

Agenda Item No. 4 (b)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

10 June 2020

Report of the Director of Finance & ICT

STEWARDSHIP REPORT

1 Purpose of the Report

To provide the Pensions & Investments Committee with an overview of the stewardship activity carried out by Derbyshire Pension Fund's (the Fund) external investment managers in the quarter ended 31 March 2020.

2 Information and Analysis

This report attaches the following two reports to ensure that the Pensions & Investments Committee is aware of the engagement activity being carried out by LGIM and by LGPS Central Limited (the Fund's pooling company):

- Q1 2020 Legal & General Investment Management (LGIM) ESG Impact Report (Appendix 1)
- Q4 2019/20 LGPS Central Limited Quarterly Stewardship Report (Appendix 2).

LGIM manages around £1bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; and Emerging Market Equities. It is expected that LGPS Central Limited will manage a growing proportion of the Fund's assets going forward as part of the LGPS pooling project.

These two reports provide an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter.

3 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder considerations.

4 Officer's Recommendation

That Committee notes the stewardship activity of LGIM & LGPS Central Limited.

PETER HANDFORD

Director of Finance & ICT



ESG impact report

Q1 2020

Active ownership means using our scale and influence to bring about real, positive change to create sustainable investor value.

Our mission

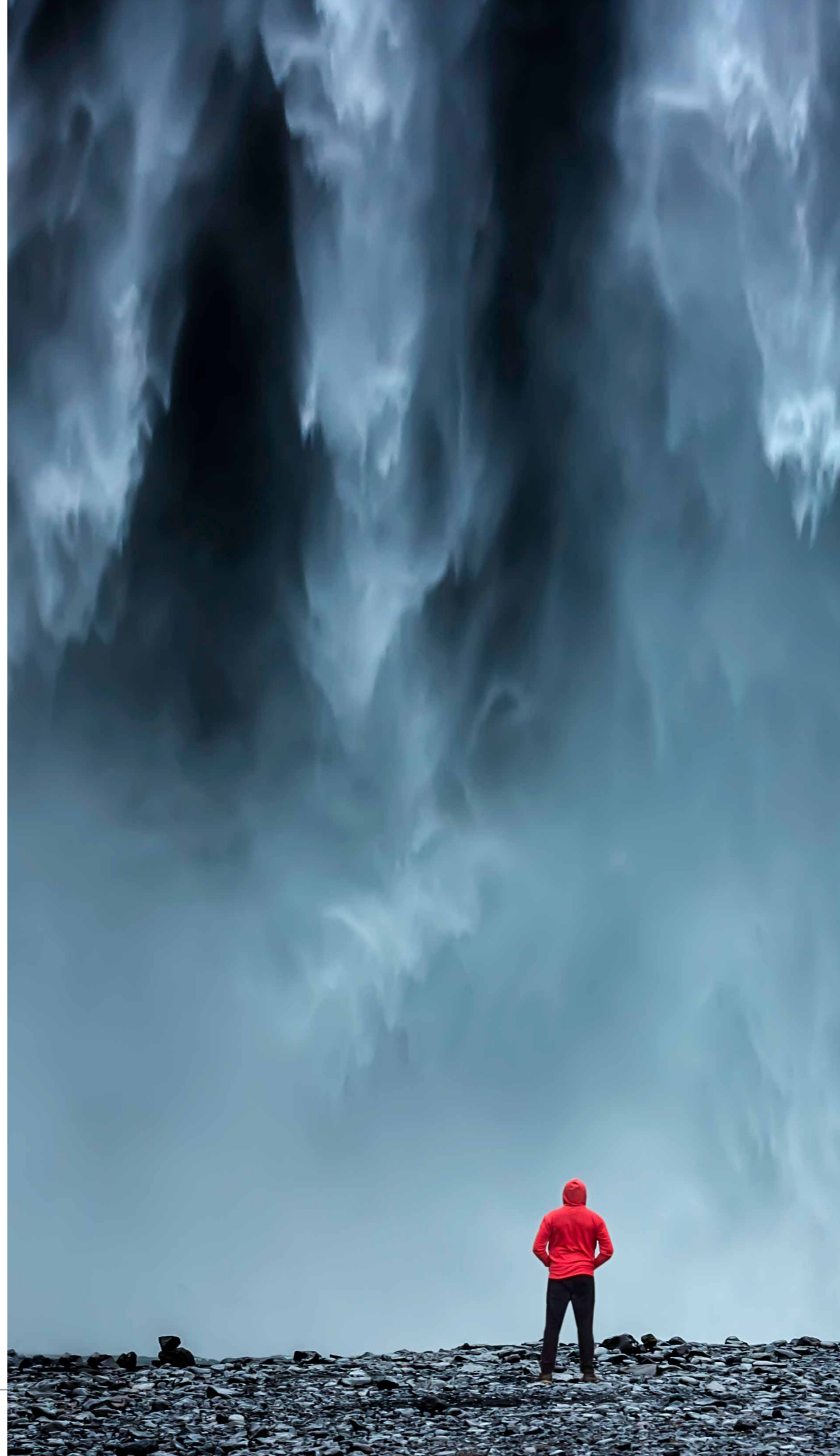
To use our influence to ensure that:

1

Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking.

2

Markets and regulators create an environment in which good management of ESG factors is valued and supported.



Our focus

To use our influence to ensure that:

Holding boards to account

To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks and benefit from emerging opportunities.

We seek to protect and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to prevent market behaviour that destroys long-term value creation.

LGIM wants to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking.

We engage directly and collaboratively with companies to highlight key challenges and opportunities, and to support strategies that can deliver long-term success.

Promoting market resilience

As a long-term investor for our clients, it is essential that markets are able to generate sustainable value. In doing so, companies should become more resilient to change and therefore benefit the whole market.

We use our scale and influence to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. This includes working with key decision-makers such as governments and regulators, and collaborating with asset owners to bring about positive change.

Action and impact

LGIM’s statement to investee companies

Legal & General Investment Management’s (LGIM) Investment Stewardship team expressed, in a private letter, our support to all the companies we are a long-term investor in.

The COVID-19 (coronavirus) has strained our social and financial systems, and we encouraged companies to focus on shareholders and in addition their wider stakeholders, especially their employees, supply-chain relationships, the environment and the communities in which they operate.

We also indicated we would stand behind those companies that may be asked to temporarily refocus their efforts to support government responses and manufacture new products, even if this means no financial gain for the individual company.

On capital allocation matters, we expect boards to proceed in a manner that will ensure confidence, the long-term sustainability of the company and to support its stakeholders.

In relation to executive remuneration, we encourage boards to demonstrate restraint and discretion.

Lastly, as companies globally are meant to hold their annual shareholder meetings at this time of year, we expressed our trust in boards to make the appropriate judgements and demonstrate a willingness to ensure all shareholders, including retail shareholders, have the ability to be heard by the board, as they would do under normal circumstances. We also indicated our exceptional support for holding virtual shareholder meetings to limit disruption.

LGIM rated as a leader in responsible investment

An independent report¹ released this quarter ranked LGIM third out of the world’s 75 largest asset managers for our approach to responsible investment. One of only five worldwide to receive an A rating, LGIM was the highest rated among UK, index and the 15 largest global asset managers.

1. <https://shareaction.org/research-resources/point-of-no-returns/>

Top-rated global asset managers for responsible investment

Fund	Strategy	Rank	Rating
Robeco	Active	1	A
BNP Paribas Asset Management	Active	2	A
Legal & General Investment Management	Passive	3	A
APG Asset Management	Active	4	A
Aviva Investors	Active	5	A

Source: Shareaction, 2020

Pensions and investment watchdog ShareAction ranked LGIM’s firm-wide capabilities, from our own governance and investment offering, to our engagement and voting record on environmental and social issues (climate change, biodiversity, human rights).

Their review concluded that: “Legal & General Investment Management (LGIM), a predominantly passive investor, shows leading performance (ranked in the A category). This demonstrates that passive investors can have a leading approach to responsible investment.” (ShareAction)

Advocating for diversity through collaboration

We continue to work with other global investors to push for better representation and transparency on diversity policies in the US. During the quarter, our coalition of investors sent letters to 18 US companies with less than 20% women on the board, and where board tenure for some non-executive directors is above average. Our requests remain consistent. They are:

- to disclose skill sets in the proxy statement;
- to affirm commitment to diversity in governance policies;
- to incorporate procedures by which diverse candidates are identified;

- and to attest that director searches will consider suitable candidates beyond the executive suite.

As we receive responses, we shall engage further with these companies.

In the UK, the collaborative 30% Club UK Investor Group, which Clare Payn, Senior ESG & Diversity Manager chairs, sent out letters to over 120 companies that have either: only one woman on the board for two years; less than 30% women on the board; or an all-male executive committee. The purpose of the letter is to remind the companies that we are looking to see a minimum of 30% women on the board, and that we also expect 30% representation on executive committees, by the end of 2020.

Podcasts

We are committed to helping our clients understand more about ESG considerations for their portfolios. Our Investment Stewardship team produced two podcasts this quarter.

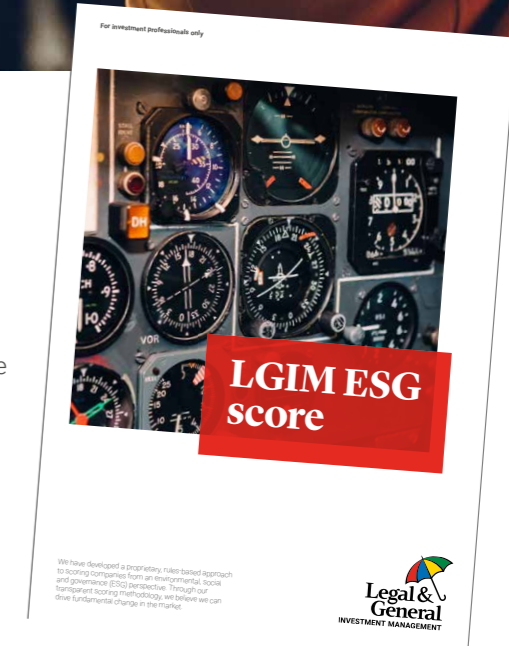
In the podcast ‘Is the new Stewardship Code 2020 the greenwashing cure we’ve all been waiting for?’², Jeannette Andrews, Senior Global Investment Stewardship Manager explains how the ambitious update to the UK Stewardship Code goes a long way to putting an end to greenwashing, and how it will become a lot more meaningful for an asset manager to be a signatory of the new code.

In the podcast ‘Why corporate culture matters’, Clare Payn, Senior Global ESG & Diversity Manager, explains why measuring a company’s culture is so important for investors.

LGIM ESG Score guide

A comprehensive guide to LGIM’s proprietary ESG scores is now available on our website³. This guide sets out the methodology behind our scoring system, and includes the reasons why LGIM selected the 28 indicators which compose these scores. This level of transparency is aimed at helping our investee companies and all other interested stakeholders understand what the minimum standards in ESG are globally and how they can improve over time.

2. <https://www.lgim.com/uk/en/insights/podcast/>
 3. <https://www.lgim.com/uk/en/capabilities/corporate-governance/assessing-companies-esg/>



2020 AGM season – LGIM’s strengthened policies

This quarter, LGIM’s Investment Stewardship team reviewed our *global and regional policies*⁴ to ensure they remain aligned with the various evolving regulations, best practice and client feedback. We incorporated many of the suggestions from our Stakeholder Event held in November 2019, such as escalating voting sanctions against compensation committee chairs in the North American market, and also expecting more clarity from companies around audit quality and oversight of culture. We highlight below the main changes made to our policies for 2020:

Escalating our position on combined chair and CEO roles

As we strengthened our voting policies, we decided to systematically escalate *our position on combined board chair and CEO functions*⁵. We announced our decision to vote against all companies where the board chair also serves as CEO from 2020 (excluding Japan, due to the unique features of this particular market).

Case study

Company name: DTE Energy*			
Sector: Utilities	Market cap: USD 19.15bn	Country: United States	ESG score: 39 (-)**

What did LGIM do? We have had regular engagement calls with the company over the last three years, and have encouraged the company to put a lead independent director in place, as well as to separate the role of CEO and board chair in order to increase the independence and risk oversight at board level. During our most recent call with the company we learnt that they appointed a lead independent director in 2018 and had separated their CEO and board chair role in 2019. As our new voting policy comes into place this year, where we shall be voting against all combined CEO and board chairs in the US, this is a timely and positive change

*For illustrative purposes only. ** LGIM’s ESG scores capture minimum standards on environmental, social and governance metrics – as well as companies’ overall levels of transparency. Scores shown as at end of Q3 2019 (compared to end of Q3 2018). LGIM’s scores for over 2000 listed companies, as well as a guide to our methodology can be found at: <https://www.lgim.com/uk/en/capabilities/corporategovernance/assessing-companies-esg/>

4. https://documentlibrary.lgim.com/documentlibrary/library_55458.html
 5. <https://www.lgim.com/uk/en/capabilities/corporate-governance/influencing-the-debate/>
 6. Spencer Stuart Board Index 2019 - United States
 7. www.spencerstuart.com/research-and-insight/spain-board-index
 8. www.spencerstuart.com/research-and-insight/france-board-index

We believe that there is inherently a conflict when a single individual is tasked with exercising management duties and challenging management simultaneously. The separation of board chair and CEO roles provides a better balance of authority and responsibility, and aligns with the long-term interests of companies and investors, and ultimately also our clients.

LGIM has been engaging on this topic for many years in markets which allow a combination of the two functions. In 2018, we led an engagement campaign on the topic with 14 CAC 40 (French) companies and three IBEX 35 (Spanish) companies. In the North American market, we first escalated our position by putting in place a policy to systematically vote in favour of shareholder resolutions calling for an independent board chair, and have been voting against the chair of the nomination committee when roles have been recombined without prior shareholder approval.

We believe this new voting policy will have particular impact in the United States, France and Spain where combined roles are still common. Despite positive momentum in the United States, 47% of S&P 500 boards still have combined board chair and CEO roles⁶. In Spain 20% of IBEX 35 companies⁷ and in France 53%⁸ of CAC 40 companies have combined roles.

Escalation of our position on the issue of female representation on Japanese boards

Following a campaign on gender diversity in Japan (2019) we decided to escalate our voting policy. We are now voting against all companies in the large-cap TOPIX 100 index that do not have at least one woman on their board¹⁰. Given the importance of diversity as a strategic business issue, we intend to expand the scope of our policy to a greater number of Japanese companies over time, as we note that there are 164 all-male boards in the TOPIX 500.

In a recent blog *‘Japan can’t be an island on board diversity’*¹¹, Aina Fukuda, Japan ESG Manager, and Clare Payn, Senior Global ESG & Diversity Manager, explain how we are pushing companies in all regions to make progress on diversity while highlighting the situation and developments in Japan.



While we will continue to engage with companies to ensure top management recognise diversity as a strategic business issue, we expect companies to set aspirational targets and promote diversity at the hiring stage as well as across each level of the workforce. For Japan in particular, we have long argued the importance for companies to promote diversity at the senior management (‘bucho’ or division heads) level. We believe this is needed to build a diversified talent pool that would enable companies to find qualified women to serve at the highest level of the company in the future.

We have seen some Japanese companies take positive steps since this announcement. This includes **Recruit Holdings** who informed us that they have moved to select a female candidate to serve on the board; a decision they said took into account the voice of their shareholders¹². With examples like this we are pleased that our voting policy strictures will need to be applied to fewer than the 22 companies originally anticipated.

10. This only includes board of directors, not kansayaku (or statutory auditors)
 11. <https://www.lgimblog.com/categories/esg-and-long-term-themes/japan-cannot-be-an-island-on-board-diversity/>
 12. The appointment will be subject to approval in the shareholders meeting in June

Additional main changes made to our global and regional policies

Global Principles

- We have expanded our discussion on employee representation and culture; asking companies to disclose how culture is measured and how it relates to business strategy
- As board effectiveness reviews are increasingly recognised as good practice among boards and investors globally, we have added more detail on our expectations on the topic
- Regarding the audit committee, we would also like to see all audit committee chairs globally have a financial background
- In relation to remuneration we encourage companies to set post-exit shareholding requirements which equal a significant portion of their shareholding guideline requirement



UK policy

- In our UK policy we expanded our expectations on employee engagement. We do not apply any voting sanctions on this topic, but use this discussion as a point of engagement
- In relation to audit, we expanded our policy and will now require that the audit chair specifically has financial expertise. We will vote against the chair’s



appointment if this is not the case. We have strengthened our requests for additional disclosure surrounding the audit itself to evidence audit quality

- On board independence, we have reiterated in this year's principles that we will commence voting against any chair of the board who has been a member of board for more than nine years from 2021

North America policy

- LGIM increased its expectations on gender diversity on the board by a vote¹³ against the largest 100 companies in the S&P500 and the S&P/TSX where there is less than 25% women on the board. We already announced we would strengthen this policy from 2021 to include all companies in the S&P 500 and the S&P/TSX. Our expectation is for all companies in this market to reach a minimum of 30% women on the board and at senior management level by 2023
- In relation to remuneration, we will expect North American companies to increase the level of performance-based long-term incentive pay over time from 50% as it is now to at least 65% by 2022



Japan policy

- On independence, we call for boards to be comprised of a minimum of one-third of independent directors and request that companies outline the steps they are taking to increase independence. Further, while director re-election in Japan generally takes place every two years we encourage annual re-elections
- When it comes to audit tenure, where shareholders have the opportunity to vote on the re-election of the audit firm, LGIM has lowered its threshold and we will vote against the appointment of any audit firm with a tenure of 30 years or more



13. Vote happening now – largest 100 S&P/TSX companies who have less than 25% women on board are being sanctioned

Sustainability engagements

Preventing stranded assets

Having long since been the most polluting fossil fuel, coal is now also the most expensive⁹. With over half of existing coal plants being more costly to run than to create new renewable sources of energy¹⁰, we are taking a stance against the construction of new coal plants which risk becoming unprofitable, 'stranded' assets:

- In Poland, we contributed to the successful efforts of environmental law firm ClientEarth in halting the construction of a major new coal plant¹¹ at Ostrołęka C; with our approach covered in local media¹²
- Alongside other major investors, we have written publicly to major energy companies Fortum¹³ and KEPCO¹⁴, raising our concerns with proposed new plants in Germany and Indonesia, respectively

Driving the debate

There is clear momentum for more ambitious climate action. Following in the footsteps of the UK, the EU now aims to reach net zero greenhouse gas emissions (GHG) by 2050. As proof that our policy engagement is being taken into account by senior policymakers, the European Commission president spoke publicly about a letter co-signed by LGIM in support of this goal.

We have similarly collaborated with other investors to encourage the Japanese government to strengthen its climate targets.¹⁶



To drive forward the climate debate, it is our ambition to focus on sectors and themes which might receive comparatively less attention. The carbon contribution of the energy sector is much discussed; agriculture, forestry and land less so. We regularly engage with food companies on their deforestation and agricultural practices, and have recently published a [blog](#)¹⁷ explaining why investors and policy-makers cannot afford to ignore the role of land use in successful decarbonisation.

9. <https://oilprice.com/Latest-Energy-News/World-News/Oil-Crash-Makes-Coal-The-Worlds-Most-Expensive-Fossil-Fuel.html>
 10. <https://carbontracker.org/reports/how-to-waste-over-half-a-trillion-dollars/>
 11. <https://www.clientearth.org/press/climate-victory-companies-put-polands-last-new-coal-plant-on-ice/>
 12. <http://300gospodarka.pl/news/2020/02/21/enea-i-energa-nie-odrobily-zadania-domowego-sama-zmiana-ostroleki-na-gaz-nie-wystarczy-mowi-gigant-inwestycyjny-z-londynu/>
 13. https://reclaimfinance.org/site/wp-content/uploads/2020/03/JointInvestorLetter_Fortum2020.pdf
 14. <https://www.aigcc.net/international-investors-kepco-should-reconsider-supporting-new-overseas-coal-power-plants/>
 15. <https://twitter.com/IIGCCnews/status/1220000101936123904?s=20>
 16. <https://www.aigcc.net/investors-encourage-japanese-government-to-lift-climate-ambition-with-revised-paris-pledge/>
 17. <https://www.lgimblog.com/categories/esg-and-long-term-themes/land-use-the-other-piece-of-the-decarbonisation-puzzle/>

Even in the oil and gas sector, we are often asked if we are encouraging investee companies to increase their investment in renewable energy. In a new [blog](#)¹⁷, we explained why we believe the sector should focus on shrinking production in line with international climate targets, and return growing amounts of capital to their investors. In our view, diversifying into cleantech is a risky strategy, and should be restricted to those areas where the industry's skills can add value (e.g. biofuels).

Zeroing in on 'net zero'

A notable development comes from oil major BP. Last year, LGIM co-filed its first shareholder resolution at the company, calling for more details on its climate strategy. Following our successful resolution, BP recently announced¹⁸ that it will become a 'net zero' company by 2050, planning to:

- have net zero emissions across operations;
- 'reduce and neutralise the carbon in the oil and gas we dig out of the ground'; and
- halve the emissions intensity of all sold energy (not all of which comes from BP's own production).

To meet these goals, BP has suggested that it will gradually reduce its oil and gas extraction, return some of the cash from existing projects back to investors, and gradually ramp up investment in low-carbon ventures. As the company notes, if every oil and gas company adopted a similar strategy, it would solve the emissions problem for the sector.

17. <https://www.lgimblog.com/categories/markets-and-economics/commodities/why-the-oil-sector-shouldn-t-reinvent-itself-through-renewables/>
 18. <https://www.bp.com/en/global/corporate/news-and-insights/speeches/reimagining-energy-reinventing-bp.html>
 19. <https://www.lgimblog.com/categories/esg-and-long-term-themes/when-red-herrings-turn-green/>
 20. <https://business.edf.org/insights/hitting-the-mark-improving-the-credibility-of-industry-methane-data/>
 21. <https://www.bloomberg.com/news/articles/2020-02-06/a-1-4-trillion-asset-manager-is-zeroing-in-on-methane-leaks>
 22. https://www.legalandgeneralgroup.com/media/17720/lg_tcfd_100320-finalpdf-with-link-2-pdf-with-link.pdf
 23. <https://oneplanetstf.org/>

As discussed in a separate [blog](#)¹⁹, we are encouraged by a growing number of high-carbon companies setting net zero targets, and we believe the products of the oil and gas industry can still play a role to play for decades amid the energy transition. However, for this to be true, the sector must urgently bring down all of its GHG, including methane – a GHG that is far more potent than carbon dioxide over the short term. We have collaborated with leading NGO Environmental Defense Fund on a guide presenting innovative ways to measure and report methane data²⁰. We expect investee companies to swiftly implement its recommendations²¹.

A \$1.4 Trillion Asset Manager Is Zeroing In on Methane Leaks

Finance for the future

Financial institutions, too, must step up on climate change. For the past two years, we have assisted our parent company – Legal & General – in better understanding and managing the climate risks in the assets on their balance sheet. L&G's second report in line with the best practice recommendations of the Task Force on Climate-related Financial Disclosures was published in early March²². It will be followed by a separate report from LGIM in the second half of the year. Going one step further, in January we formally joined the One Planet Asset Manager Initiative. Convened by the French President Emmanuel Macron, the initiative will support some of the largest sovereign wealth funds in the world in stepping up their approach to climate change and investing in the low-emissions economy²³.



Public policy update

Over the past quarter LGIM has been actively engaged, and closely following, a wide variety of policy and regulatory developments around the world.



United Kingdom

In July 2019 the UK Government's Green Finance Strategy (GFS) set an expectation that all large asset owners would be disclosing in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by 2022. Since then, LGIM has been part of an industry led group (the 'Pensions Climate Risk Industry Group') that has been working on producing guidance for Pension Trustees on managing and reporting climate related risks in line with TCFD. At the recent PLSA conference in Edinburgh the Department for Work and Pensions (DWP) launched the public [consultation](#)²⁴ on the guidance document, 'Aligning your pension scheme with the TCFD recommendations', and would encourage your input.

In line with the Government's GFS DWP has also proposed climate change-related amendments to the [Pension Scheme Bill](#)²⁵. The amendments will require schemes to report on their climate change strategies as well as how their investment support wider climate goals. LGIM will continue to monitor the Bill as it progresses through the legislative system.

Building on the above and in line with the GFS, in early March the Financial Conduct Authority (FCA) published a [consultation paper](#)²⁶ that outlines new climate-related disclosure requirements for premium listed firms. The new rule will require firms report in line with the TCFD or explain why not. LGIM will continue to engage with the FCA and will submit a response to this in due course. The FCA is also currently considering how best to enhance climate-related disclosures by regulated firms, including asset managers and life insurers, to ensure a coordinated approach.

LGIM has of course been engaging with government, regulators, indexes and industry associations on various ESG topics. A few examples include continuing to push for equal weighted voting rights (i.e. 'one-share-one-vote' principle); the development of useable responsible and sustainable investment frameworks (i.e. the Investment Associations Responsible Investment Framework); and pushing for consistent, comparable and material ESG disclosures by issuers, asset owners, and asset managers.



European Union

At a European Union level, we have continued to closely follow the important and in-depth technical work outlined in the Commission's action plan on sustainable finance. Specific areas of interest for us over the past few months have been

- the finalisation of the [EU Taxonomy](#)²⁷ - a clear and detailed EU classification system for sustainable activities. It creates a common language for all actors in the financial system and aims to stop 'greenwashing';
- the publication of the [regulation](#)²⁸ on Climate Change Benchmarks;
- the publication of the [regulation](#)²⁹ on sustainable-related disclosures in the financial sector;
- the proposal on the [European Climate Law](#)³⁰; and
- the Usability guide for the [EU green bond standard](#)³¹.

At the end of 2019 the [European Green Deal](#)³² was launched – an ambitious strategy that aims to transform the EU into a net-zero emissions economy by 2050, where economic growth is decoupled from resource use - an initiative we will continue to engage on. We will also be focusing on the EC's review of the [Non-Financial Reporting Directive](#)³³, open for consultation until June 2020.



United States

In the United States we have been working together with Legal & General Investment Management America (LGIMA) to engage with the Securities Exchange Commission (SEC) on several important points. Over the past months LGIM has been working with LGIMA as well as [The Council of Institutional Investors](#)³⁴ (CII) and the [UN PRI](#)³⁵ to voice concerns on two proposals on proxy voting advice. The SEC's proposed rules on shareholder proposals and proxy advisers would introduce a major impediment to ESG integration, which has traditionally depended on dedicated investors engaging with management and access to unbiased and efficient proxy voting advice. If adopted, these would be the most significant changes to the voting rights of shareholders in decades and in our view would severely jeopardise the interests of individual and institutional investors.



Japan

While we have been particularly proactive in the development of the UK 2020 [Stewardship Code](#)³⁵, we have also consistently shared our views on the Japan Stewardship Code with the Japan Financial Services Agency (FSA). We very much welcome the FSA

incorporating many of our recommendations. We continue to hold concerns with regards to the treatment of proxy advisors but greatly hope that the revised Code will encourage better stewardship activities and transparency across all market participants.

We have closely followed the [Amendment to the Foreign Exchange and Foreign Trade Act](#)³⁶. The amendment requires foreign investors to file a 'pre-acquisition notification' to the government if they intend to acquire 1% or more of a listed company in a restricted sector. We have been supportive of the efforts of the Asian Corporate Governance Association (ACGA) and the International Corporate Governance Network (ICGN) to seek clarification from the Japanese government on whether this applies to asset managers and have also met with the Japanese Ministry of Finance in this regard. Following a consultation, the final rules and regulations of the Act will be released in due course.



Hong Kong

In Hong Kong the LGIM team engaged with the Hang Seng Index regarding the eligibility of Weight Voting Right Companies. We continued to push for the 'One Share - One Vote' Principle.

24. <https://www.gov.uk/government/consultations/aligning-your-pension-scheme-with-the-tcf-recommendations>

25. <https://services.parliament.uk/bills/2019-21/pensionschemes.html>

26. <https://www.fca.org.uk/publications/consultation-papers/cp20-3-proposals-enhance-climate-related-disclosures-listed-issuers-and-clarification-existing>

27. https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en

28. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089>

29. <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

30. https://ec.europa.eu/info/sites/info/files/commission-proposal-regulation-european-climate-law-march-2020_en.pdf

31. https://ec.europa.eu/info/files/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en

32. https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

33. <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation>

34. <https://www.cii.org/correspondence>

35. <https://www.unpri.org/sustainable-markets/briefings-and-consultations>

36. <https://www.fsa.go.jp/en/refer/councils/stewardship/20200324.html>

37. https://www.mof.go.jp/english/international_policy/fdi/20191021.html

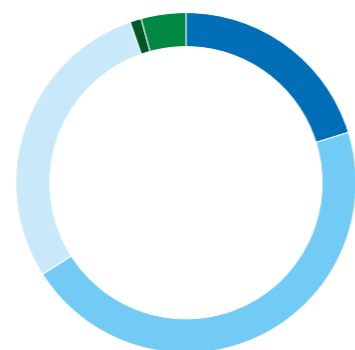
Regional updates

UK - Q1 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	58	0	0
Capitalisation	292	19	0
Directors Related	510	43	0
Non-Salary Compensation	120	27	0
Reorganisation and Mergers	17	1	0
Routine/Business	356	4	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	1	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1354	94	0
Total resolutions	1448		
No. AGMs	84		
No. EGMs	28		
No. of companies voted on	105		
No. of companies where voted against management on at least one resolution	48		
% of companies with at least one vote against	46%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover Related - 0
- Capitalisation - 19
- Directors Related - 43
- Non-Salary Compensation - 27
- Reorganisation and Mergers - 1
- Routine/Business - 4
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors Related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

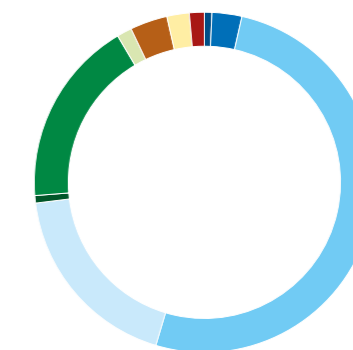
LGIM voted against at least one resolution at **46%** of UK companies over the quarter

Europe - Q1 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	0	1	0
Capitalisation	60	4	0
Directors Related	388	50	22
Non-Salary Compensation	57	26	0
Reorganisation and Mergers	7	1	0
Routine/Business	284	20	5
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate Governance	5	2	0
Shareholder Proposal - Directors Related	4	4	1
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	2	0	0
Shareholder Proposal - Other/Miscellaneous	1	3	0
Shareholder Proposal - Routine/Business	11	2	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	820	113	28
Total resolutions	961		
No. AGMs	47		
No. EGMs	8		
No. of companies voted on	53		
No. of companies where voted against management on at least one resolution	38		
% of companies with at least one vote against	72%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover Related - 1
- Capitalisation - 4
- Directors Related - 72
- Non-Salary Compensation - 26
- Reorganisation and Mergers - 1
- Routine/Business - 25
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 2
- Shareholder Proposal - Directors Related - 5
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 3
- Shareholder Proposal - Routine/Business - 2
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

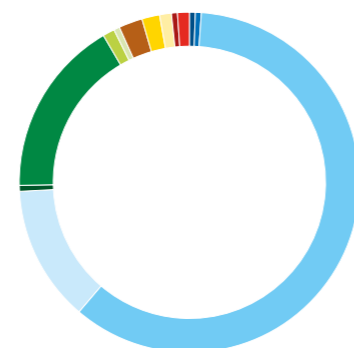
LGIM voted against at least one resolution at **72%** of European companies over the quarter

North America - Q1 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	6	1	0
Capitalisation	10	1	0
Directors Related	405	107	0
Non-Salary Compensation	49	23	0
Reorganisation and Mergers	6	1	0
Routine/Business	53	30	0
Shareholder Proposal - Compensation	1	2	0
Shareholder Proposal - Corporate Governance	1	1	0
Shareholder Proposal - Directors Related	2	4	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	3	0
Shareholder Proposal - Other/Miscellaneous	0	2	0
Shareholder Proposal - Routine/Business	0	1	0
Shareholder Proposal - Social/Human Rights	1	2	0
Shareholder Proposal - Social	2	0	0
Total	536	178	0
Total resolutions	714		
No. AGMs	51		
No. EGMs	10		
No. of companies voted on	60		
No. of companies where voted against management on at least one resolution	51		
% of companies with at least one vote against	85%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover Related - 1
- Capitalisation - 1
- Directors Related - 107
- Non-Salary Compensation - 23
- Reorganisation and Mergers - 1
- Routine/Business - 30
- Shareholder Proposal - Compensation - 2
- Shareholder Proposal - Corporate Governance - 1
- Shareholder Proposal - Directors Related - 4
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 3
- Shareholder Proposal - Other/Miscellaneous - 2
- Shareholder Proposal - Routine/Business - 1
- Shareholder Proposal - Social/Human Rights - 2
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

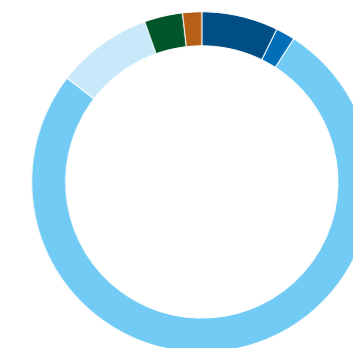
LGIM voted against at least one resolution at **85%** of North American companies over the quarter

Japan - Q1 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	0	4	0
Capitalisation	0	1	0
Directors Related	610	42	0
Non-Salary Compensation	32	5	0
Reorganisation and Mergers	23	2	0
Routine/Business	48	0	0
Shareholder Proposal - Compensation	2	0	0
Shareholder Proposal - Corporate Governance	1	0	0
Shareholder Proposal - Directors Related	1	1	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	717	55	0
Total resolutions	772		
No. AGMs	67		
No. EGMs	6		
No. of companies voted on	72		
No. of companies where voted against management on at least one resolution	37		
% of companies with at least one vote against	51%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover Related - 4
- Capitalisation - 1
- Directors Related - 42
- Non-Salary Compensation - 5
- Reorganisation and Mergers - 2
- Routine/Business - 0
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors Related - 1
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

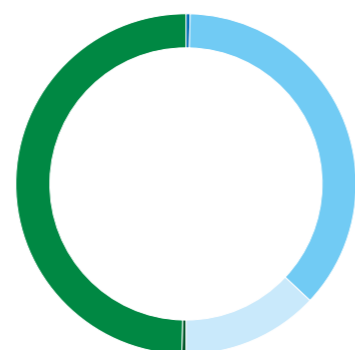
LGIM voted against at least one resolution at **51%** of Japanese companies over the quarter

Asia Pacific - Q1 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	1	0	0
Capitalisation	5	1	0
Directors Related	324	93	0
Non-Salary Compensation	135	33	0
Reorganisation and Mergers	18	1	0
Routine/Business	222	126	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	1	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	1	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	707	254	0
Total resolutions		961	
No. AGMs		129	
No. EGMs		13	
No. of companies voted on		139	
No. of companies where voted against management on at least one resolution		127	
% of companies with at least one vote against		91%	

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover Related - 0
- Capitalisation - 1
- Directors Related - 93
- Non-Salary Compensation - 33
- Reorganisation and Mergers - 1
- Routine/Business - 126
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors Related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

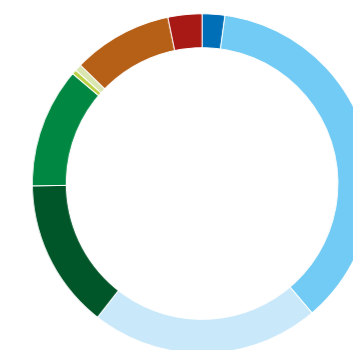
LGIM voted against at least one resolution at **91%** of Asia Pacific companies over the quarter

Emerging markets - Q1 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	2	0	0
Capitalisation	420	10	0
Directors Related	599	84	86
Non-Salary Compensation	45	101	0
Reorganisation and Mergers	266	66	0
Routine/Business	605	53	0
Shareholder Proposal - Compensation	0	2	0
Shareholder Proposal - Corporate Governance	0	3	0
Shareholder Proposal - Directors Related	6	44	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	2	15	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	1	0	0
Total	1946	378	86
Total resolutions		2410	
No. AGMs		87	
No. EGMs		201	
No. of companies voted on		278	
No. of companies where voted against management on at least one resolution		127	
% of companies with at least one vote against		46%	

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds. The abstentions were due to technical reasons which prevented us from voting. Where we have the option to vote, it is our policy to not abstain.

Votes against management



- Antitakeover Related - 0
- Capitalisation - 10
- Directors Related - 170
- Non-Salary Compensation - 101
- Reorganisation and Mergers - 66
- Routine/Business - 53
- Shareholder Proposal - Compensation - 2
- Shareholder Proposal - Corporate Governance - 3
- Shareholder Proposal - Directors Related - 44
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 15
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

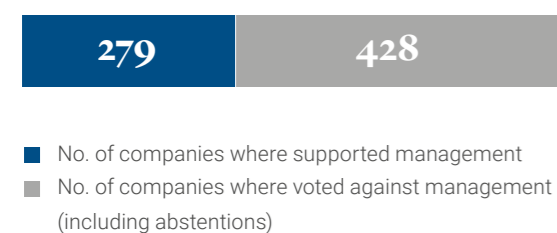
LGIM voted against at least one resolution at **46%** of emerging markets companies over the quarter

Global voting summary

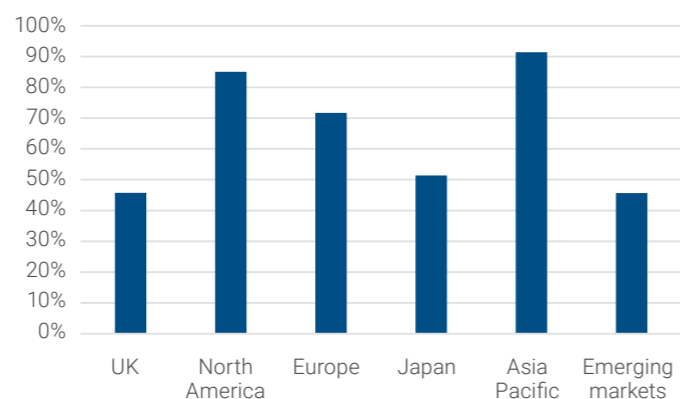
Voting totals

Proposal category	For	Against	Abstain	Total
Antitakeover Related	67	6	0	73
Capitalisation	787	36	0	823
Directors Related	2836	419	108	3363
Non-Salary Compensation	438	215	0	653
Reorganisation and Mergers	337	72	0	409
Routine/Business	1568	233	5	1806
Shareholder Proposal - Compensation	4	4	0	8
Shareholder Proposal - Corporate Governance	7	6	0	13
Shareholder Proposal - Directors Related	14	53	1	68
Shareholder Proposal - General Economic Issues	0	0	0	0
Shareholder Proposal - Health/Environment	2	3	0	5
Shareholder Proposal - Other/Miscellaneous	1	5	0	6
Shareholder Proposal - Routine/Business	15	18	0	33
Shareholder Proposal - Social/Human Rights	1	2	0	3
Shareholder Proposal - Social	3	0	0	3
Total	6080	1072	114	7266
No. AGMs		465		
No. EGMs		266		
No. of companies voted on		707		
No. of companies where voted against management on at least one resolution		428		
% of companies with at least one vote against		61%		

Number of companies voted for/against abstentions



% of companies with at least one vote against (includes abstentions)



Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

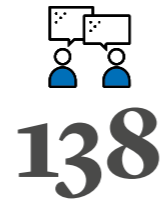


Global engagement summary

Engagement stats



Total number of engagements during the quarter



Number of companies engaged

Engagement type



21

Face to face



46

Conference call



45

Email



39

Letter

Number of engagements on



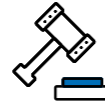
31

Environmental topics



31

Other topics (e.g. financial and strategy)



124

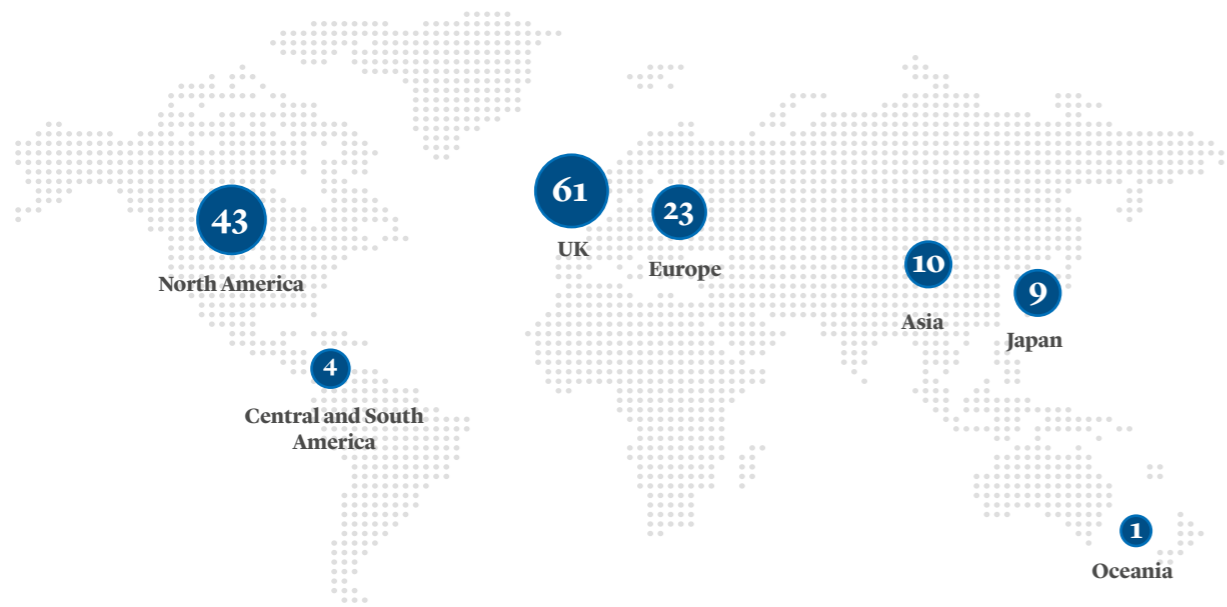
Governance topics



43

Social topics

Breakdown of our engagements by market



Top five engagement topics

- 1 Remuneration
- 2 Board composition
- 3 Diversity
- 4 LGIM ESG score
- 5 Climate change



Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative



Important information

Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Views expressed are of Legal & General Investment Management Limited as at 11 May 2020.

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CC2334_2020



Quarterly Stewardship Report

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



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:




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

<p>Responsible Investment & Engagement Framework</p> 	<p>Stewardship Code</p> 	<p>Voting Principles</p> 	<p>Voting Disclosure</p> 
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Signatory of:



Principles for Responsible Investment



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 unknown¹ 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

02 Engagement

This quarter our engagement set² comprised 1045 companies with 1351 engagement issues³. 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 (BHRR) 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

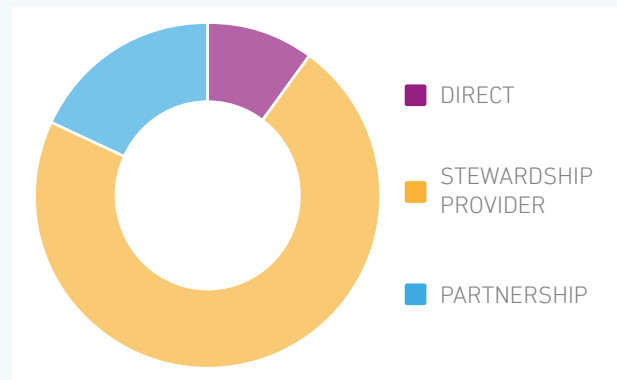
This quarter our climate change engagement set comprised 175 companies with 210 engagements issues⁴. There was engagement activity on 195 engagement issues and achievement of some or all engagement objectives on 64 occasions.

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.

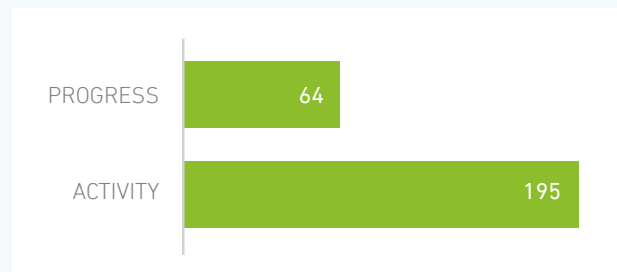
During the last quarter and going into the next, we have engaged two US companies following our co-filing of shareholder resolutions asking for enhanced transparency in corporate lobbying. We are generally concerned that companies across sectors and markets do not always disclose their lobbying activities. 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.

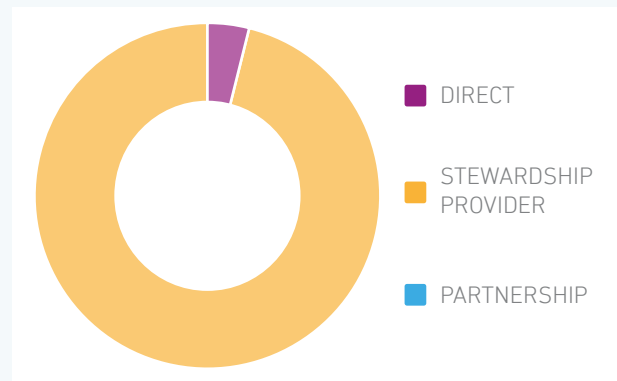
We are pleased to announce that we have joined the PRI's Plastics Working Group. This collaboration will primarily aim to define good practice and to build performance and assessment tools and engagement guides across key sectors (chemicals, retailers, plastic packaging, waste management) in collaboration 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.

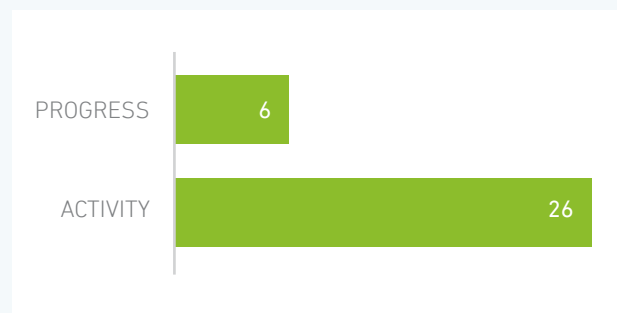
During the last quarter our stewardship provider, EOS at Federated Hermes (EOS), has on our behalf engaged with a European beverages company on sustainability goals including packaging. The company provided an in-depth update on the 2025 sustainability goals it launched in 2018, focused on smart agriculture, 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.

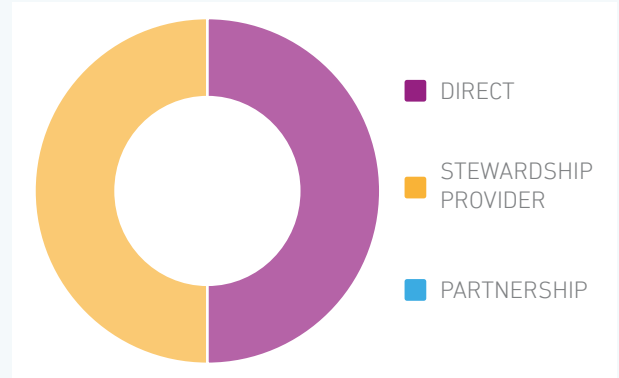
We actively seek collaboration with like-minded investors and have during the last quarter continued collaboration with five fellow European investors to engage a selection of companies across technology, telecommunication, finance and mining sectors. We have sent letters to five companies to assess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

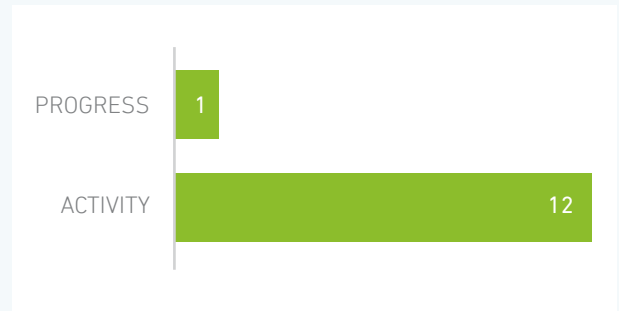
On our behalf, EOS has continued engagement with a multinational bank setting out requests for improvements on its tax policy transparency, both on conduct in client services and its own tax obligations, and for its annual tax reporting. This follows on from EOS’ engagement with a number of banks on 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





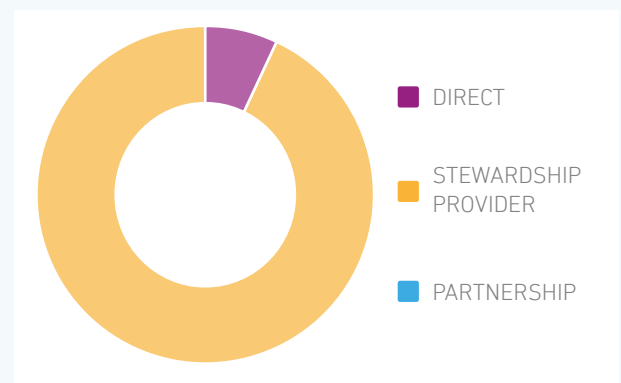
TECHNOLOGY AND DISRUPTIVE INDUSTRIES

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.

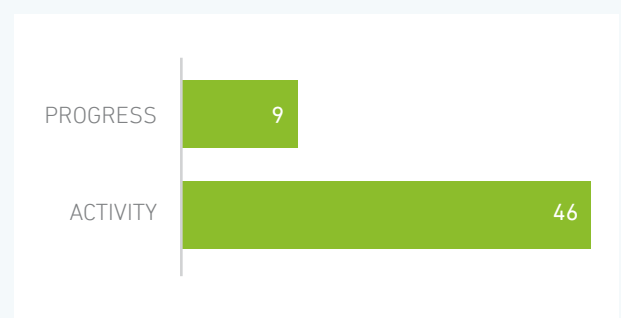
On our behalf, EOS engages technology companies on a broad spectrum of vulnerabilities via its Social and Strategy, Risk and Communication themes. As an example, EOS engaged Ping An Insurance Group Co of China during the last quarter on the need for responsible AI (Artificial Intelligence) practices. 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

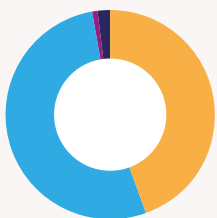
For UK listed companies, we vote our shares in accordance with a set of bespoke UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor.

COMMENTARY

On behalf of our clients, we continued to vote shares at company meetings between January and March 2020⁶.

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

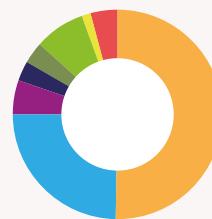
GLOBAL



- 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.

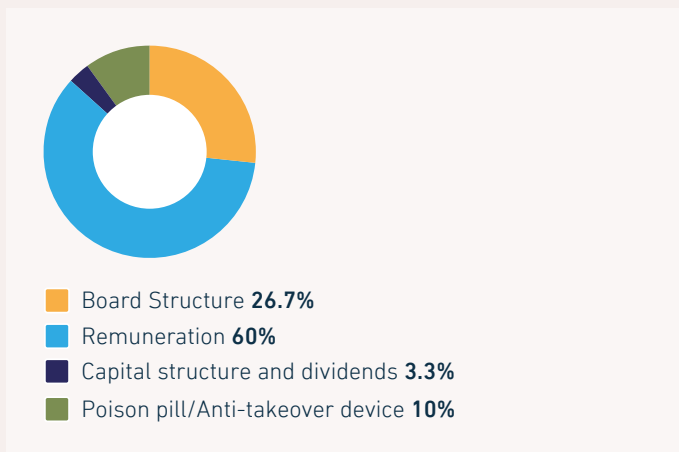
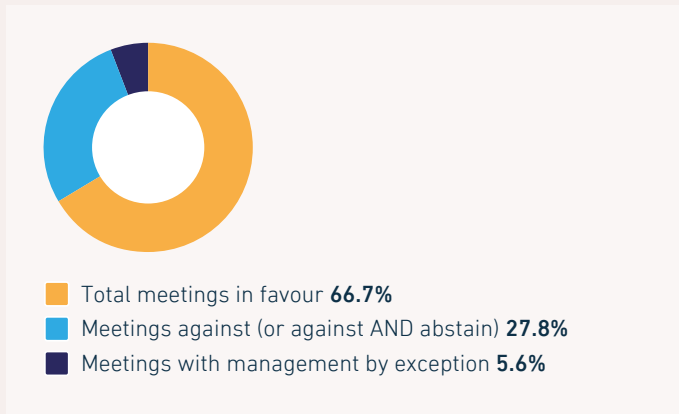
GLOBAL VOTES AGAINST AND ABSTENTIONS BY CATEGORY



- 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

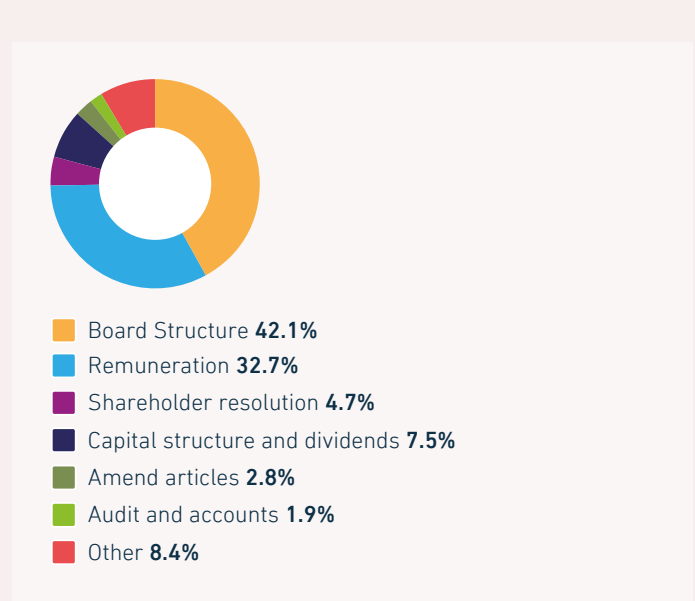
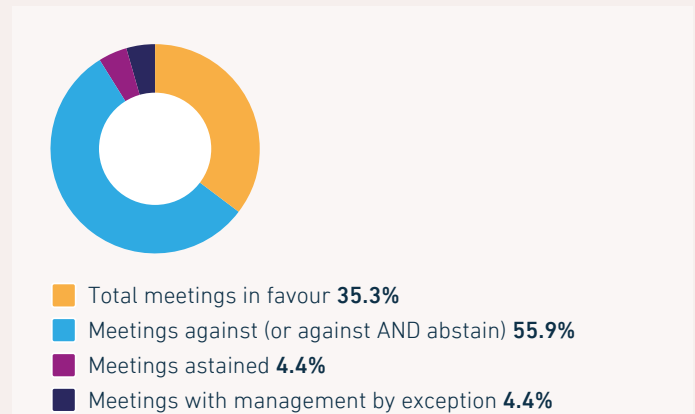
We voted at 54 meetings (733 resolutions) over the last quarter. We voted against or abstained on 30 resolutions out of the total resolutions voted.



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.



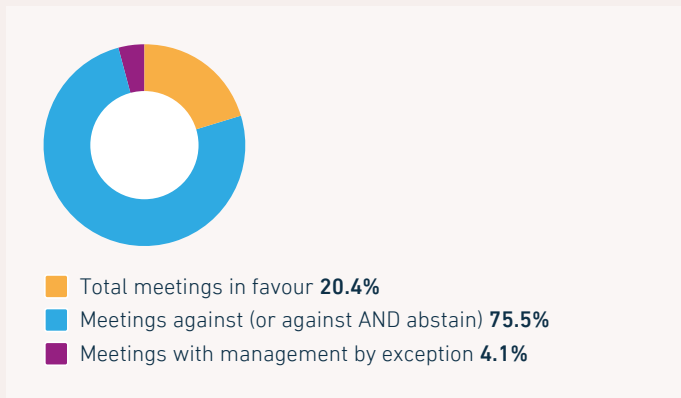
At the AGM of Novartis AG, we voted against the re-election of PwC as external auditor of the company. PwC has been in place as Novartis' external auditor since 1940. We consider this excessive tenure. According to LGPS Central's Voting Principles we expect companies to regularly tender and rotate the 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.

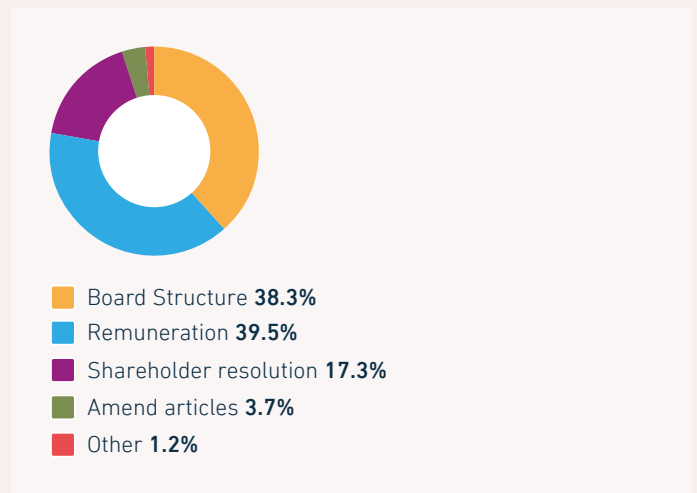
LGPS Central provided a Power of Attorney to our stewardship provider so that they could attend Novartis' AGM to express this view on our behalf.

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.



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

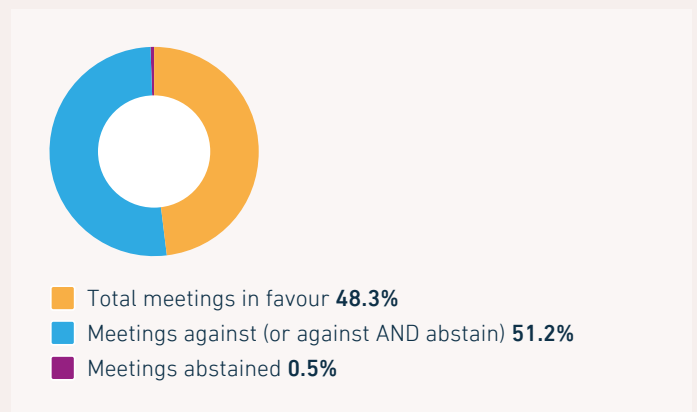


higher base salary (i.e. lower variable pay), high share ownership and strong alignment with long-term performance. A favourable vote on executive remuneration also creates a point of leverage for engagement on two shareholder proposals related to increased disclosure on freedom of expression, and production 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.

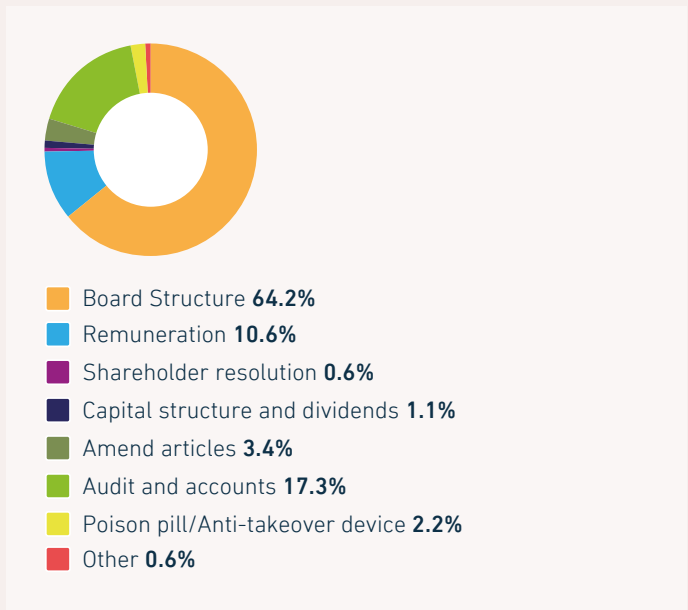
DEVELOPED ASIA

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

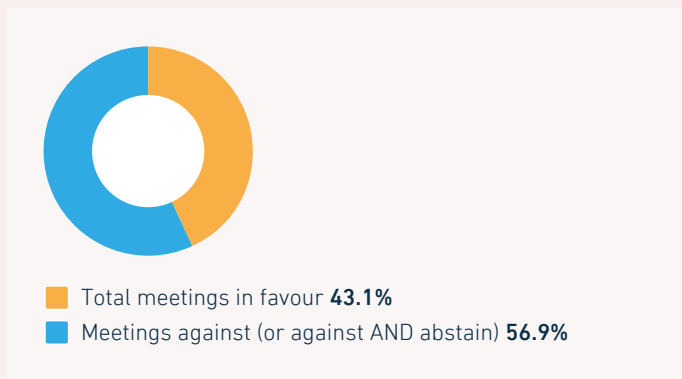


next year’s AGM. It would in our view be counterproductive to vote against these Directors’ appointments as their expertise is likely to strengthen the board’s expertise (including in visual display development, IoT (Internet of things), capital management, and management of ESG issues). Lastly, we voted 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.

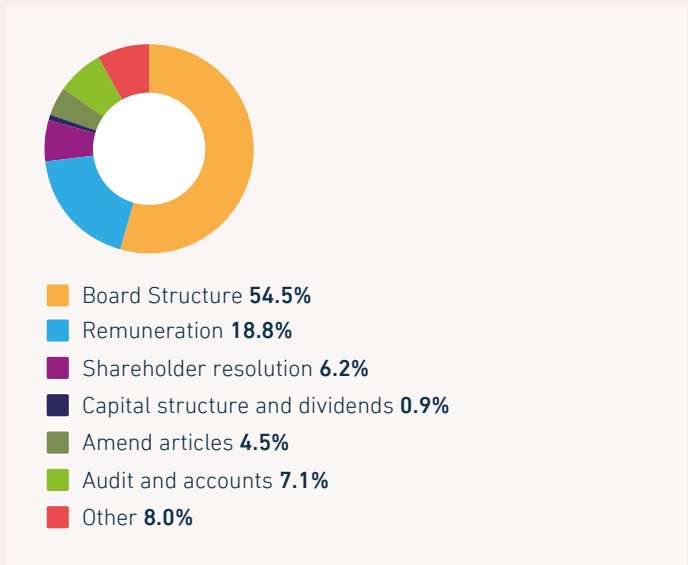


EMERGING AND FRONTIER MARKETS

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



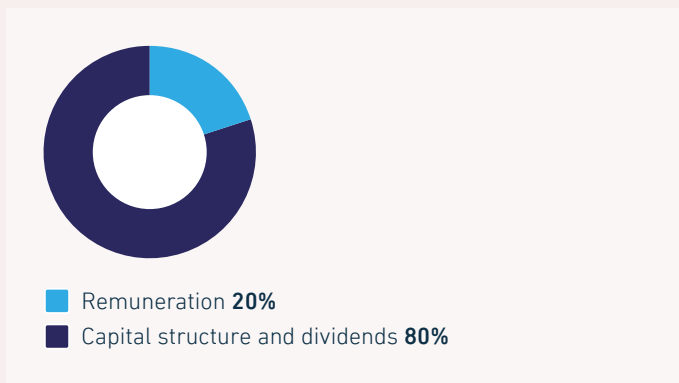
At the AGM of EDP Energias do Brasil SA, one of the largest electric utility companies in Brazil, we voted against the election of the board due to a lack of independence. The Brazilian Corporate Governance Code, introduced in 2016, recommends that at least 1/3 of the board be independent in order to 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.



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





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