LGPS Central Limited

Stewardship Update

FOURTH QUARTER, 2021-22 (JANUARY – MARCH 2022)

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

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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 are met through three pillars:

Our **Selection** of assets

Our **Stewardship** of assets

Our commitment to **Transparency & Disclosure**

This update covers LGPS Central's (LGPSC) 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 our Responsible Investment & Engagement Framework and Annual Stewardship Report.

ADDITIONAL DISCLOSURES

- Responsible Investment & Engagement Framework
- Annual Stewardship Report
- Voting Principles
- Voting Disclosure
- Voting Statistics

Signatory of: PRI Principles for Responsible Investment

Signatory of: UK STEWARDSHIP CODE | 2021

employers network for equality and inclusion Member

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

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01 Summary of engagement and voting activity

Below is a high-level summary of key engagements and voting that have taken place during Q4 of the financial year 2021-22. These and other engagements and voting examples will be covered in more detail later in this update.

ENVIRONMENTAL

Glencore has made progress, but short/ medium term targets fall short: LGPS Central has continued as co-lead of CA100+ engagement with Glencore on their plans and progress to decarbonise in line with Paris and its own net zero by 2050 ambition. We expect more ambitious short-and medium-term targets, as well as capex planning that does not go beyond sustaining existing coal activities.

175 nations endorsed a historic resolution at the **UN Environment Assembly to negotiate a UN treaty on plastic pollution.** This is in part a result of businesses and investors, including LGPSC, calling for such a treaty.

SOCIAL

We held a meeting with **Motorola Solutions, Inc.** during the quarter to discuss their management of human rights risks in Occupied Palestinian Territories (OPT). In the meeting, we emphasised the need for the company to carry out human rights impact assessments in line with the UN Guiding Principles on Business and Human Rights.

Over the last two years, LGPSC has been a member of a collaborative investor-initiative that has successfully encouraged laggard **FTSE 350 companies** to meet the reporting requirements of Section 54 of the **Modern Slavery Act 2015**. Last quarter, we co-signed letters to 44 companies that have failed to meet the minimum reporting standards of the Act.

GOVERNANCE

In March, we signed a letter to the US Securities and Exchange Commission (SEC), alongside over 100 other investors, in support of a shareholder proposal **asking for tax transparency at Amazon**. In a letter to Amazon in April, SEC ruled in favour of the shareholders who demanded a vote on the issue. The shareholder resolution, which will now be allowed to go to a vote at Amazon's AGM on 25 May represents one of the first times the regulator has granted a shareholder request on tax matters. This helps fortify a view that **responsible tax behaviour is inextricably linked to overall good governance** and to ensuring sustainable, long-term value creation.

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Voting highlights:

APPLE INC.

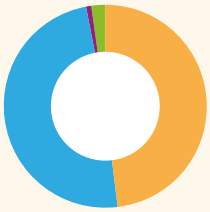
We voted against management on seven proposals. We **opposed Apple's executive compensation proposal** as we viewed the CEO's $75 million equity award as excessive and inconsistent with the company's stated focus on addressing inequities in society. A significant proportion, 35.6%, of shareholders opposed the executive remuneration proposal. We also voted for five human rights related shareholder proposals. See further detail on page 12.

WH SMITH

We **voted against the company's proposed annual bonuses** of £550,000 and £357,500 to CEO Carl Cowling and CFO Robert Moorhead, respectively. These represent 100% and 81.3% of their annual base salaries. WH Smith, in light of the ongoing impact of the coronavirus (COVID-19) pandemic, has suspended dividends to investors for the financial year. See further detail on page 12.

GLOBAL VOTING

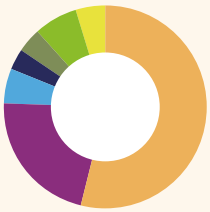
We voted at **493** meetings (**5,327** resolutions) over the last quarter.



- Total meetings in favour **48.1%**
- Meeting against (or against AND abstain) **49.1%**
- Meetings abstained **0.6%**
- Meetings with management by exception **2.2%**

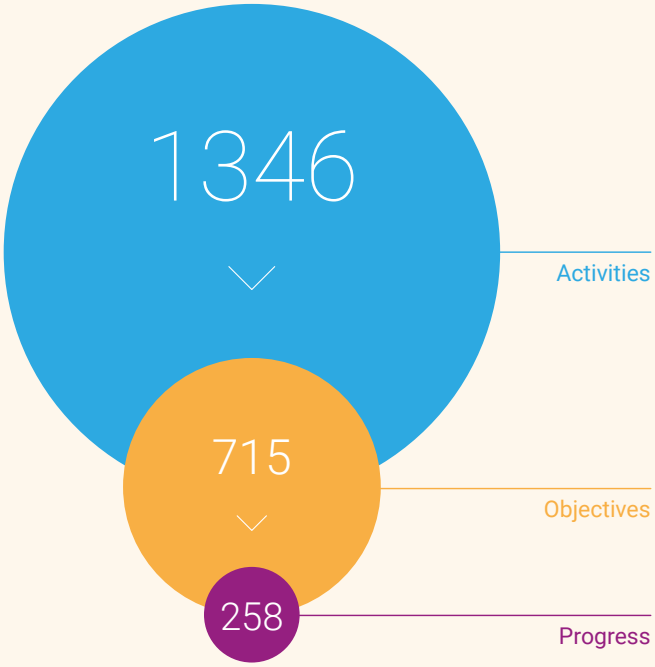
GLOBAL VOTING

We voted against or abstained **695** resolutions over the last quarter.



- Board structure **54.0%**
- Remuneration **21.7%**
- Shareholder resolution **5.6%**
- Capital structure and dividends **3.2%**
- Amend articles **4.0%**
- Audit and accounts **6.9%**
- Other **4.6%**

ENGAGEMENT ACTIVITY DURING THE QUARTER



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02 Engagement Case Studies

Below, we give more detailed examples of ongoing or new engagements which relate to the four Stewardship Themes that have been identified in collaboration with our Partner Funds.

Our Stewardship Themes, based on the latest revision in 2021, are:

- Climate change
- Plastic
- Fair tax payment and tax transparency
- Human rights risks

This quarter our engagement set[1] comprised 570 companies. There was engagement activity on 1,346 engagement issues and objectives[2]. Against 715 specific objectives, there was achievement of some or all on 258 occasions. Most engagements were conducted through letter issuance or remote company meetings, where we, our partners or our stewardship provider in a majority of cases met or wrote to the Chair, a Board member or a member of senior management.

[1] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider.
[2] There can be more than one engagement issue per company, for example board diversity and climate change.

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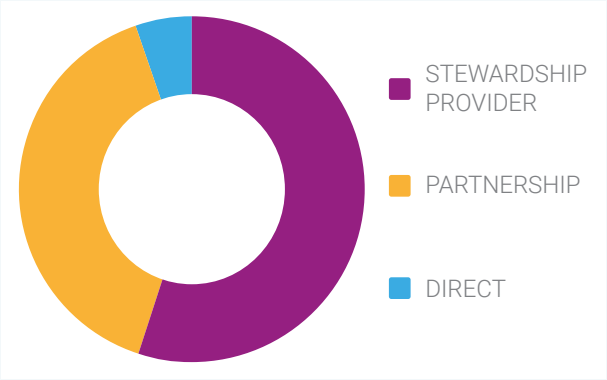
CLIMATE CHANGE ENGAGEMENTS

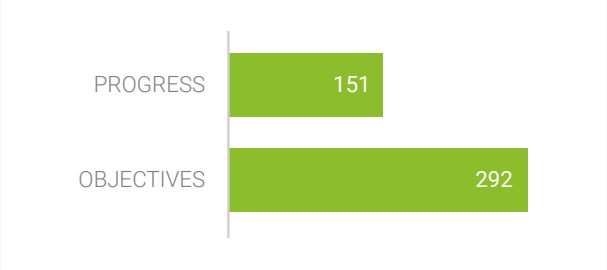
This quarter, our climate change engagement set comprised 292 companies with 380 engagement issues and objectives[3]. There was progress on 151 specific engagement objectives against a total of 292 objectives.

ENGAGEMENT VOLUME BY TYPE



- 380 engagements during the quarter
- Majority of engagements undertaken via CA100+
- Shareholder proposal on climate filed at Credit Suisse

ENGAGEMENT VOLUME BY OUTCOME



GLENCORE PLC

Theme: Climate change

Objective: We expect companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning. Since assuming the role of co-lead in CA100+ engagement with Glencore, we have held multiple constructive dialogues with the company relating to the company's climate action plan.

Engagement: We met with Glencore's CEO to discuss the company's climate progress report, which is on the AGM agenda as an advisory vote to measure Glencore's progress against its Climate Transition Plan (approved by shareholders at the 2021 AGM). When the plan was passed by shareholders in 2021, short-term targets had not yet been published. At the meeting, we raised concerns around their short-term targets – 15% GHG emissions reduction by 2026 which will largely come from decline in coal exposure. It is our view that the short-term target does not provide assurance of alignment with the International Energy Agency Net Zero by 2050 Scenario (NZE) and the Intergovernmental Panel on Climate Change (IPCC) 1.5C scenarios pathways for coal reduction. The IPCC has identified the use of coal to power electricity as the single biggest inhibitor to achieving Paris objectives. We therefore view it as particularly important that a company like Glencore provide clear and robust targets that show a Paris-aligned trajectory in the next 10 years. Furthermore, we strongly encourage Glencore to proactively lobby (directly and indirectly) in a manner that supports its decarbonisation commitment.

Outcome: Glencore received 23.72% opposition, including from LGPSC, to the Transition Plan Report and will be expected to engage its shareholders to understand their concerns. We commend Glencore for taking positive steps toward Paris-alignment and for being one of the first companies to provide shareholders a Say on Climate. We have explained our vote rationale to the company and expect to continue constructive engagement with Glencore alongside the other co-leads of CA100+.

[3] There can be more than one climate-related engagement issue and/or objective per company.

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CREDIT SUISSE GROUP AG

Theme: Climate Change

Objective: We expect companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning. Credit Suisse is one of the first banks to commit to align its activities with the Paris Agreement but continues to be one of the top financiers of fossil fuels. We would need to see targets and action in the short and medium term that ensures achievement of the banks own NZ ambition.

Engagement: LGPSC, alongside eleven institutional investors managing €2.18 trillion have filed a climate resolution at Credit Suisse. Through a proposed amendment to the bank's articles of association, the coalition of shareholders ask that Credit Suisse improve its climate risk disclosures, bring its coal, oil and gas policies in line with leading practice in the sector, and publish short- and long-term targets to reduce its exposure to coal, oil and gas assets, on a timeline consistent with the 1.5°C goal of the Paris Agreement. Ahead of COP26 last year, Credit Suisse was one of the banks which received a letter co-signed by LGPSC with more than 100 investors, setting out expectations for Paris-alignment and protection and restoration of biodiversity.

Outcome: Several rounds of engagement with Credit Suisse, led by co-filers ShareAction and Ethos Foundation, has led to the bank making several commitments in the weeks ahead of its AGM. However, LGPSC believed the bank did not address several requests that were made in the resolution, including disclosing its capital markets fossil fuel activities. The co-filers unanimously decided to keep the resolution on the AGM ballot, making it the first climate-related shareholder resolution at a Swiss bank. The resolution received support from 18.52% of shareholders and a further 4.27% abstained.

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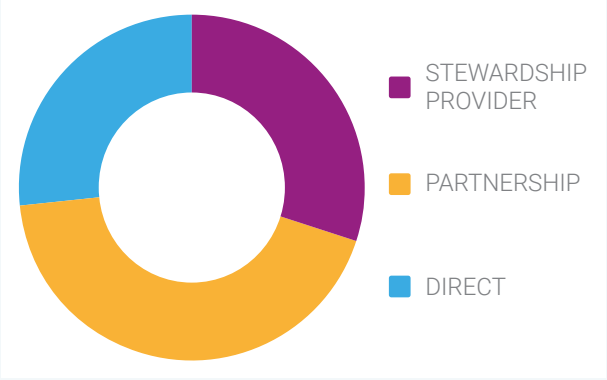
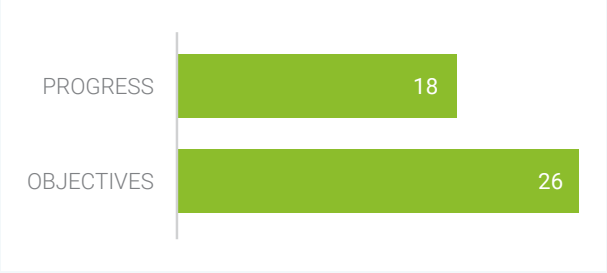
PLASTIC ENGAGEMENTS

ENGAGEMENT VOLUME BY TYPE



- 30 engagements during the quarter
- Historic resolution at the UN Environment Assembly to negotiate a UN treaty on plastic pollution, advocated in advance by businesses and investors
- Shareholder proposal at Tyson Foods to reduce plastic packaging supported by 59% of independent shareholders

ENGAGEMENT VOLUME BY OUTCOME



This quarter our single-use plastics engagement set comprised 29 companies with 30 engagement issues and objectives[4]. There was progress on 18 specific engagement objectives against a total of 26 objectives.

Businesses and investors, including LGPS Central, calling for **UN treaty on plastic pollution** (www.plasticpollutiontreaty.org) during 2021 has helped bring about a historic resolution at the UN Environment Assembly to negotiate such a treaty. The aim of a treaty is to establish a coordinated international response that aligns businesses and governments behind a shared understanding of the causes of plastic pollution, and a clear approach to addressing them. The treaty will address the full lifecycle of plastic from source to sea.

TYSON FOODS, INC.

Theme: Plastic

Objective: As one of LGPSC's core stewardship themes, we look to support resolutions that encourage better plastic-related risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

Rationale: We supported a shareholder resolution which urged the company to reduce its use of plastic packaging. Analysis shows that Tyson does not disclose the amount of plastic packaging it uses or any targets it has for reducing plastic use. Tyson's actions lagged the practices of other supply-chain efforts to reduce plastic use and packaging waste, including at competitors Pilgrim's Pride, Hormel Foods, and Smithfield Foods.

Result: Although ultimately unsuccessful, this proposal was supported by 59% of independent shareholders that are not held by Tyson Limited Partnership or Tyson's directors or executive officers. In our view, proposals such as this can bring attention to the continued use of plastic packaging – a critical issue for both the environment and the company's future. EOS at Federated Hermes, our Stewardship Provider, has a long-standing engagement with Tyson and will continue dialogue with the company on various ESG-related issues including circular economy and plastic-related risk management.

[4] There can be more than one plastic-related engagement issue and/or objective per company.

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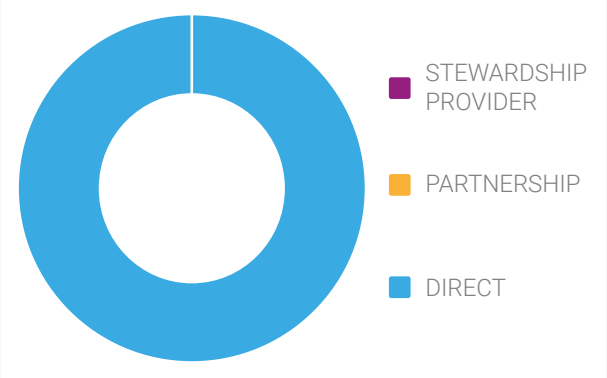
FAIR TAX PAYMENT AND TAX TRANSPARENCY ENGAGEMENTS

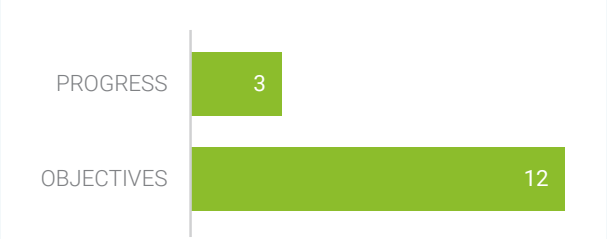
This quarter, our tax transparency engagement set comprised 12 companies with 12 engagement issues and objectives. There was progress on three specific engagement objectives against a total of 12 objectives.

ENGAGEMENT VOLUME BY TYPE



- Seven engagements during the quarter
- Investor letter to the US Securities and Exchange Commission (SEC), in support of a shareholder proposal at Amazon asking for tax transparency

ENGAGEMENT VOLUME BY OUTCOME



AMAZON.COM, INC.

Theme: Responsible Tax Behaviour

Objective: The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation's contribution to the economies it operates in, tax is a key dimension in building that trust. We therefore expect companies to pay their fair share of tax. In past engagement with other companies, we have asked for board oversight of tax policy and risk assessment; greater disclosure of tax strategy and policy; robust management of tax related risks, including preferably a country-by-country tax disclosure; link between company's purpose, sustainability goals and tax strategy; and engagement with tax policy makers and other stakeholders.

Engagement: In March 2022, we signed a letter to the US Securities and Exchange Commission (SEC), alongside over 100 other investors, in support of a shareholder proposal at Amazon asking for tax transparency. The company had earlier in January wrote to the SEC requesting approval for a shareholder resolution on the topic to be excluded from voting at its next AGM, arguing that tax was an ordinary business matter and therefore subject to a shareholder resolution exemption. The resolution demanding Amazon adopt a new reporting standard on tax practices was originally brought by a Catholic investment fund and UK public retirement scheme in December. The shareholder proposal reads: "The Board of Directors issue a tax transparency report to shareholders, at reasonable expense and excluding confidential information, prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative's (GRI) Tax Standard". Through our engagement with companies on tax, we aim to support investor expectations – e.g., as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies.

Outcome: In a letter to Amazon in April, SEC ruled in favour of the shareholders who demanded a vote on the issue. The shareholder resolution, which will now be allowed to go to a vote at Amazon's AGM on May 25 represents one of the first times the regulator has granted a shareholder request on tax matters.

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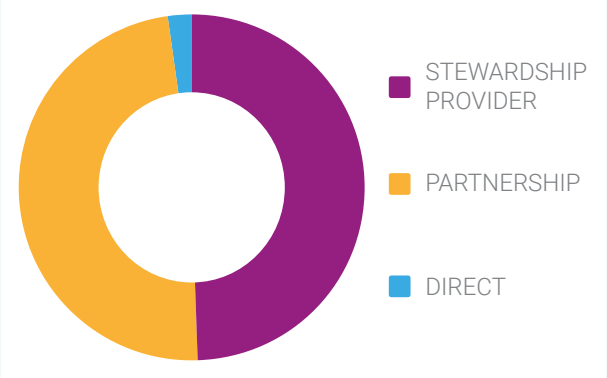
HUMAN RIGHTS RISKS ENGAGEMENTS

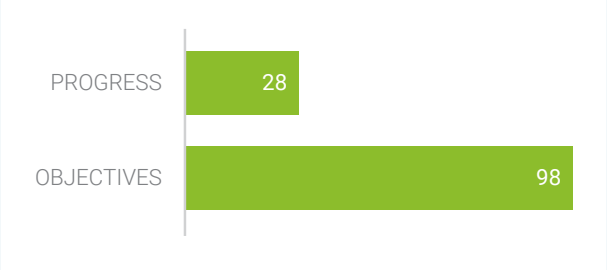
This quarter our human rights related engagements comprised 117 companies with 143 engagements issues and objectives. There was progress on 28 specific engagement objectives against a total of 98 objectives.

ENGAGEMENT VOLUME BY TYPE



- 143 engagements during the quarter
- Phase III of ongoing engagement project on modern slavery initiated, asking 44 FTSE 350 laggard companies to comply with the UK Modern Slavery Act
- Engagement with Motorola on human rights risks in Occupied Palestinian Territories

ENGAGEMENT VOLUME BY OUTCOME



44 FTSE 350 COMPANIES

Theme: Human Rights (Modern Slavery)

Objective: Over the last two years, LGPSC has been a member of a collaborative investor-initiative convened by Rathbones Group Plc (Rathbones) that has successfully encouraged laggard **FTSE 350 companies** to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies with a turnover of more than £36 million per year must publish a modern slavery statement and ensure that the statement is approved by the board; signed by a director; and reviewed annually and published on the company's UK website.

Engagement: During 2021, we engaged 61 FTSE350 companies asking for Modern Slavery Act compliance. As per end 2021, all companies have responded and are now compliant. Initial positive responses have given an opening for meetings to discuss companies' approaches to modern slavery. Following up on that success, we co-signed letters that are sent to 44 companies that have failed to meet the minimum reporting standards of the Modern Slavery Act 2015.

Outcome: The letters were sent in February 2022, and we will follow-up with further engagement and monitoring of progress. LGPSC will consider voting against the report and accounts should the companies remain in a non-compliant state.

MOTOROLA SOLUTIONS, INC.

Theme: Human Rights (Conflict Areas)

Objective: We expect businesses that operate in areas of war and conflict to take particular care to respect human rights. The Israeli-Palestinian conflict poses clear human rights risks for companies, but the sensitive political situation makes engagement challenging.

Engagement: LGPSC initiated dialogue with Motorola Solutions, Inc. in 2020. We engaged the company on human rights risks from its operations in the Occupied Palestinian Territories (OPT). Since engagement began, we have communicated with the company through several written correspondences and voted against the Chair at the 2021 AGM. These culminated in a meeting that took place in January 2022. In the meeting, we emphasised the need for the company to carry out human rights impact assessments in line with the UN Guiding Principles on Business and Human Rights. We have also provided the company with a list of potential third-party providers who can assist in carrying out such an assessment.

Outcome: We were pleased when the company agreed to meet and discuss these issues at the January 2022 meeting and will continue this engagement with the company.

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03 Voting

POLICY

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

COMMENTARY

Between January – March 2022, we:

- Voted at 493 meetings (5,327 resolutions) globally
- Opposed one or more resolutions at 242 meetings
- Voted with management by exception at 11 meetings
- Supported management on all resolutions at the remaining 237 meetings.

A full overview of voting decisions for securities held in portfolios within the Company's Authorised Contractual Scheme (ACS) – broken down by market, issues and reflecting number of votes against and abstentions – can be found here.

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EXAMPLES OF VOTING DECISIONS

APPLE INC.

Theme: Executive remuneration, human rights

Rationale: LGPSC voted against management on seven proposals. We opposed Apple's executive compensation proposal as we viewed the CEO's $75 million equity award as excessive and inconsistent with the company's stated focus on addressing inequities in society. We also disagreed on the structure of the award, of which half is purely time-based. The time-based grant will vest in three equal tranches; the first of which will vest on 1 April 2023, with the remainder vesting annually over the following two years. The equity award will continue to vest in full based on their original time or performance conditions should he retire on or after the first anniversary of the grant date. It is our view that this award is not adequately aligned with the long-term interest of shareholders. In line with LGPS Central Voting Principles, we will oppose remuneration proposals where levels of remuneration are perceived to be excessive and unfair which can be demotivating to staff and reputationally damaging to the company.

We also voted for five shareholder proposals. We note that human rights frequently feature in these shareholder proposals, with resolutions asking for transparency in issues such as forced labour, censorship, work culture, gender and racial pay gap and civil rights. In our view, investors would benefit from the increased transparency these resolutions asked for.

Result: 35.6% of shareholders opposed the executive remuneration proposal. This is significant opposition, and we would expect the company to consider investor concerns. Apple has confirmed to our stewardship provider EOS that they will deliver EOS' feedback to the compensation committee. The shareholder proposals requesting Apple to conduct a civil rights audit and to investigate the company's use of clauses that prevent employees from speaking out about harassment and discrimination were passed by shareholders.

WH SMITH

Theme: Executive remuneration

Rationale: The company proposed to pay annual bonuses of £550,000 and £357,500 to CEO Carl Cowling and CFO Robert Moorhead, respectively. These represent 100% and 81.3% of their annual base salaries. WH Smith, in light of the ongoing impact of the coronavirus (COVID-19) pandemic, has suspended dividends to investors for the financial year. The company also took £40 million in business rates relief and £11 million in payments from furlough schemes in the UK and elsewhere in the year to September 2021 according to its annual report. We therefore question the appropriateness of these bonus outcomes which do not appear to adequately align with the company's performance and overall stakeholder experience during the financial year. We also question the selection of performance metrics which were used to calculate the bonus outcomes. The company has historically utilised Group PBT as a financial metric, but this was changed to headline EBITDA during the FY2021 – even though headline EBITDA is not identified as a company KPI and has not been historically disclosed. In this context, it was difficult to assess the targets attached to the metric. The optics of this move was also questionable, especially since the company reverted to Group PBT for FY2022.

Result: Dissent from shareholders was considerable as 45.6% of shareholders voted against this proposal. According to the UK Corporate Governance Code, a company that receives shareholder opposition of more than 20% to a resolution is expected to open a dialog with the shareholders to understand the shareholder's views and reasons for the opposition.

WALGREENS BOOTS ALLIANCE, INC.

Theme: Executive compensation, shareholder rights and other ESG topics

Rationale: LGPSC voted against management on four resolutions. We voted against ratifying executive compensation and against the re-election of the Chair of the compensation committee. The company's say-on-pay vote received the support of only 47.5% of shareholders in 2021. We reviewed the compensation committee's shareholder engagement efforts and improvements on the pay program and concluded that the changes do not fully address concerns that were raised in last year's AGM. Considering the failed vote result from 2021, we believe support is not warranted for this year's say-on-pay proposal nor the election of the compensation committee chair.

We also voted against management recommendation for two shareholder resolutions: 1) proposal requesting amendment to the appropriate company governing documents to give the owners of a combined 10% of outstanding common stock the power to call a special shareholder meeting, and 2) proposal requesting that the board disclose a report on the public health costs created by the sale of tobacco products. In our view, the proposal which seeks a reduction of the required ownership threshold for shareholders to call a special meeting from 20% to 10% will further empower investors and promotes shareholder rights. The proposal on tobacco sales promotes better management of opportunities and risks on a topic which many investors will categorise alongside other material ESG topics.

Result: Dissent on the remuneration report and compensation committee chair were 38.5% and 24.4% respectively. 12.7% of shareholders backed the proposal to report on tobacco sales. Walgreens is scaling back its focus on tobacco, ending all promotional programs for tobacco products in 2021. Walgreens CEO Rosalind Brewer is also considering tobacco's future for the company.

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LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central actively contributes to the following investor groups

30% Club
GROWTH THROUGH DIVERSITY

BVCA British Private Equity & Venture Capital Association

CDP
DISCLOSURE INSIGHT ACTION

Climate Action 100+
Global Investors Driving Business Transition

Federated Hermes

IIGCC
Institutional Investors Group on Climate Change

ICGN
International Corporate Governance Network

Local Authority Pension Fund Forum

PENSIONS FOR PURPOSE

PRI Principles for Responsible Investment

Transition Pathway Initiative

THE INVESTOR FORUM

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All information is prepared as of **10/05/2022**.

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