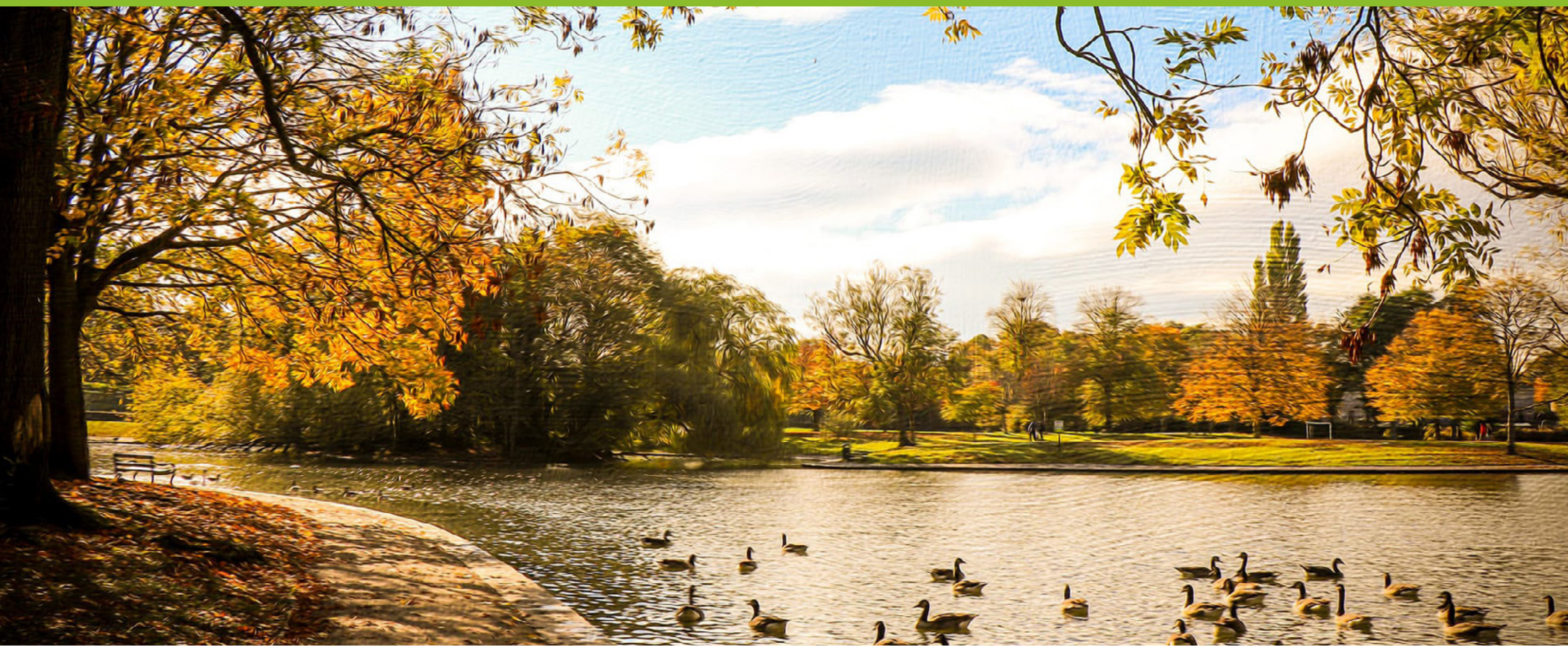
Stewardship Update

SECOND QUARTER, 2021-22 (JULY – SEPTEMBER 2021)



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

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

01 Summary of engagement and voting activity

Below is a high-level summary of key engagements and voting that have taken place during Q2 of the financial year 2021-22. These and other engagements and voting examples will be covered in more detail later in this update.

ENVIRONMENTAL

Climate and biodiversity engagement with 68 banks: LGPS Central has co-signed letters to banks setting out expectations for Paris-alignment and protection and restoration of biodiversity. 45 banks have so far responded with 19 setting or confirming Paris-aligned climate targets.

Microplastics engagement project continues, including good progress in dialogue with a UK retailer that has committed to introducing products with microplastic filters within the next 18 months.

SOCIAL

30-month engagement project on **social media content control** is closed after good progress. The Initiative engaged the world's three largest social media companies (Facebook, Alphabet and Twitter). Progress has been made by each of the social media companies to stop the spread of objectionable material, but a continued focus on the evolution of preventative safeguards is needed.

Human rights risks engagement with **Amazon** taking promising steps to build out its Human Rights program and carry out human rights' due diligence across its operations.

GOVERNANCE

A Japanese bank has responded positively to investor engagement on board diversity and recently appointed a female director to the company's Board. Discussions continue on diversity barriers in the Japanese market.

We have initiated dialogue with an Anglo-Irish consumer credit reporting company on **tax transparency and responsible tax behaviour**. We would like to see the company share tax-relevant Country-by-Country Reporting (CBCR) with shareholders so that we can make a meaningful assessment of their tax behaviour.

Voting highlights:

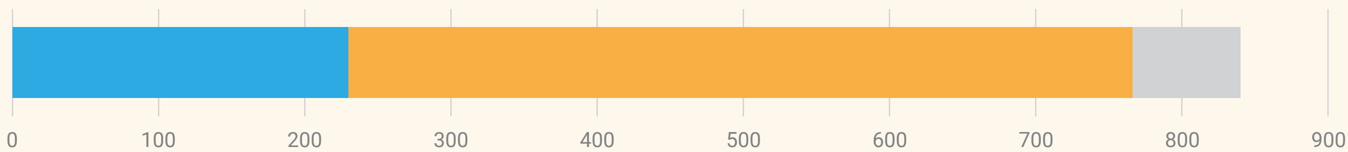
FRASERS GROUP, PREVIOUSLY SPORTS DIRECT

We voted against the remuneration policy and report. In FY2021, while the company took assistance from the government to pay furloughed staff and accessing business rates relief, the CFO was granted a significant salary increase and was paid a bonus which was not based on pre-set performance conditions. Maximum opportunity for executive directors under the Executive Share Scheme has a market value of GBP 100 million. There was notable opposition to the remuneration policy and report at the AGM, 13.7% and 15.1% respectively.

SSE LIMITED (UTILITY COMPANY)

We voted for the company's Climate Change Action Plan. By tabling this Plan at the AGM, SSE is one of the early adopters of an advisory 'say-on-climate'. The Board also intends to provide shareholders with an annual vote on its climate strategy. The climate strategy aims to deliver a Paris-aligned emissions reduction pathway over the short, medium and long term. We have some concerns regarding the short-term emissions reduction targets to 2025, but the company commits to regularly update interim emissions reduction targets based on latest scientific developments.

ENGAGEMENT ACTIVITY DURING THE QUARTER

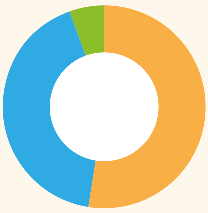


The total number of engagements cover all live engagements undertaken directly, in collaboration, and via our Stewardship Provider, also engagements that did not have activity during the quarter but are ongoing. Engagement activity relates to any interaction with a company, both specific to engagement objectives and to ad-hoc issues. Progress is counted relative to specific engagement objectives. There was some or full achievement of 220 engagement objectives.

- Progress
- Activity
- No Activity

GLOBAL VOTING

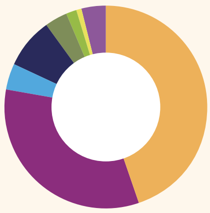
We voted at **353** meetings (**3,781** resolutions) over the last quarter.



- Total meetings in favour **53.8%**
- Meeting against (or against AND abstain) **42.5%**
- Meetings with management by exception **3.7%**

GLOBAL VOTING

We voted against or abstained **439** resolutions over the last quarter.



- Board structure **45.1%**
- Remuneration **33.0%**
- Shareholder resolution **4.1%**
- Capital structure and dividends **8.2%**
- Amend articles **3.6%**
- Audit and accounts **1.8%**
- Poison pill/Anti-takeover device **0.2%**
- Other **3.9%**

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. While the bulk of our engagement effort is centred around these themes, we also regularly cover other key ESG issues such as fair remuneration, board composition, and human rights. We have included one such example in this update.

Our Stewardship Themes over the current three-year period (2020 – 23) are:

- Climate change
- Plastic
- Fair tax payment and tax transparency
- Technology and disruptive industries

This quarter our engagement set[1] comprised 440 companies. There was engagement activity on 767 engagement issues and objectives[2]. There was achievement of some or all specific engagement objectives on 229 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.

CLIMATE CHANGE ENGAGEMENTS

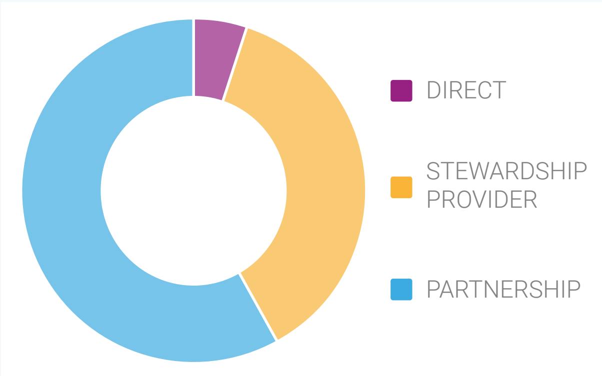
This quarter, our climate change engagement set comprised 269 companies with 326 engagements issues[3]. There was engagement activity on 295 engagement issues and achievement of some or all specific engagement objectives on 136 occasions.

In dialogue with senior management of a **utility company** we provided views on the company's draft climate transition plan. The company falls under the scope of ClimateAction100+ and LGPS Central is a co-lead alongside EOS at Federated Hermes for this engagement. The company is very receptive to investor views and we were pleased to see a clear net-zero by 2050 commitment accompanied by short- and medium-term targets in the transition plan. We also welcome their clear ambition to help customers decarbonise, e.g., through decarbonisation of heat. We explained our expectations relating to the indicators of the CA100+ benchmark and pointed to areas where the company would need to make further commitments to align with the benchmark. This includes short-term target setting (up to 2025) that substantiates a clear Net-Zero pathway this decade. We would also like to see a commitment from the company to decarbonise its electric utility power generation by 2035. The company is enhancing transparency on climate policy lobbying in the climate transition plan, which we welcome. We encourage further transparency around policy barriers so that investors can support specific policy action that will help achieve net-zero for the company and its sector.

Through Climate Action 100+ we have continued engagement with a **diversified mining company** on their efforts to reduce scope 3[4] GHG emissions and to develop a scope 3 emissions reduction programme. For this company, scope 3 emissions represent 96% of its total emissions and is clearly the critical element to address. The company has presented initial actions to support the reduction of their scope 3 emissions. However, CA100+ would like to see this translate into measurable goals and will continue working with the company to develop quantitative targets. The company has signalled that it will not set numeric targets on Scope 3 emissions unless it is underpinned by a reasonable basis. The company is currently prepared to do this for 30% of its Scope 3 emissions as there is no reasonable basis to do it for emissions generated by steelmaking now.

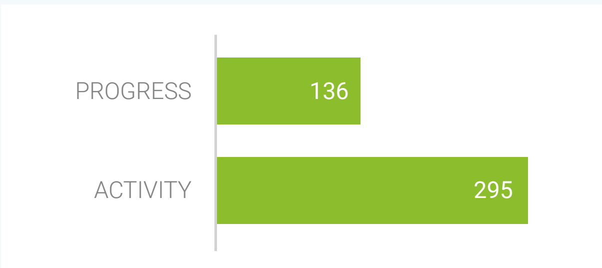
Together with more than 100 investors and coordinated by ShareAction, LGPS Central co-signed letters to **68 banks** setting out expectations for Paris-alignment and protection and restoration of biodiversity. Banks play a critical role in provision of finance to support transition to a low-carbon economy. While we have previously asked banks to set targets in line with Paris, this letter specifically addresses biodiversity, alongside climate, as an area that banks are expected to assess in their risk management and in their dialogue with clients. Encouragingly, 45 banks have responded to the letter and dialogue is ongoing with a selection of these banks. Our first ask is for banks to publish climate targets covering all relevant financial services that are aligned with global efforts to hold temperature rise below 1.5 degrees Celsius. 19 confirmed they will publish new climate targets ahead of COP26, the end of the year, and/or their 2022 AGM. This includes BBVA, BNP Paribas, Citigroup, and Standard Chartered. A critical next step for the investor group is to assess whether these targets puts banks on a clear path to net zero.

ENGAGEMENT VOLUME BY TYPE



- 326 engagements in progress
- Majority of engagements undertaken via CA100+
- Dialogue with 67 banks on climate and biodiversity

ENGAGEMENT VOLUME BY OUTCOME



[3] There can be more than one climate-related engagement issue per company.
[4] Scope 3 emissions are a consequence of the activities of the company but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of products and services.

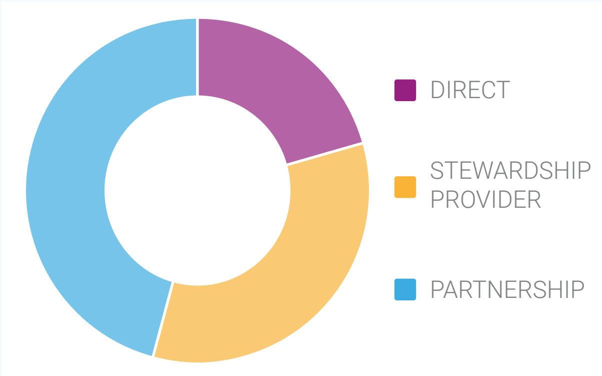
PLASTIC ENGAGEMENTS

This quarter our single-use plastics engagement set comprised 37 companies with 39 engagement issues[5]. There was engagement activity on 24 engagements and achievement of some or all engagement objectives on 19 occasions.

Billions of plastic pellets or "nurdles" make their way into the natural environment each year, which poses a serious threat to the ecosystem and potentially also a health threat to people. LGPSC has collaborated with the Investor Forum, peer investors and other stakeholders including Marine Scotland, the British Plastics Federation and the British Standards Institute to sponsor and create the first **industry specification to prevent plastic pellet pollution**. The new specification, a so-called Publicly Available Specification (PAS), was formally launched during the quarter after 9 months of preparation by an expert group. We consider the publication of this standard as positive progress which will start to direct corporate behaviour. We intend to use the plastic pellet PAS as a direct reference in engagement with relevant industries, for example in ongoing engagements with packaging companies and plastics manufacturers. Another interesting industry development is businesses and investors, including LGPS Central, calling for **UN treaty on plastic pollution** (www.plasticpollutiontreaty.org). The aim of a treaty would be 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.

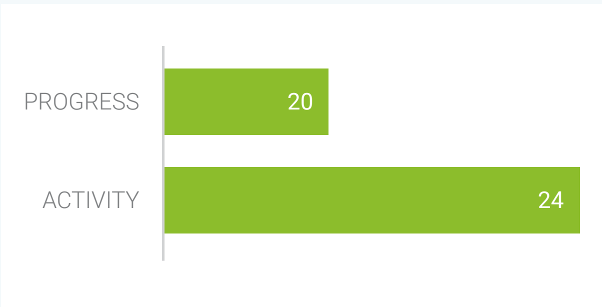
Through a **microplastics engagement project** led by First Sentier Investors, we seek to encourage domestic and commercial washing machine manufacturers to add filter technology as standard to all new washing machines produced by the end of 2023. This is to help combat microplastics pollution to the environment, a problem caused in large proportion by synthetic textiles which release microfibres (a type of microplastic) when washed. A first round of engagements with 13 target companies[6] have been concluded by the investor group this year. At the AGM of Sainsbury's and through subsequent dialogue with the investor group, the company is taking positive steps to engage its washing machine manufacturers and aims to introduce products with microplastic filters within the next 18 months. We also welcome recommendations from the "All Party Parliamentary Group on Microplastics" issued this quarter, which could be influential in determining the direction of government policy in this area. The key recommendation in relation to microfiber filtration is to: *"Introduce legislation and standards which require microfibre filters to be fitted into all new domestic and commercial washing machines from 2025."*

ENGAGEMENT VOLUME BY TYPE



- 39 engagements during the quarter
- Formal launch of Plastic Pellet prevention standard
- Good progress for micro-plastics engagement targeting washing machine manufacturers

ENGAGEMENT VOLUME BY OUTCOME



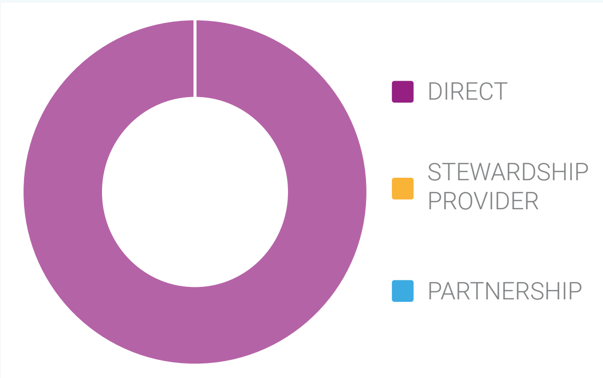
[5] There can be more than one plastic-related engagement issue per company.
[6] Arcelic, Dixons Carphone, Electrolux, Haier Group, Hitachi, Koc Holdings, LG Electronics, Midea, Panasonic, Sainsbury's, Samsung, Sharp and Whirlpool

FAIR TAX PAYMENT AND TAX TRANSPARENCY ENGAGEMENTS

This quarter, our tax transparency engagement set comprised seven companies with seven engagement issues. There was engagement activity on three engagements and achievement of some engagement objectives in these cases.

We have continued collaboration with four fellow European investors in engaging a selection of companies across technology, telecommunication, finance and mining sectors. In correspondence with an **Anglo-Irish consumer credit reporting company**, we have asked to discuss its approach to tax, tax policy, tax strategy and reporting on corporate value generation across countries where it operates. The company's two-page Tax Policy is publicly available. It is very high level and in essence says that the company will aim to comply with regulation. However, the policy does not tie tax in with broader sustainability or hint at a responsibility to go above and beyond compliance and paying your fair share of tax, which we would consider best practice. The company has significant business operations in the US, Brazil and the UK and emphasises that it pays taxes due in every country where it operates. We aim to set up a meeting with the company during Q4 to discuss its use of foreign jurisdictions with lower tax rates, being headquartered in Ireland and incorporated in Jersey. We would also like to see the company share tax-relevant Country-by-Country Reporting (CBCR) with shareholders so that we can make a meaningful assessment of their tax behaviour. Over the next period we are reaching out to all six other companies that have been in scope of this engagement since 2020, to push for better tax disclosure and to tease out companies' preparedness for a global minimum tax rate that has now been agreed by the G7 Group.

ENGAGEMENT VOLUME BY TYPE



- Seven engagements during the quarter
- Collaboration with peer European investors to engage a selection of companies across vulnerable sectors continues

ENGAGEMENT VOLUME BY OUTCOME

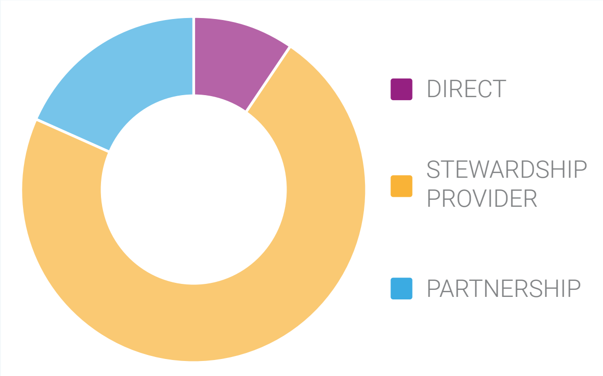
TECHNOLOGY AND DISRUPTIVE INDUSTRIES

This quarter our technology and disruptive industries engagement set comprised 17 companies with 33 engagements issues. There was engagement activity on 32 engagement issues and achievement of some or all engagement objectives on 10 occasions.

As part of an investor coalition led by the Council on Ethics to the Swedish National Pension Funds, we discussed human rights risks management with **Amazon**. The investor group shared a set of Investor Expectations with this and several other technology companies in December last year, and we were pleased to see the company taking steps to address these. The company has built out its Human Rights Program and has started carrying out human rights' due diligence across its operations. The due diligence strategy is based on the UN Guiding Principles on Business and Human Rights. A Human Rights Impact Assessment has recently been carried out, to assess the raw and recovered materials for digital devices including manufacture, assembly, and return of those products. The scope of the assessment was four supply chain categories: Tier 1 and 2 manufacturing, reverse logistics, minerals and metals, and plastics and synthetics. Challenges remain throughout the electronics industry on issues like low or unequal wages and absence of effective grievance mechanisms for workers. Equally, tracing is challenging for instance on the sourcing of plastics and synthetics supply chain, or the chemicals used in plastic production. The results of this analysis will be incorporated into the company's overall business approach. We were encouraged to hear that the company welcomes continued investor dialogue on these issues and is looking to deepen dialogue with external stakeholders more generally.

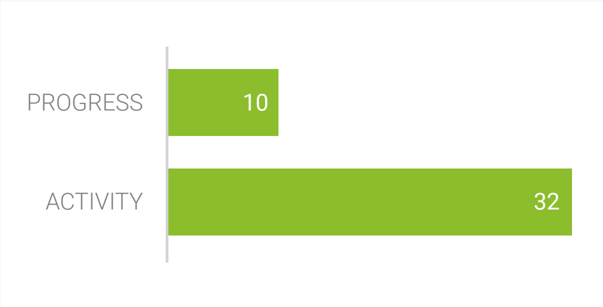
We have over the last two and a half years engaged the world's three largest social media companies, Facebook, Twitter and Alphabet, specifically on the issue of social media content moderation. This engagement has been led by the Guardians of New Zealand Superannuation (Guardians) alongside the New Zealand government-owned investors and supported by more than 100 investors globally. This project, which is now drawn to a close having seen some significant progress, adds to growing investor scrutiny on the critically important role of social and traditional media in our societies. Without a doubt, the platforms have all moved to strengthen controls to prevent the live streaming and distribution of objectional content, for instance with the help of AI the companies appear more effective at capturing contextual content such as hate speech. The issue of content moderation is becoming one of the defining legal and socio-political issues of our time. It deserves its own body of specialist expertise stretching across a range of academia, law and policy. Our expectation is that these companies carry out their duty of care with absolute resolve, and while we've seen some good progress throughout our engagement – the goal posts keep moving and the companies need to remain focused on managing this. The engagement project received Stewardship Initiative of the Year award at the UN PRI 2021 Awards for its success in engaging these multinational giants by building a large collaboration of investors, escalating the engagement and influencing progress.

ENGAGEMENT VOLUME BY TYPE



- 33 engagements in progress
- Human Rights expectations for technology companies are getting traction
- Engagement with social media companies has seen tangible progress

ENGAGEMENT VOLUME BY OUTCOME



Examples of engagement outside of stewardship themes

DIVERSITY

Together with fellow 30% Investor Club members, and led by Royal London Asset Management, we continued engagement with a **Japanese bank** to encourage better diversity and to seek more disclosure on diversity-related policies. We held a meeting with senior management at the company during the quarter, the third meeting over the last 15 months. Japanese boards have one of the lowest proportions of female representation in major markets. A general hurdle to achieving greater diversity at board level is the fact that historically, Japanese women in their 40ies and 50ies gave up their careers to raise families. It is therefore particularly welcome that the company recently appointed a woman to the Board who had been on the management team since 2019, and with the company since 1987. This brings female representation at the Board to 13%. This move does not seem to have entailed broader changes to the Board's nomination policies and the low number of female executives remains an obstacle to greater diversity. An objective for this engagement was to encourage the company to join the 30% Club, and we were pleased to hear that this happened in April this year. While we would like the company to set more ambitious targets for diversity at all levels of the organisation, we note that the company aims to achieve increase in diversity by looking at recruitment and supporting women in career positions from early on.

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.

While this quarter has far fewer AGMs than high voting season, which for key markets fall within April – June, we have seen some more companies come forward with climate transition plans that are presented to shareholders for advisory voting. More than 20 companies (mostly European) have so far put a transition plan to the vote. All have passed with some opposition. We welcome this trend but view it as critical that companies report on progress against transition plans and that this progress is assessed against credible benchmarks, such as the newly established Climate Action 100+ Benchmark. Public assessments of companies' progress against the benchmark were disclosed in March 2021 and this helps set a bar for what a good transition plan should cover. The reality right now is that no company within CA100+ is fully compliant with the benchmark. By upholding this standard, we believe we can see more and better efforts from companies to contribute to real-world decarbonisation. Discussions are ongoing between investors and companies within specific sectors, e.g., oil & gas and mining companies, on the detail of Net-Zero alignment and what that entails.

COMMENTARY

Between July - September, we:

- Voted at 353 meetings (3,781 resolutions) globally
- Opposed one or more resolutions at 150 meetings
- Voted with management by exception at 13 meetings
- Supported management on all resolutions at the remaining 190 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.

EXAMPLES OF VOTING DECISIONS

We voted against the election of Director Joseph C. Tsai at **Alibaba Group Holding Limited (retailing company)** who has a strategic ownership stake of 0.7% in the company and as such is considered not to be independent. Tsai chairs the nomination and governance committee and is a member of the compensation committee. We take the view that impartial monitoring of these critical functions require independence. A key engagement objective with Alibaba has been to get Board independence to 50%. With this proposed Board, Alibaba has finally lifted its independence from 45% to 50% which is welcome. While not independent, we chose to vote with management to re-elect Director Michael Evans and hope that through collaborative engagement, Alibaba will be encouraged to take Board independence beyond 50% in future. Our external stewardship provider, EOS at Federated Hermes, will continue engagement with the company on board composition going forward both relating to independence and diversity. Although Director Tsai was re-elected by the Alibaba AGM, a clear opposition was voiced by 26.4 % of shareholders who voted against.

At the AGM of **Frasers Group, previously Sports Direct**, we voted against the remuneration policy and report. The company furloughed a significant proportion of its workforce at various times in FY2021 due to the health pandemic. To assist payments to furloughed staff, the Company utilised Government support through the Coronavirus Job Retention Scheme (CJRS) and also accessed business rates relief. In FY2021, the CFO was granted a significant salary increase and was paid a bonus which was not based on pre-set performance conditions. We are not convinced that the salary increase and bonus award are appropriate in the context of the Company receiving significant Government support. The Company is seeking approval for the Executive Share Scheme under which Executive Directors may be granted significant awards (maximum opportunity has a market value of GBP 100 million) based on meeting share price targets for a sustained period over a four-year period. We do not view this Scheme to be in line with LGPS Central Voting Principles. The remuneration policy and report were approved by the AGM, but with notable opposition from shareholders, 13.7% and 15.1% respectively. While previous engagement by LAPFF and others has seen some movement around the CEO, Mike Ashley, e.g., through having a worker representative on the Board, his controlling share ownership is an obstacle to investor concerns being heard. The incoming CEO, Mr Murray, is engaged to be married to Mr Ashley's daughter and our concerns around lack of independence are heightened as a result.

At the AGM of **AGL Energy Limited (Australian utility company)** we voted for the disclosure of carbon emission targets as put forward in a shareholder proposal. Additional information regarding the company's efforts to reduce its carbon footprint and align its operations with Paris Agreement goals would allow investors to better understand how the company is managing its transition to a low carbon economy and climate change related risks. This is particularly relevant in light of AGL's intention to split its operations into two companies via a proposed demerger. The company announced in July 2021 that shareholders will be provided with an opportunity to have their say on the climate reporting for both proposed demerged entities, Accel Energy and AGL Australia, at the first AGM for each organization. At this time, it is anticipated that the boards of the two entities will provide disclosure of carbon emission strategies and targets.

At the AGM of **Ashtead Group Plc (capital goods company)** we voted against the remuneration policy and report. This is due to concerns over the large salary increase of 19% to GBP 560,000 received by the CFO on the back of increased variable pay opportunities in FY2022. Additionally, target-setting under the annual bonus scheme could be more robust. Furthermore, Ashtead Group is planning to make one-off Strategic Plan awards to Executive Directors in FY2022, in addition to any normal Performance Share Plan awards. The total quantum of awards in terms of variable pay (portion of compensation determined by performance) is significant, increasing the CFO's total variable pay package by c. 90% in comparison to what was available to him in FY2021. As per LGPS Central Voting Principles, remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals most suited to managing the company. We are not convinced that the rationale provided by Ashtead justifies this pay opportunity. Although the remuneration policy and report passed at the AGM, a strong opposition was voiced by 36.0% and 39.3% of shareholders respectively.

SSE Limited (utility company) tabled a Climate Change Action Plan at the AGM, which we voted for. This move makes SSE one of the early adopters of an advisory 'say-on-climate'. The Board also intends to provide shareholders with an annual vote on its climate strategy. Overall, the Company's net zero transition report appears to include appropriate climate targets and a suitable governance framework. Although a complete schedule of comprehensive short, medium and long-term emissions reduction targets has not been provided, the Company has set a number of medium-term objectives, which have been approved by the Science Based Targets Initiative (SBTi). This is noted positively as an industry-leading practice. A clear pathway for the decarbonisation of heat for both households and business is yet to emerge. However, SSE expects that a combination of solutions will be found including, district heating, some non-fossil fuel gas, fuel switching from gas to electricity and potentially hydrogen generated heat in the longer term. In support of this transition, SSE Business Energy works closely with its customers, offering a range of green gas products with options of green certification and 100% backed by Renewable Gas Guarantees of Origin. Overall, we view SSE's efforts as forward-leaning in terms of managing climate risk and the commitments listed above create the right level of "checks and balances" for a meaningful transition to occur in a transparent manner. SSE is covered by the Climate Action 100+ engagement project, of which LGPSC is an active participant.

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central actively contributes to the following investor groups

All information is prepared as of **05.11.2021**.

This document is intended for **PROFESSIONAL CLIENTS** only.

LGPS Central Limited is authorised and regulated by the Financial Conduct Authority.

Registered in England. Registered No: 10425159.

Registered Office: Mander House, Mander Centre, Wolverhampton, WV1 3NB