LGPS Central Limited

Quarterly Stewardship Update

FIRST QUARTER, 2020-21 (APRIL - JUNE 2020)

CHESHIRE PENSION FUND

Derbyshire Pension Fund

Leicestershire County Council PENSION FUND

Nottinghamshire County Council

SHROPSHIRE COUNTY PENSION FUND

Staffordshire Pension Fund Local Government Pension Scheme

West Midlands Pension Fund

Worcestershire Pension Fund

Responsible Investment & Engagement

LGPS Central's approach

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

OBJECTIVE #1

Support investment objectives

OBJECTIVE #2

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

These objectives are met through three pillars:

This update covers LGPS 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 LGPS Central's Responsible Investment & Engagement Framework and UK Stewardship Code Compliance Statement.

ADDITIONAL DISCLOSURES

- *Responsible Investment & Engagement Framework*
- *Stewardship Code*
- *Voting Principles*
- *Voting Disclosure*
- *Voting Statistics*

Signatory of: PRI Principles for Responsible Investment

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

01 Engagement and Stewardship Themes

This quarter, the COVID 19 health pandemic has caused radical disruption to markets, companies and investors alike. While the situation is highly disruptive, our view that engagement is a key tool which helps us enhance the long-term value of assets we manage on behalf of Partner Funds has not faltered, rather it has been reinforced.

The health pandemic has also brought home the point, in stark terms, that the "S" in ESG carries material risks. We think it is a fair assumption that companies who actively engage their stakeholders and are attuned to stakeholders' views are more likely to tackle the crisis well and be more resilient to future crisis. In engagement with companies, both directly, in collaboration and through our stewardship provider, we are cognisant of the unprecedented challenges that the health pandemic poses to individual companies and to sectors. At the same time, core expectations that we express for management of risks and opportunities on our four Stewardship Themes (see below) are, in our view, still reasonable and timely to uphold. Companies have largely been receptive and welcoming of engagement, which in some respects has been more efficient when carried out via virtual means. Below, we give examples of ongoing or new engagements which relate to the four Stewardship Themes that have been identified in collaboration with our Partner Funds. The bulk of our engagement effort is centred around these themes which allows us the opportunity to build knowledge, relationships (with peer investors and companies) and to help influence and build best practice industry standards relevant to each theme. We regularly cover issues that fall outside of the stewardship themes, such as fair remuneration, board composition, diversity, and human rights, and have included two examples in this update.

Our Stewardship Themes over the next three-year period are:

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

This quarter our engagement set[1] comprised 672 companies with 1,578 engagement issues[2]. The high number of engagement issues reflects the fact that April – June is Annual General Meeting (AGM) season for key markets and we or our partners frequently raise multiple issues with companies around the time of an AGM. These issues are not necessarily tied in with ongoing engagements or with specific engagement objectives. Against 481 specific engagement objectives set by our stewardship provider, there was achievement of some or all engagement objectives on 175 occasions. Most engagements were conducted through letter issuance or remote company meetings at Chair, Board or senior management levels.

[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

This quarter our climate change engagement set comprised 203 companies with 252 engagements issues[3]. There was engagement activity on 228 engagement issues and achievement of some or all engagement objectives on 89 occasions.

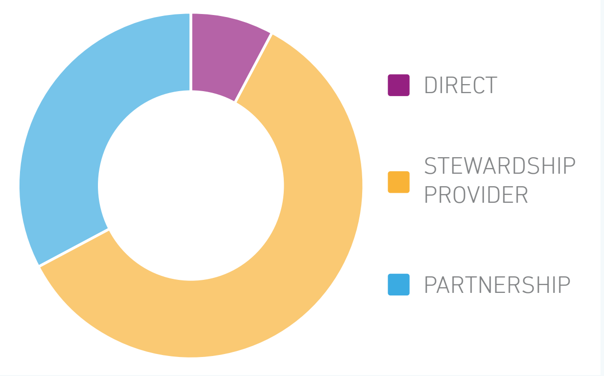
Against the backdrop of the ongoing health pandemic, the climate crisis comes into renewed focus as a "twin crisis" that may unfold over a longer time horizon but is no less urgent to tackle from a long-term economic perspective. As an engager we take a holistic, whole-market outlook whereby we engage fossil fuel companies but also the banks that provide their finance, the auditors who audit their accounts, and all the companies on the demand side. We continue to engage companies on their approach to, and use of, lobbying that shapes climate policies and we engage directly at policy level. Over the last quarter LPGS Central joined more than 100 global investors asking policy makers in the EU to plan and execute recovery from COVID 19 that is aligned with climate commitments, and ultimately with the goals of the Paris Agreement.

Together with Mercy Investment Services (US investor), we co-filed a shareholder proposal asking Honeywell Inc. to provide a report on its direct and indirect lobbying activities and the Board's decision-making process and oversight of lobbying payments. We are concerned that undisclosed indirect lobbying through trade associations poses reputational risks when the lobbying contradicts Honeywell's public positions, resulting in a values misalignment. As an example, Honeywell is committed to "reducing global greenhouse gases" and has signed an agreement to work with the United Nations Environment Programme to combat climate change. This contradicts advocacy by the Chamber of Commerce (Chamber) which Honeywell is a member of. The Chamber has lobbied several regressive positions in its detailed policy engagement, e.g. on the role of coal in the "energy mix" and is one of the most powerful and oppositional trade groups globally in terms of climate policy influence. LGPS Central attended Honeywell's AGM virtually which allowed for limited interaction regarding the shareholder proposal, however the proposal we co-filed received more than 45% support which sends a very clear signal to the Company. We engaged Honeywell following the AGM regarding the vote result and how they can continue to strengthen their lobbying disclosure. The Company is receptive to investor feedback concerning disclosure best practices and we expect these conversations to continue into the next proxy season.

During the last quarter we continued engagement with audit committees of companies with high exposure to climate change risks. The initiative is a satellite to the Climate Action 100+ (CA100+) engagement project and supports the overall goals of CA100+. In November 2019, letters went to three oil and gas majors – BP, Shell and Total – asking for assurances that key financial disclosures to shareholders take due account of all risks, including climate change. If climate risk is not considered, the longevity and value of assets held by these companies may be over-estimated, which could lead to capital being misdirected. The investor group, led by Sarasin & Partners, published a statement on 22 June 2020 welcoming a recent announcement by BP that the company will lower long-term oil and gas price assumptions used in financial statements to reflect a decarbonising world. We commend BP for this move and the statement also positively acknowledges the fact that Shell and Total have similarly lowered their oil and gas price assumptions used in their 2019 audit accounts.

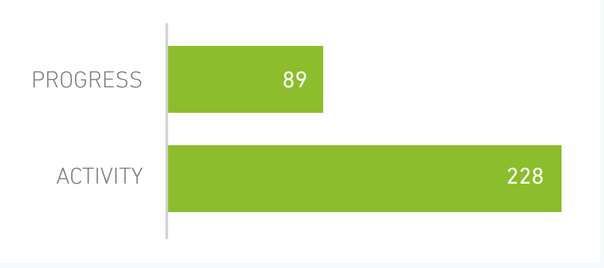
The companies in question are willing to engage on the subject and this positive momentum is now harnessed in order to further the engagement.

ENGAGEMENT VOLUME BY **TYPE**



- 252 engagements in progress
- Majority of engagements undertaken via CA100+
- Continued focus on companies' financial disclosures taking account of climate risk

ENGAGEMENT VOLUME BY **OUTCOME**



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

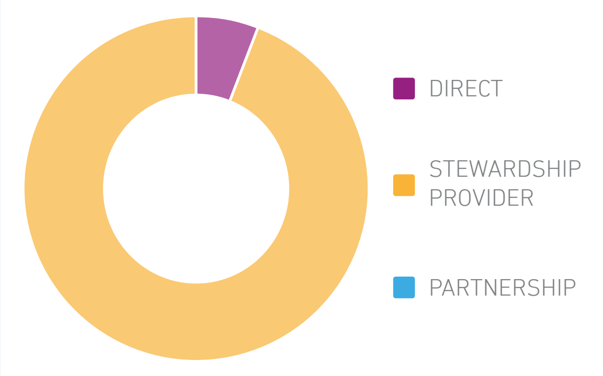
PLASTIC

This quarter our single-use plastics engagement set comprised 15 companies with 17 engagements issues. There was engagement activity on 16 engagements and achievement of some or all engagement objectives on six occasions.

We view development of industry standards as a critical component to efficient engagement with companies and sectors. LGPS Central is collaborating with Investor Forum and peer investors, Marine Scotland, the British Plastics Federation and the British Standards Institute to create the first industry specification to prevent plastic pellet pollution. The new specification will set out measures to prevent plastic pellet leakage, which poses serious threat to the ecosystem and to people's health, and to help companies demonstrate good practice in pellet loss prevention measures across their supply chains. The project was formally launched on World Environment Day (5 June) and will allow companies the ability to demonstrate best practice while giving investors a means for engagement and to hold companies to account on this issue.

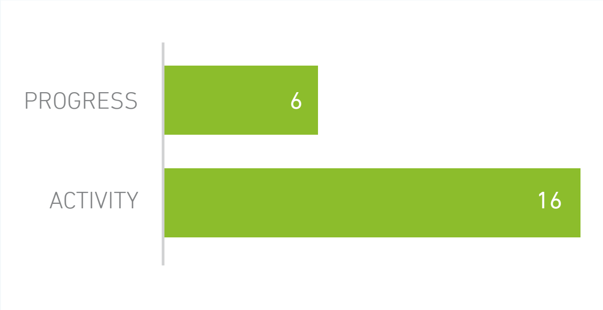
During the last quarter, our stewardship provider EOS at Federated Hermes (EOS) published *Investor Expectations for Global Plastics Challenges*. The expectation is that companies move from treating single-use plastic as an externalised risk, to considering it as a resource requiring responsible management to avoid acute environmental pollution, potential human health impacts and substantial greenhouse gas emissions. EOS is communicating the newly launched expectations to companies in vulnerable sectors, including chemicals, consumer goods and retail sectors. As an example, EOS engaged on our behalf with a US food and retail staples Company that has adopted a time-bound ambitious target for reducing plastic packaging waste, including own-brand and branded product packaging. It is encouraging that the Company applies UK plastics legislation across the group, though progress varies significantly due to local recycling infrastructure. At its 21 distribution centres in North America it has achieved a rate of over 98% recycling. This could likely help the company reach its goal under the UK Plastics Pact of making 100% of plastic packaging reusable, recyclable or compostable by the year 2025. The Company is also engaging suppliers on how products are delivered to them.

ENGAGEMENT VOLUME BY **TYPE**



- 17 engagements during the quarter
- Launch of project to establish unique industry specification to prevent plastic pellet pollution
- EOS publishes *Investor Expectations for Global Plastics Challenges*

ENGAGEMENT VOLUME BY **OUTCOME**



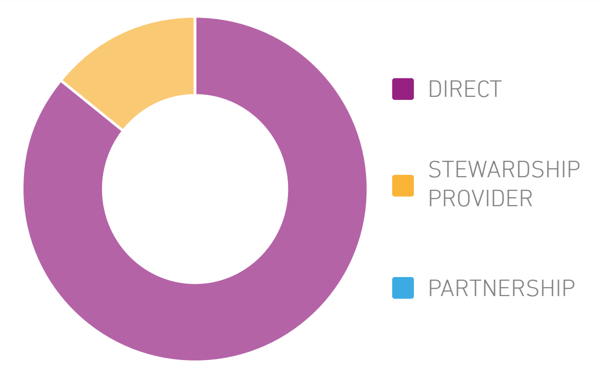
FAIR TAX PAYMENT AND TAX TRANSPARENCY

This quarter our tax transparency engagement set comprised seven companies with seven engagements issues. There was engagement activity on three engagements and achievement of some or all engagement objectives on two occasions.

While many countries are providing various forms of tax relief to businessess during the health pandemic, the investor interest and scrutiny on companies' responsible tax behaviour and their willingness to pay ther fair share of tax will only increase. As a global community, we are poorly prepared to handle any crisis, including health pandemics and the ongoing climate crisis, without funding through tax. We contributed to a consultation on Fair Trade Mark's (FTM) report "The Essential Elements of Global Corporate Standards for Responsible Tax Conduct" which seeks to identify common, international norms for responsible tax conduct.

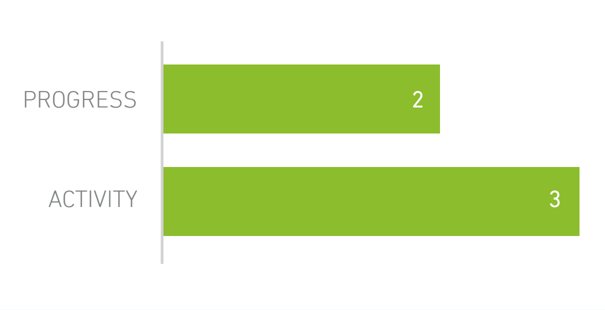
We engaged the CEO and CFO of an international mining Company together with five fellow European investors on responsible tax behaviour. We were assured that the Company values dialogue with all key stakeholders including communities in which it operates mines, host country governments, and investors. The Company engages with host countries to ensure these countries receive a fair share of the economic activities of its operations. In many emerging markets, the Company seeks to achieve a broad economic contribution through taxes paid, through employment of locals in the workforce and by means of specific targeted support such as health and education initiatives. Since the beginning of 2019, the Company has decentralised its management structure and is seeking to simplify the corporate structure. The Company made clear that it is not seeking to shift revenues from higher to lower tax jurisdictions but rather to avoid paying large amounts of taxes to jurisdictions that are not host countries to its mining operations. There is an awareness that many host countries where the company operates need more revenues, hence the company seeks dialogue with host-country stakeholders to explain its various contributions (taxes, royalties etc.). During COVID 19, the company has not used furlough schemes and has not taken advantage of delaying paying taxes or other business support measures as it has, through focussed management, been able to continue its mining activities throughout the pandemic. We were pleased to note that the company, after a recent merger, is now working to set up a tax policy which will be reviewed by the board and is expected to be made available on its website shortly.

*ENGAGEMENT VOLUME BY **TYPE***



- Seven engagements during the quarter
- Collaboration with peer European investors to engage a selection of companies across vulnerable sectors
- Contribution to Fair Tax Mark project seeking to identify common, international norms for responsible tax conduct

*ENGAGEMENT VOLUME BY **OUTCOME***

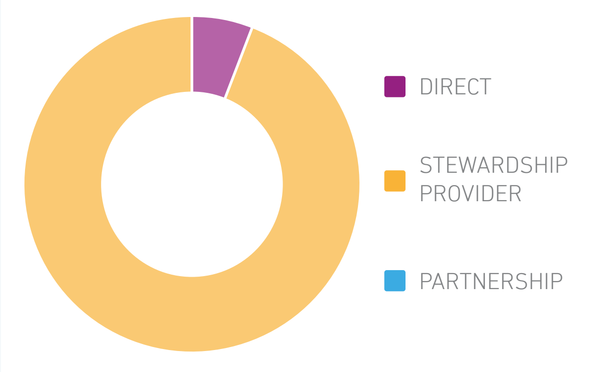


TECHNOLOGY AND DISRUPTIVE INDUSTRIES

This quarter our technology and disruptive industries engagement set comprised 32 companies with 54 engagements issues. There was engagement activity on 51 engagement issues and achievement of some or all engagement objectives on nine occasions.

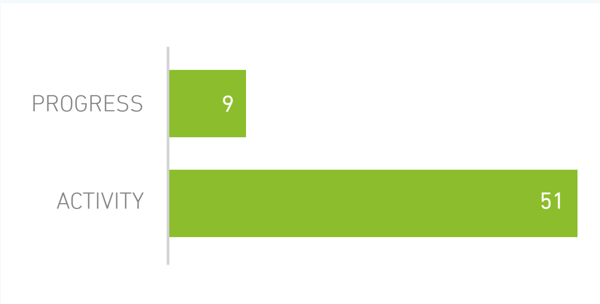
Our attention to social media companies through engagement on social media content control continues and has been amplified by other stakeholders voicing concern about hate speech and disinformation on social media platforms. These concerns have been magnified in the current COVID-19 pandemic when people require robust, factual information but where misinformation and conspiracy theories are evident. During the AGM season we voted for shareholder proposals that ask Facebook and Alphabet to ensure better oversight of human rights risk. In order to further ongoing, collaborative engagement with Alphabet, we voted for a shareholder proposal requesting the establishment of a Human Rights Risk Oversight Committee. The proposal got very strong support, roughly 45% of the independent votes cast for. In our view, human rights risks are embedded in the Company's business model and its technologies, but the Company lacks comprehensive, company-wide policies, processes and due diligence systems to manage them. The Company argues that the current board structure allows for regular assessment of human rights risks, including through the audit committee. We are concerned, however, that the three-member audit committee does not have enough resources or expertise to provide such oversight. Alphabet states that it adheres to the UN Guiding Principles for Business and Human Rights, and we view it as appropriate and necessary that it establishes a Board Committee to carry out this oversight ensuring such adherence. This shareholder proposal reiterates the message in a letter sent to Alphabet in November 2019 by 80 investors, including LGPS Central, requesting a dialogue on human rights risks. The Company denied this request. It is our view that investors need to keep pressure on the Company to improve transparency, accountability and board oversight on material risks including human rights, in order to provide long-term value creation.

*ENGAGEMENT VOLUME BY **TYPE***



- 54 engagements in progress
- Broader stakeholder concern over hate speech and misinformation amplify ongoing engagements around social media content control
- Escalation of engagements through shareholder proposals

*ENGAGEMENT VOLUME BY **OUTCOME***



Examples of engagement outside of stewardship themes

DIVERSITY

LGPS Central has been a member of the 30% Investor Club since inception of the Company. Diversity continues to be on our radar as a key element of good governance, though we see varying degrees of uptake across markets of a more balanced representation of gender, culture, ethnicity etc. at board and management levels of companies. Japanese boards have one of the lowest proportions of female representation in major markets and therefore it is highly welcome that the 30% Investor Club opened a 30% Investor Club Chapter in Japan in May last year. Together with fellow 30% Investor Club members, and led by Royal London Asset Management, we have reached out to two Japanese companies to encourage better diversity and to seek more disclosure on diversity-related policies and targets. Also, we are proposing to these companies that they consider membership in the newly established 30% Investor Club in Japan. Encouragingly one of the companies promptly accepted our proposal for a dialogue and we understand that for these companies, the issue of diversity is relatively new as a topic for discussion with investors.

BROADER SUSTAINABILITY, INCLUDING BIODIVERSITY, LAND-USE AND RIGHTS OF INDIGENOUS PEOPLES

In September 2019, we signed a PRI investor statement alongside more than 250 other investors, calling on companies to take action to prevent deforestation in the Amazon region in Brazil. The situation in Brazil is still very concerning. Provisional legislative measures are being considered due to COVID 19 to legalise private occupation of public lands/forests in the Amazon and to reduce requirements for environmental licensing, amongst others. During the last quarter, we joined an investor coalition led by Norwegian investor Storebrand, to seek dialogue with policymakers in Brazil and to raise these concerns from a long-term investment perspective. We recognise the crucial role that tropical forests play in tackling climate change, protecting biodiversity and ensuring ecosystem services, which again has an impact on economic development and the stability and well-functioning of capital markets. After letters were sent to Brazilian embassies across Europe, US and Japan, the coalition has engaged at the highest political levels, including with the Vice President, the Governor of the Brazilian Central Bank and members of the Brazilian Congress.

02 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, EOS at Federated Hermes.

COMMENTARY

The 2020 voting season saw many companies in the US and Europe opt for virtual shareholder meetings against the backdrop of COVID 19. While the virtual format posed fresh challenges for companies and investors alike, it is clear that the attention to material ESG issues remains high on investors' agenda and many ESG-related shareholder proposals got very strong or even majority support. LGPS Central attended and asked questions at three virtual shareholder meetings; Honeywell Inc, Citigroup Inc and Glencore. On our behalf, EOS attended and asked questions at 22 shareholder meetings, including Deutsche Bank, BP, Google owner Alphabet, Novartis, Amazon and Facebook.

Between April and June 2020, we:

- Voted at 1,794 meetings (25,366 resolutions) globally
- Opposed one or more resolutions at 1,079 meetings
- Voted with management by exception at 209 meetings and abstained at 23 meetings
- Supported management on all resolutions at the remaining 483 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.

LAPFF issued alerts for 24 companies on 77 resolutions during this quarter. We voted in alignment with LAPFF recommendations in the majority (59) of cases.

EXAMPLES OF VOTING DECISIONS

At the AGM of **Tencent Holdings Ltd** (Chinese multinational conglomerate holding company specialising in various Internet-related services and products, entertainment, artificial intelligence and technology), we voted against the Chair of the Nominations Committee, Charles Searle. This was to express concerns over low diversity on the board as well as Searle's lack of independence. Searle represents Naspers' interest (Tencent's biggest investor) yet sits on Tencent's audit committee. While we have concerns regarding board diversity, we welcome progress made by the company in appointing its first female director since 2004 last year. We voted for, by exception, re-election of board member Martin Lau. Although Lau sits on more than six boards, Tencent is a minority shareholder at all of them with publicly available information on strategic partnerships. This is considered justified and manageable. Also, Lau is one of the longest serving executive directors since 2005, has delivered good results for the company over the years and is respected by investors. During this turbulent time, his leadership is needed. We voted against two resolutions that will allow the company to increase capital by more than 10% without pre-emption rights, without justifying any exceptional circumstance. Our concern is that this will excessively dilute existing shareholders' rights. These two resolutions received 30% votes against.

At **Glencore's** AGM we voted against Peter Coates, Chair of Health, Safety, Environment and Communities Committee, as we did at last year's AGM. We are concerned about the Company's poor health and safety performance, over and above our ongoing concern related to Coates' history of advocacy that we view as contrary to the goals of the Paris Agreement and not aligned with Glencore's stated climate ambition and strategy. Approximately 4% of shareholders voted against Peter Coates at the AGM. We voted for the Chair of the Board and the Chair of the Nominations Committee by exception given COVID 19, but the underlying concerns remain on lack of gender diversity, which has gone down to 22% from 25% in 2019. Because of the health pandemic, Glencore hosted a virtual webinar for shareholders at the end of May which we attended, but which we found somewhat lacking in in-depth interaction. We welcome Glencore's recent projection that it will reduce downstream emissions by 30% by 2035 by virtue of not investing into new thermal coal production. Alongside CA100+ investors we are seeking more disclosure on how capital investment plans, methodologies and assumptions align with the goals of the Paris Agreement, as well as disclosure on short-, medium and long-term carbon reduction targets across all scopes. With the CA100+ investor coalition we have agreed to a meeting with the Chair of Glencore in Q3 to discuss these and more issues including succession planning, remuneration and lobbying.

At the AGM of **Facebook**, we voted in favour of four shareholder proposals which all related to the governance of the company. The founder-CEO Mark Zuckerberg owns 13% of the Company but controls a majority of the votes. This is due to the dual class share structure and one of the shareholder proposals calls for the company to initiate and adopt a recapitalisation plan for all outstanding stock to have one vote. The proposal received 27% support. Zuckerberg is both CEO of Facebook and Chair of the board. We are concerned about the inherent lack of independent oversight that this duality entails. A proposal to split the roles of CEO and Chair was also raised last year and continues to get strong minority shareholder support – this time, 20% of shareholders voted for. The third shareholder proposal we supported seeks a change in the Company's constitution so that if a director in a contested election does not receive a majority of the votes cast, he or she is removed from office. This improves shareholder rights and makes the directors accountable to shareholders. As many as 25% of shareholders voted for the proposal at the AGM. The last shareholder proposal we supported requests that the Board nominate a director candidate who is both independent and an expert in human rights. While in most cases we would not support the election of a director whose sole attribute as a board member is expertise on one subject matter, in this case we view it as appropriate to support the proposal which connects directly to our engagement regarding the management of objectionable content. The proposal received approximately 4% support.

At the AGM of **Chevron**, we voted in favour of a shareholder resolution asking the Company to set out a report on risks related to its petrochemical operations in areas prone to severe storms, flooding and sea-level rise. This resolution received 46% support, which sends a clear signal to Chevron that shareholders expect the company to assess and disclose risks linked to climate-change induced weather phenomena, which will ultimately ensure better management of those risks. We also voted in favour of a proposal calling on the company to outline its lobbying around climate change, an expectation that we continue to express to companies across sectors. This proposal received more than 50 per cent support from shareholders and was passed by the AGM. While in the US market shareholder resolutions are only advisory and do not legally bind the Company, it is very unusual for companies not to act on proposals which receive majority support. As has been the case several times in previous years, a resolution was put to the AGM asking that Chevron adopt a policy for an independent chair. We voted for this resolution, consistent with our Voting Principles and the way in which we have discharged similar resolutions at other companies. The oversight provided by an independent Chair is clearly welcomed by many shareholders and attracted more than 26% support.

At the AGM of **Carnival Corporation & Plc** we opposed the approval of the directors' remuneration policy. Carnival Corp and Carnival Plc operate under a Dual-Listed (DLC) structure with primary listings in the US and the UK and two separate but identical boards. The Company's Board and remuneration structures are more in line with those of a US company as most of the operations and executives of Carnival Corp & Plc are located in the US. Under the proposed policy, the CEO can receive up to USD6 million or 400% of base salary in an annual bonus. The most material part of the Carnival pay policy is a combination of highly complex long-term incentive plan awards. In the LGPS Central Voting Principles we advocate for remuneration policies that are simple, transparent, and understandable. In addition, there are multiple incentive plans in place simultaneously. As per the LGPS Central Voting Principles, companies should avoid having more than one active incentive plan.

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central currently contributes to the following investor groups:

30% Club
GROWTH THROUGH DIVERSITY

BVCA
British Private Equity & Venture Capital Association

CDP
DISCLOSURE INSIGHT ACTION

Climate Action 100+
Global Investors Driving Business Transition

Federated Hermes

IIGCC
Institutional Investors Group on Climate Change

ICGN
International Corporate Governance Network

Local Authority Pension Fund Forum

PENSIONS FOR PURPOSE

PRI
Principles for Responsible Investment

Transition Pathway Initiative

THE INVESTOR FORUM

All information is prepared as of **18.08.2020**.

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.

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