management, and management of ESG issues). Lastly, we voted for Total Director Remuneration (a lump-sum cap on total remuneration payable to all directors) which is on par with Samsung's US peers and justified considering the company's financial position and its size relative to peers. We encouraged Samsung to adopt a remuneration scheme with longer duration and a lower proportion paid out in the first year and a reduction of the performance-based component as a proportion of total compensation.

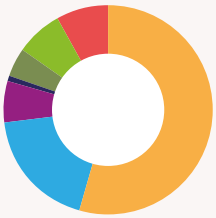


- Board Structure **64.2%**
- Remuneration **10.6%**
- Shareholder resolution **0.6%**
- Capital structure and dividends **1.1%**
- Amend articles **3.4%**
- Audit and accounts **17.3%**
- Poison pill/Anti-takeover device **2.2%**
- Other **0.6%**

EMERGING AND FRONTIER MARKETS

We voted at 58 meetings (547 resolutions) over the last quarter. We voted against or abstained on 112 resolutions over the same quarter.

- Total meetings in favour **43.1%**
- Meetings against (or against AND abstain) **56.9%**



- Board Structure **54.5%**
- Remuneration **18.8%**
- Shareholder resolution **6.2%**
- Capital structure and dividends **0.9%**
- Amend articles **4.5%**
- Audit and accounts **7.1%**
- Other **8.0%**

At the AGM of EDP Energias do Brasil SA, one of the largest electric utility companies in Brazil, we voted against the election of the board due to a lack of independence. The Brazilian Corporate Governance Code, introduced in 2016, recommends that at least 1/3 of the board be independent in order to protect the interests of all shareholders including minority shareholders, whereas EDP Energias' board is 12% independent. While the company meets the minimum independence requirement of the Novo Mercado listing segment of the Sao Paulo Stock Exchange (B3), we expect Brazilian companies to aspire to the local Corporate Governance Code. This would also be more in line with the expectation of international institutional shareholders. Looking across companies in the Emerging and Frontier Markets segment, the theme of board structure was the cause for concern in over half of all resolutions where we voted against management or abstained.

AUSTRALIA & NEW ZEALAND

We voted at two meetings (13 resolutions) over the last quarter. We voted against or abstained on five resolutions over the same quarter.

Meetings against (or against AND abstain) **100%**

Remuneration **20%**
Capital structure and dividends **80%**

At the AGM of consumer services company Aristocrat Leisure, we cast our vote against the grant of performance share rights to the CEO, Trevor Croker. As expressed in our Voting Principles, we are generally concerned when executive remuneration fails to align with long-term success and with the interests of long-term shareholders. We uphold similar expectations for alignment across markets, including the Australian market. 40% of the LTI (Long-Term Incentive) award for Aristocrat's CEO is subject to "objective-balanced scorecard KPOs" which according to the company are aligned with supporting longer-term strategy and sustainable growth. What is lacking, however, is a clear disclosure of what the KPOs are and how they align with improved shareholder results. It is equally unclear whether this significant portion of the LTI award is something other than a bonus for the CEO's day job that would objectively warrant additional remuneration. For large ASX-listed entities in the Australian market, LTI awards are expected to be subject to rigorous performance conditions which are appropriately disclosed allowing shareholders the opportunity to assess whether there is objective alignment with the interest of shareholders.

05 Industry Participation

LGPS Central is an active participant in the debate on good corporate and investor practice. We value collaboration with peer investors and with industry initiatives, which gives a stronger voice and more leverage in engagement.

The TPI (Transition Pathway Initiative) Annual State of Transition Summit this year was held as a webinar due to the COVID 19 pandemic, allowing more people to join online. TPI was established in 2017 with the aim of defining what the transition to a low-carbon economy looks like for companies in high-impact sectors such as oil and gas, mining, and electricity. It continues to be a highly useful and robust tool which helps inform investors' investment decision making and engagement. Taking a forward view, TPI assesses companies' management quality – how they manage greenhouse gas emissions and the risks/opportunities from that transition to a low-carbon economy – as well as companies' carbon performance – how companies are positioned to reach the Paris goals. According to the Intergovernmental Panel on Climate Change, the global community has now entered the final decade in which to take action to avoid catastrophic climate change. It is therefore worrying that while some progress is being made, the TPI State of Transition report 2020 concludes that on management quality nearly 40 per cent of companies (out of a total 332) are demonstrably unprepared for the transition. On carbon performance, more than 80 per cent of companies (out of a total 238) remain off track for a 2-degree world. More companies are coming out with ambitions to be net zero by 2050, which is encouraging, however these ambitions often imply the use of offsetting, which presents risks. Furthermore, the scope of emissions covered by net-zero ambitions vary and are usually much less than 100% of lifecycle emissions (Scopes 1 to 3). The report encourages investors to engage companies to take a more strategic approach to climate change. As a TPI Steering Committee member, LGPS Central views the role of TPI as critical going forward in spurring robust, well-informed and outcome-oriented engagement across sectors on climate change.

Last quarter saw the launch of a new tax standard by the Global Reporting Initiative (GRI). This is the first global standard to guide corporations on responsible tax behaviour and tax transparency. Whereas the existing OECD Base Erosion and Profit Shifting (BEPS) project asks companies to report to tax authorities, the new GRI standard asks companies to report on their tax behaviour to stakeholders including investors. The standard is voluntary and asks companies to disclose their approach to tax (including tax havens), their tax governance, control and risk management, their stakeholder engagement, and to provide a country-by-country reporting. The latter will shed light on whether profits are reported where economic activity takes place. This level of reporting will allow investors the ability to appraise a company's tax strategy and how that ties in with the overall business strategy and planning. While many countries are providing various forms of tax relief to businesses during the COVID pandemic, it seems reasonable for investors to expect companies to pay their fair share of tax. As a global society we are badly able to handle any crisis, including the current health pandemic and the ongoing climate crisis, without funding through tax.

We regularly contribute to RI-related advisory committees and make select speaking appearances at investment conferences. During the last quarter we spoke at the following events (see table below).

CONFERENCE/ EVENT	TOPIC
Responsible Investment podcast hosted by Man Group	UK Stewardship Code
LGC Investment Conference	Climate Change
ClearPathAnalysis ESG Conference	Differences between ESG and ethics

LGPS Central currently contributes to the following investor groups:

- Cross-Pool Responsible Investment Group
- UK Pension Fund Roundtable
- BVCA Responsible Investment Advisory Group
- PRI Listed Equity Integration Advisory Sub-Committee
- TPI Steering Committee & Technical Advisory Group
- Roundtable on Mining (Investor Mining and Tailings Safety Initiative)
- GFI Working Group on Data, Disclosure & Risk
- FRC Investor Advisory Group
- LAPF SIF Advisory Board
- IIGCC Shareholder Resolutions Sub-group
- IIGCC Paris Aligned Investment Steering Group

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central Limited

All information is prepared as of **15.05.2020**.

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