Agenda Item No. 4 (b)

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

9 December 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 30 September 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 Legal & General Investment Management (LGIM) and by LGPS Central Limited (the Fund's pooling company):

- Q3 2020 LGIM ESG Impact Report (Appendix 1)
- Q2 2020/21 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. LGPS Central Limited currently manages around £0.3bn of assets on behalf of the Fund through its Global Investment Grade Bonds Sub-Fund. 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

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Not to be distributed to retail clients.

ESG Impact Report

Q3 2020

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

Legal & General
INVESTMENT MANAGEMENT

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

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 when seeking to benefit from emerging opportunities.

We aim 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, we believe companies should become more resilient to change and therefore seek to 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.

Q3 2020 | ESG Impact Report

Action and impact

In the third quarter, executive pay and climate change remained in focus, while we highlighted that the pandemic and racial injustice have brought other societal inequalities to the fore.

During the third quarter of 2020, the COVID-19 crisis kept the need to ensure pharmaceutical companies were ensuring providing fair access to medical treatments and future vaccines top-of-mind. We also adopted a stronger stance with boards on inclusion and increasing minority representation. But we didn't let up on climate engagement, either, as we continued to apply pressure to some of the world's largest companies to meet the targets set out in the Paris Agreement. And, amid economic and employment uncertainty, we put executive pay versus the interests of employees, shareholders and the business at large under the spotlight. Below is our quarterly summary of Legal & General Investment Management's (LGIM) stewardship and responsible investment initiatives.

Improving our transparency on ESG issues

In light of evolving regulation and our commitment to transparent environmental, social and governance (ESG) practices, we have refreshed some of our policy documents. Our intention is to provide clarity to our clients on the processes we have in place to exercise good stewardship on their behalf, including:

- An engagement policy that describes how we integrate shareholder engagement into our investment strategy and collaborate with other investors
- An updated conflicts of interest policy
- How we use the services of proxy advisers

LGIM has had cause to vote against the pay practices adopted by North American companies for many years. We have now decided that it may be helpful for investee companies to have clear guidelines on investors' views that both encourage more transparency and request that pay practices align with corporate strategy and shareholder expectations. Therefore, we have published a stand-alone document entitled 'Principles of Executive Compensation for the North American Market'.

LGIM has spoken publicly about diversity since 2011 and started sanctioning the boards of UK companies with all-male boards in 2015. With our expectations on gender diversity in our investee companies now well established, and given recent social events, we felt the time was right to embark on efforts to improve ethnic diversity within the boardroom and at executive leadership level.

To kick-start this campaign, we produced an article on the topic that outlines LGIM's expectations of companies. We also engaged on the topic this quarter with 44 S&P 500 firms and the 36 FTSE 100 companies whose board membership shows a total lack of ethnic diversity. We asked companies to have at least one director from a minority background on their board by the end of 2021, and from 2022 we will start voting against the chair of the board or of the nomination committee if there is still no ethnic diversity at board level.

Cybercrime is a global issue and the failure to implement safeguards for data security can be costly from a financial and reputational point of view. LGIM published an article to ensure the matter continues to be a regular board agenda item at companies, with sufficient resources being allocated to the issue. Cybercrime is a key business risk that we monitor as part of our investment stewardship activities and investment-research process.

Corporate transparency is increasingly important, given the growing efforts the investment community is making to integrate ESG within their decision-making processes. We set out our expectations as a long-term investor: regarding what ESG information our listed-investee companies should report on and how to communicate this information effectively to stakeholders.

LGIM has updated its controversial weapons policy. This sets out which types of weapons LGIM considers to be controversial, our approach to ensuring these companies are excluded from as many of our funds as possible and a list of the funds whose investment strategy excludes any company known to be involved in these activities. To encourage companies to move away from such activities, LGIM may write to the companies on the exclusion list.

As a strong supporter of the Japan Stewardship Code since its inception in 2014, we have updated our approach to stewardship in the 2020 Japan Stewardship Code Statement to reflect the Japanese Financial Service Agency's amendments made to the code earlier this year. This statement outlines how LGIM's stewardship responsibilities extend beyond equities to all assets globally including equities, fixed income and real assets.

Fighting for fair access to COVID-19-related medical treatments and future vaccines

The COVID-19 pandemic has strained the world's social and financial systems. The pharmaceutical industry will play a vital role in any recovery. Improved medical treatments and the discovery of one or more vaccines will form a critical part of fighting the resurgence of infections, and preventing or limiting future lockdowns. It is questionable, however, whether current research and manufacturing efforts can deliver these medical breakthroughs in the short term and on a global scale.

In this context, LGIM was pleased to become a co-signatory of a letter campaign targeting pharmaceutical companies. Furthermore, we have also written an open letter together with AXA Investment Management and the Access to Medicine Foundation on global access to COVID-19 medical treatments and future vaccines.

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LGIM recently became a member of the US-based ICCR (Interfaith Center on Corporate Responsibility). Under this umbrella, we joined the efforts of investors collectively representing more than $2.4 trillion in assets under management (AUM). We co-signed engagement letters addressed to the world's leading pharmaceutical companies asking for disclosure and commitments on their pandemic preparedness, public investment and 'commitment to the public good' (e.g. fair taxes and lobbying disclosures). The objectives of this engagement are to:

- Ensure equitable access to therapeutics and COVID-19 vaccines, given many of the companies involved are receiving public funding
- Encourage maximum transparency over the funding received by individual pharmaceutical companies (and any terms attached to this funding)
- Encourage boards to take active steps to avoid any reputational risks in using tax havens/inappropriate tax strategies, while receiving public funding

We will monitor the responses we receive from the contacted companies.

Pushing to improve German board governance

In Germany, members of supervisory boards are elected for a period of five years. This weakens shareholders' ability to hold directors accountable for their actions at the annual general meeting (AGM). LGIM advocates for annual board elections instead.

In its public consultation document, the commission in charge of reforming the German Corporate Governance Code in 2019 planned to limit supervisory board members' tenure to three years, which we supported, with the expectation the market would progress towards annual elections over time. However, the commission failed to adopt this recommendation.This quarter, LGIM escalated its stance on board elections in Germany by signing a public collaborative letter along with other institutional investors to formally and directly ask DAX30 companies to limit supervisory board members' terms to three years. Collectively, the signatories represented a total of $8.3 trillion in AUM, and the national press covered this campaign.[1]

1. https://www.handelsblatt.com/finanzen/anlagestrategie/trends/vermoegensmanager-investoren-plaedieren-fuer-kuerzere-amtszeiten-der-dax-aufsichtsraete/26104434.html?ticket=ST-2720483-XtEYNv7fLU2NMYzYVfR1-ap5

Limiting the risk of antimicrobial resistance

As part of LGIM's Investment Stewardship team's five-year strategic plan and our commitment to engage on health, Maria Ortino, ESG Manager, joined the Expert Committee for the 2021 Antimicrobial Resistance (AMR) Benchmark methodology (a research programme by the Access to Medicine Foundation). This is an important engagement topic for LGIM, as the development of AMR can have a serious impact on the effectiveness of treatments of infections. The goal of the AMR Benchmark we are taking part in is to guide and incentivise pharmaceutical companies to limit this key risk.

Scrutinising climate-pollution practices in Texas

Alongside Alliance Bernstein and the California State Teachers' Retirement System (CalSTRS), we called on the influential Texas Railroad Commission (TRC) to ban the routine burning of natural gas from the Permian basin, which it regulates.

We support eliminating natural gas flaring by 2025: a global ESG issue which is currently under consideration by the commission. We believe it wastes natural resources, increases emissions, and means we fail to monetise a product that would otherwise add value to the oil-and-gas-producing companies in our portfolios.

The actions of leading operators demonstrate the financial and technical viability of ending routine flaring. It is clear, however, that voluntary action alone has been insufficient to eliminate it across the industry. Strong and effective regulatory action – beyond taking the initial steps to improve data gathering and transparency – is essential in order to build stakeholder confidence and solve this challenge.

Flaring is an area of particular focus for us, because the ability of oil and gas companies to get emissions under control directly relates to the role these companies will play in the broader energy transition.

Collaborating on the Modern Slavery Act

We worked with Rathbones, as part of a collaborative engagement of managers with a total of £3.2 trillion in AUM (December 2019), to challenge FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015.

Not only did we want to highlight the importance of eradicating modern slavery throughout the supply chains of FTSE 350 companies, we also sought to raise the importance of eradicating modern slavery across global business. The initiative provided an opportunity for investors to better understand the nature of the companies they invest in, and how the board views the issue of modern slavery. A secondary objective was to encourage a greater degree of challenge on social issues, specifically using shareholder rights, as we feel that responsible investment currently does not focus enough on these concerns.

LGIM's first virtual NED Event

LGIM held its fifth annual, and first virtual, non-executive director (NED) event in September, convening 236 NEDs from around the world.

The event was an opportunity for LGIM's Investment Stewardship team to present on key ESG themes directly to the board members of our investee companies. This included, for instance, the evolution of investment stewardship, our expectations on the topics of income inequality, transparency, ethnic diversity and how to approach the target of reaching net-zero carbon emissions by 2050.

We highlighted how each of these themes has become a key focus area for investor engagement, and we gave suggestions on how to address them effectively so as to ensure boards are adequately equipped to deal with current and future challenges. A summary of the event is available here.

Significant votes

As mentioned in last quarter's ESG Impact Report, owing to evolving regulation, we have adapted our approach so as to provide detailed information to our clients on significant votes on a quarterly basis.

Company name: International Consolidated Airlines Group*

Sector: Transport | **Market cap:** £6.6 billion (Source: Eikon, as at 16/9/2020)

Issue identified here:

The COVID-19 crisis and its consequences for international transport have negatively impacted this airline company's financial performance and business model.

At the end of March 2020, LGIM addressed a private letter to the company to state our support during the pandemic. We also encouraged the board to demonstrate restraint and discretion with its executive remuneration.

As a result of the crisis, the company took up support under various government schemes. The company also announced a 30% cut to its workforce.[2] On the capital allocation front, the company decided to withdraw its dividend for 2020 and sought shareholder approval for a rights issue of €2.75 billion at its 2020 AGM in order to strengthen its balance sheet. The remuneration report for the financial year to 31 December 2019 was also submitted to a shareholder vote. We were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO.

Summary of the resolution:

'Resolution 8: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020.

How LGIM voted:

We voted against the resolution.

Rationale for the decision:

We noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders).

Over the past few years, we have been closely engaging with the company, including on the topic of the succession of the CEO and the board chair, who were long-tenured. This engagement took place privately in meetings with the board chair and the senior independent director. This eventually led to a success, as the appointment of a new CEO to replace the long-standing CEO was announced in January 2020. A new board chair, an independent non-executive director, was also recently appointed by the board. He will be starting his new role in January 2021.

Outcome:

28.4% of shareholders opposed the remuneration report. LGIM will continue to engage closely with the renewed board.

Why is this vote significant?

LGIM considers this vote significant as it illustrates the importance for investors of monitoring our investee companies' responses to the COVID-19 crisis.

2.https://www.bloomberg.com/news/articles/2020-04-28/british-airways-to-slash-up-to-12-000-jobs-after-hedging-losses

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

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Company name: Luckin Coffee inc.*

Sector: Travel and leisure | **Market cap:** $595.7 million (Source: Eikon, as at 16/9/2020)

Issue identified here:

Shortly after its public listing in May 2019, the Chinese coffee start-up, which holds the ambition of disrupting the traditional coffee-shop model and competing with Starbucks in China, was accused by an anonymous report of potential fraudulent behaviour. This was initially denied by the board, and the company later opened an internal investigation with the formation of a special board committee and advice from outside law and forensic firms.

The investigation revealed fabricated sales of approximately $300 million, which represented almost half of the company's 2019 sales. As a result, the CEO and chief operating officer were dismissed, and the company was delisted from Nasdaq in June 2020. Two Chinese regulators are investigating the issue.

As a result of these findings, Haode Investment inc., a significant shareholder of the company (holding at the time approximately 37% of unequal voting rights), beneficially owned by the chair and founder, requested a special meeting to ask for the removal of three board directors including the director leading the internal investigation, and proposed the election of two outside directors.

The company board proposed a resolution at the meeting to seek shareholder approval to remove the board chair from the board. This resolution was put forward by the majority of the board as a result of the findings of the internal investigation.

Summary of the resolution:

'Resolution 4: Remove Director Charles Zhengyao Lu' proposed at the company's special shareholder meeting held on 5 July 2020

How LGIM voted:

We voted in favour of this resolution.

Rationale for the decision:

Given the findings of the investigation, LGIM decided to sanction the board for its lack of oversight. We supported the removal of the board chair, and also voted in favour of the removal of two outside non-independent directors of the board. LGIM opposed the election of the two outside directors proposed by the board chair himself, as we had concerns about their independence.

Outcome:

A majority of investors** supported the removal of the board chair. Three other board directors were also removed, and two new outside directors were appointed to the board.

The company subsequently appointed a new combined chair and CEO, who is a co-founder of the company. LGIM will continue to monitor developments.

Why is this vote significant?

LGIM identified this vote as significant given the size of the scandal and the proposal by the board to remove the company's chair. We also note that this scandal has triggered important media coverage. The company is incorporated in China and was listed in the US; The Financial Times reported that this scandal triggered the US Congress passing bills in May to strengthen disclosure requirements for foreign groups.[3]

3.https://www.ft.com/content/7bb80406-a0c6-11ea-ba68-3d5500196c30

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security. **% not available.

Company name: SIG plc.*

Sector: Trading companies and distributors	**Market cap:** £302.9 million (Source: Eikon, as at 2/10/2020)

Issue identified here:	The company wanted to grant its interim CEO a one-off award of £375,000 for work carried out over a two-month period (February - April). The CEO agreed to invest £150,000 of this payment in acquiring shares in the business, and the remaining £225,000 would be a cash payment. The additional payment was subject to successfully completing a capital-raising exercise to improve the liquidity of the business. The one-off payment was outside the scope of the company's remuneration policy and on top of his existing remuneration, and therefore needed shareholder support for its payment.
Summary of the resolution:	'Resolution 5: Approve one-off payment to Steve Francis' proposed at the company's special shareholder meeting held on 9 July 2020.
How LGIM voted:	We voted against the resolution.
Rationale for the decision:	LGIM does not generally support one-off payments. We believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility. This should negate the need for additional one-off payments. In this instance, there were other factors that were taken into consideration. The size of the additional payment was a concern because it was for work carried over a two-month period, yet was equivalent to 65% of his full-time annual salary. £225,000 was to be paid in cash at a time when the company's liquidity position was so poor that it risked breaching covenants of a revolving credit facility and therefore needed to raise additional funding through a highly dilutive share issue.
Outcome:	The resolution passed. However, 44% of shareholders did not support it. We believe that with this level of dissent the company should not go ahead with the payment. We intend to engage with the company over the coming year to find out why this payment was deemed appropriate and whether it made the payment despite the significant opposition.
Why is this vote significant?	The vote is high-profile and controversial.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

Company name: Pearson*

Sector: Media and publishing	**Market cap:** £4.2 billion (Source: Eikon, as at 5/10/2020)

Issue identified here:	Pearson issued a series of profit warnings under its previous CEO. Yet shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, but yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role. This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO.
Summary of the resolution:	'Resolution 1: Amend remuneration policy' was proposed at the company's special shareholder meeting, held on 18 September 2020.
How LGIM voted:	We voted against the amendment to the remuneration policy.
Rationale for the decision:	LGIM spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. We also discussed the shortcomings of the company's current remuneration policy. We also spoke with the chair directly before the EGM, and relayed our concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO's award. We also asked that the post-exit shareholding requirements were reviewed to be brought into line with our expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.
Outcome:	At the EGM, 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.
Why is this vote significant?	Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and our outstanding concerns, we deem this vote to be significant.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

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Company name: Plus500 ltd.*

Sector: Financials – Diversified financials | **Market cap:** £1.6 billion (Source: LSE, as at 21/9/2020)

Issue identified here:	At its AGM on 16 September 2020, Plus500 proposed a number of pay-related proposals for shareholder approval. Amongst these, the board recommended the approval of a substantial discretionary bonus offered to the CFO of around ₪4.2 million (around $1.2 million) for his successful work with Israeli tax authorities over a number of years, resulting in a significant tax-saving for the shareholders. The bonus is in addition to his annual variable pay and outside the normal bonus structure.
Summary of the resolution:	'Resolution 17: Approve Special Bonus Payment to CFO Elad Even-Chen' at the company's special shareholder meeting held on 16 September 2020.
How LGIM voted:	We voted against the special bonus based on the belief that such transaction bonuses do not align with the achievement of pre-set targets. Separately, LGIM also voted against an amendment to the company's remuneration policy, which continues to allow for the flexibility to make one-off awards and offers long-term incentives that remain outside best market practice in terms of long-term performance alignment.
Rationale for the decision:	LGIM does not support one-off discretionary bonuses (or transaction bonuses) as these are not within the approved policy to reward the achievement of pre-set targets. Moreover, discussions with tax authorities and the obtaining of preferential tax structures for the company are seen as part of a CFO's day-to-day job and should not be remunerated separately. Instead, a preferential tax treatment will benefit future performance and will therefore be rewarded within annual bonus and long-term incentives in future performance years. LGIM directly notified the company of its vote intentions before the shareholder meeting.
Outcome:	Given the level of shareholder dissent, Resolution 17 was withdrawn ahead of the AGM, while all the other resolutions were passed. The company stated that: 'The board and the remuneration committee consider that a bonus is appropriate given the outstanding efforts of [the CFO]. As such, Plus500 intends to again propose the resolution for shareholder approval at the EGM to cover 2021 director pay (as is required under Israeli law).
Why is this vote significant?	There was a level of media interest regarding the withdrawal of the resolution. This, combined with the other shortcomings of this company in relation to the expectations of a company listed in London, make this a significant vote. Shareholder dissent to the resolution was sufficiently high that the proposal was withdrawn ahead of the AGM; this will result in the company being included in the UK Investment Association's Public Register.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

Company name: Olympus Corporation*

Sector: Consumer, non-cyclical, medical instruments | **Market cap:** £22 billion (Source: Eikon as at 2/10/2020)

Issue identified here:	Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level. LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level we consider that every board should have at least one female director. We deem this a de minimis standard. Globally, we aspire to all boards comprising 30% women. Last year in February we sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that we expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. In the beginning of 2020, we announced that we would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100.
Summary of the resolution:	'Resolution 3.1: Elect Director Takeuchi, Yasuo' at the company's annual shareholder meeting held on 30 July 2020.
How LGIM voted:	We voted against the resolution.
Rationale for the decision:	We opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue.
Outcome:	94.90% of shareholders supported the election of the director. LGIM will continue to engage with and require increased diversity on all Japanese company boards.
Why is this vote significant?	This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

Without urgently tackling and reversing deforestation, meeting the aim of the Paris Agreement regarding net-zero emissions by mid-century will be impossible to achieve.

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Sustainability engagements

We continue to engage with companies, policy-makers and other investors to promote sustainability.

Tackling deforestation

Without urgently tackling and reversing deforestation, meeting the aim of the Paris Agreement regarding net-zero emissions by mid-century will be impossible to achieve. The Intergovernmental Panel on Climate Change (IPCC) land-use report highlights that to limit global warming to 1.5°C, reforesting an area the size of India may be necessary.[4] As such, halting deforestation in biodiversity hotspots and systemically important biomes such as the rainforests in the Amazon and Southeast Asia is a key component of global decarbonisation efforts.

This summer, following steps by the Brazilian government to loosen environmental protections, LGIM joined a new investor coalition to lobby the government directly to take steps to halt deforestation in the country. The investor coalition sent letters to a number of Brazilian embassies in Europe, outlining our concerns. Subsequently, a video conference with the vice president, the governor of the central bank, the foreign minister, the minister for the environment and minister for agriculture was scheduled. During this conversation, the investor group called on the government to commit to achieving a significant reduction in deforestation, and to ensure that existing environmental legislation is indeed enforced.

In response, the Brazilian government announced a moratorium on setting fires in the Amazon, and the investor group had a follow-up conversation with several members of Congress. New data[5] released in July shows that the rate of deforestation in the Amazon is sadly continuing to increase. LGIM will be watching developments closely, and will continue to engage with the food companies in our portfolio with exposure to soy and cattle in Brazil, to encourage them to root out deforestation from supply chains.

Going forward, the remit of the investor group will expand to focus lobbying efforts in Southeast Asia too.

Sustainability in the Asia-Pacific region

Coal use remains a contentious issue in the Asia-Pacific region. In 2019, we announced that we will be removing Korean utility KEPCO* from our Future World Fund range, due to the company's lack of ambitious climate strategies. Since then, we have been working with other investors and stakeholders to put pressure on the company to halt plans for new coal projects in Vietnam and Indonesia. Not only are new coal plants fundamentally at odds with the necessary global climate trajectories, independent feasibility studies had questioned the profitability of the projects. We spoke out publicly against the plans in interviews with *The Korea Times*, a leading local newspaper.

Whilst burning and mining coal often receive the most scrutiny, other forms of mining can have detrimental impacts on communities and the environment. In our previous report, we mentioned mining giant Rio Tinto* faced a media backlash following the destruction of an aboriginal heritage site during a mine expansion in Western Australia. We have expressed our disappointment at Rio Tinto's handling of the incident – both publicly, in the press, and privately, during a call with the company's chair.

We believed that the initial measures announced by the company in response – the forfeiting of executive bonuses – were insufficient, and engaged with UK and overseas investors to press for more accountability. The company has now announced that its CEO and two other executives will step down.

4. https://www.ipcc.ch/srccl/download/
5. https://wwf.panda.org/wwf_news/?584271/Annual-deforestation-rate-in-the-Brazilian-Amazon-increases-by-33&_sm_byp=iVV0prDRQVNVt5s6

*For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.

Pushing for net zero

The race towards net-zero emissions continues apace. As Glasgow prepares to host the landmark COP26 conference next year, Michelle Scrimgeour, LGIM's CEO, and Meryam Omi, our Head of Sustainability and Responsible Investment Strategy, have been working with the UK government to build momentum for climate action in the private sector.

Indeed, the past few months have seen a range of notable announcements: as part of its strategy to reach net-zero emissions, oil major BP* has pledged to substantially reduce its oil and gas production (40% by 2030), broadly in line with global climate targets. LGIM has been co-leading climate engagement efforts with BP under the Climate Action 100+ investor network, and has engaged with its senior executives regularly as they develop their strategy.

In September, French oil major Total* also set new targets for reductions in the absolute emissions associated with the use of oil products by its customers (the largest source of emissions for the sector). This shift is all the more notable in an industry that even a few years ago was reluctant to set absolute emission targets for its own operations, let alone its products.

Mining company BHP* has also announced new partnerships to reduce emissions from steelmaking and shipping, as part of its efforts to set carbon goals for its customers, and set new expectations on climate issues from the trade groups it is a part of. LGIM has been a supporter of shareholder proposals calling on greater lobbying transparency from BHP and other heavy-emitting companies.

Climate in the boardroom

LGIM received recognition for its strong voting stance in a new report from non-governmental organisation Majority Action, looking at the voting records of the world's 12 largest asset managers.

The report looked at how asset managers sanction directors and their pay, as well as support sustainability-related resolutions at US S&P 500 companies.

In 2020, LGIM was a top supporter of 'climate-critical' shareholder proposals among the world's top 12 asset managers. Reflecting our strengthened principles on executive pay and director appointments – for example, our opposition to combined chair/CEO roles – the report also found LGIM was more likely to oppose the election of directors or their pay in the sectors analysed.

A strong voting stance in the industry

	Votes in favour of 'climate-critical' shareholder proposals:	Votes in favour of management-proposed directors:	Votes in favour of 'say-on-pay' resolutions:
LGIM	100%	82%	76%
Average across top 11 largest asset managers:	44%	96%	91%

Source: LGIM adapted from Majority Action – Climate in the Boardroom (2020),[6] analysis of support for management recommendations at large-cap energy, utility, financial services, and automotive manufacturing companies, and support for shareholder proposals on climate issues at S&P 500 companies.

6. Full report available at: https://www.majorityaction.us/asset-manager-report-2020

*For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.

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Public policy update

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

United Kingdom

In advance of the G7 presidency and COP26 next year, we have seen a flurry of activity from the government with regards to putting the UK economy on the correct path to meet its 2050 net-zero commitment. Policymakers have listened to calls from the industry (including from LGIM), and launched a 'green and resilient' COVID-19 recovery package.

We have also seen progress on a long-term policy engagement topic, which is to mandate high-quality climate-related disclosures from across the investment chain in line with the framework set out by the Task Force on Climate-related Financial Disclosures (TCFD). We have been very supportive, and engaged with both the Financial Conduct Authority (FCA) and the Department for Work and Pensions (DWP) on this topic over the past year. We recently submitted our response to the formal FCA consultation paper 20/03, recommending that the FCA be bolder with its proposed 'comply and explain' rule for premium-listed issuers.

Specifically, we are encouraging that the FCA make TCFD reporting mandatory for premium-listed issuers and expand the rule to include standard-listed issuers too (with a view to see mandatory reporting by 2022, as outlined by the government's 2019 green finance strategy). At present, we are preparing our formal response to the DWP consultation that is mandating TCFD for pension schemes (supported by the Pension Scheme Bill that is still going through Parliament). We will prepare an update once it is finalised.

European Union

At a European Union level, we continue to engage with the Commission's European Green Deal and Sustainable Finance Action Plan. In July, we responded to a key consultation that will drive the Commission's future work on sustainability, the Renewed Sustainable Finance Strategy. We provided feedback on pertinent issues, including: strengthening stewardship and corporate governance policy across Europe; the necessity to harmonise European sustainable finance regulation (internally and externally); building on existing non-financial disclosures standards; setting clear low-carbon sector transition roadmaps; removing fossil fuel subsidies; and harmonising the ability to file shareholder resolutions across Europe.

Another key engagement for LGIM has been with the European Supervisory Authorities (ESA) regarding the development of the regulatory technical standards of the 'Sustainable Finance Disclosure' Regulation. This regulation is seeking to harmonise sustainability related disclosures at both an entity and product level for financial-market participants across the EU. Whilst we are supportive of the direction of travel from the EU and the ESA, we felt that there was not strong alignment or sequencing with other sustainable finance regulation (e.g. 'EU Taxonomy' and the 'Non-Financial Reporting Directive'), and that in its current format it could have unintended and misleading consequences.

LGIM has also been working with other investors and through the Institutional Investors Group on Climate Change (IIGCC), called on the European Commission and EU member states to raise Europe's greenhouse gas emissions (GHG) target to ensure 'at least' a 55% reduction in emissions by 2030.

United States

Throughout 2020, the Department of Labor (DOL) has issued multiple proposals (A new 'investment duties' rule for ESG and one regarding proxy voting and shareholder rights) that we believe are not in the best interest of long-term savers. In the past quarter, we have submitted public comments to make our position clear that intentional ESG analysis and active participation in proxy voting are completely aligned with fiduciary duties, and, in fact, necessary.

The 'investment duties' proposal seeks to clarify guidance to Employee Retirement Income Security Act (ERISA) plan fiduciaries on their duties and the requirements for evaluating and selecting investments based on ESG factors. Our belief is that the proposed guidance reflects a misunderstanding of how ESG analysis is used in the market and fails to recognise that ESG integration is not a new or innovative approach to investing, but a tried-and-true approach to ensuring long-term portfolio success.

The 'Proposal Regarding Proxy Voting and Shareholder Rights' seeks to provide guidance to ERISA plan fiduciaries on their exercise of shareholder rights, particularly on designing and executing a proxy-voting strategy. Our biggest concern with the proposed rule is that its practical effect will likely be to chill all or most shareholder proxy voting and engagement by pension plans, effectively stripping pension plans (and, indirectly, beneficiaries) of their private rights as equity holders, to the long-term detriment of investment portfolios.

We have been encouraged by the interest and volume of comments the DOL has received on these important proposals. For example, 1,300 comments were received for the ESG proposal and it was estimated that 95% were opposed to the rule. Our viewpoint was highlighted by industry commentators.

We will be concerned if the DOL chooses to go against the groundswell of market feedback and proceed. We will continue to monitor the outcome of these proposals and to engage with regulators wherever we believe it is directly relevant to the best long-term interests of our clients.

Engagement with consequences

Going forward, we will continue to engage with policymakers across the world to ensure that policies and regulations are designed effectively, are robust, and are focusing on the most pertinent issues for our stakeholders. One present example is the proliferation of initiatives that seek to 'standardise' sustainability-related disclosures. This is an important area for us and we are engaging with the standard setters, international frameworks, regulators, etc., to ensure we have consistent, comparable and verified disclosures across the market.

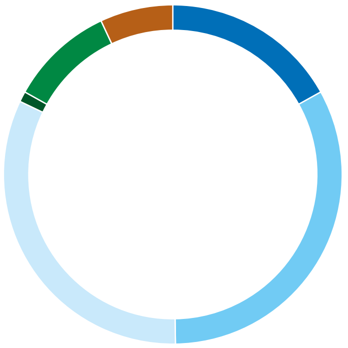
Regional updates

UK - Q3 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	98	0	0
Capitalisation	542	34	0
Directors-related	1018	66	0
Remuneration-related	255	65	0
Reorganisation and Mergers	21	2	0
Routine/Business	655	20	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-related	11	14	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	1	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	2600	202	0
Total resolutions	2802		
No. AGMs	156		
No. EGMs	42		
No. of companies voted on	188		
No. of companies where voted against management on at least one resolution	88		
% of companies with at least one vote against	47%		

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 - 34
- Directors-related - 66
- Remuneration-related - 65
- Reorganisation and Mergers - 2
- Routine/Business - 20
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Director-related - 14
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 1
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against

- No. of companies where supported management
- No. of companies where voted against management

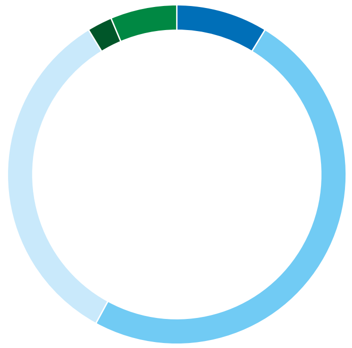
LGIM voted against at least one resolution at **47%** of UK companies over the quarter

Europe - Q3 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	0	0	0
Capitalisation	70	11	0
Directors-related	207	62	0
Remuneration-related	47	42	0
Reorganisation and Mergers	10	3	0
Routine/Business	190	8	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-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	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	524	126	0
Total resolutions	650		
No. AGMs	34		
No. EGMs	12		
No. of companies voted on	46		
No. of companies where voted against management on at least one resolution	28		
% of companies with at least one vote against	61%		

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 - 11
- Directors-related - 62
- Remuneration-related - 42
- Reorganisation and Mergers - 3
- Routine/Business - 8
- 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

- No. of companies where supported management
- No. of companies where voted against management

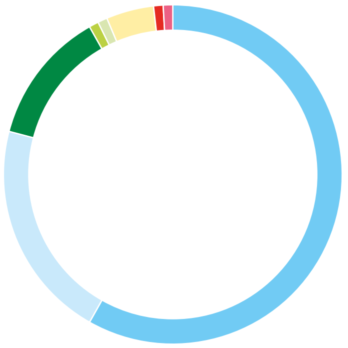
LGIM voted against at least one resolution at **61%** of European companies over the quarter

North America - Q3 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	4	0	0
Capitalisation	5	0	0
Directors-related	216	64	0
Remuneration-related	24	23	0
Reorganisation and Mergers	5	0	0
Routine/Business	24	14	0
Shareholder Proposal - Compensation	2	1	0
Shareholder Proposal - Corporate Governance	2	1	0
Shareholder Proposal - Director-related	5	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	1	5	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	1	0
Shareholder Proposal - Social	1	1	0
Total	289	110	0
Total resolutions	399		
No. AGMs	34		
No. EGMs	6		
No. of companies voted on	39		
No. of companies where voted against management on at least one resolution	33		
% 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 - 0
- Capitalisation - 0
- Directors-related - 64
- Remuneration-related - 23
- Reorganisation and Mergers - 0
- Routine/Business - 14
- Shareholder Proposal - Compensation - 1
- Shareholder Proposal - Corporate Governance - 1
- Shareholder Proposal - Directors-related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 5
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 1
- Shareholder Proposal - Social - 1

Number of companies voted for/against

- No. of companies where supported management
- No. of companies where voted against management

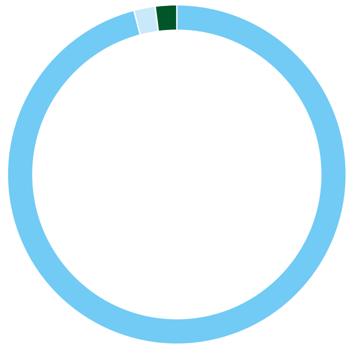
LGIM voted against at least one resolution at **85%** of North American companies over the quarter

Japan - Q3 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	0	0	0
Capitalisation	0	0	0
Directors-related	215	47	0
Remuneration-related	3	1	0
Reorganisation and Mergers	4	1	0
Routine/Business	13	0	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-related	5	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	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	240	49	0
Total resolutions	289		
No. AGMs	23		
No. EGMs	0		
No. of companies voted on	23		
No. of companies where voted against management on at least one resolution	21		
% 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 - 0
- Directors-related - 47
- Remuneration-related - 1
- Reorganisation and Mergers - 1
- Routine/Business - 0
- 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

- No. of companies where supported management
- No. of companies where voted against management

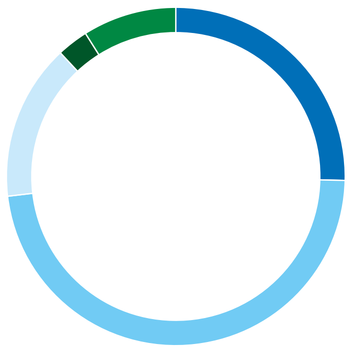
LGIM voted against at least one resolution at **91%** of Japanese companies over the quarter

Asia Pacific - Q3 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	1	0	0
Capitalisation	37	17	0
Directors-related	108	32	0
Remuneration-related	12	10	0
Reorganisation and Mergers	11	2	0
Routine/Business	67	6	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-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	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	237	67	0
Total resolutions	304		
No. AGMs	32		
No. EGMs	16		
No. of companies voted on	46		
No. of companies where voted against management on at least one resolution	24		
% of companies with at least one vote against	52%		

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 - 17
- Directors-related - 32
- Remuneration-related - 10
- Reorganisation and Mergers - 2
- Routine/Business - 6
- 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

- No. of companies where supported management
- No. of companies where voted against management

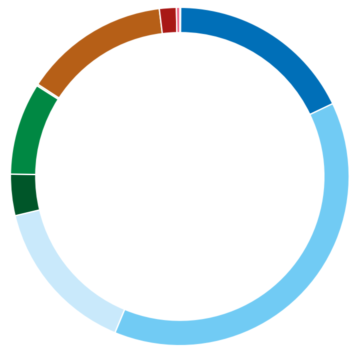
LGIM voted against at least one resolution at 52% of Asia Pacific companies over the quarter

Emerging markets - Q3 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	1	1	0
Capitalisation	1159	221	0
Directors-related	1460	359	116
Remuneration-related	128	186	0
Reorganisation and Mergers	610	49	0
Routine/Business	1086	109	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	2	0
Shareholder Proposal - Director-related	14	172	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	20	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	4	0
Total	4459	1123	116
Total resolutions	5698		
No. AGMs	264		
No. EGMs	354		
No. of companies voted on	578		
No. of companies where voted against management on at least one resolution	283		
% of companies with at least one vote against	49%		

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 - 1
- Capitalisation - 221
- Directors-related - 475
- Remuneration-related - 186
- Reorganisation and Mergers - 49
- Routine/Business - 109
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 2
- Shareholder Proposal - Directors-related - 172
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 20
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 4

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 49% of emerging markets companies over the quarter

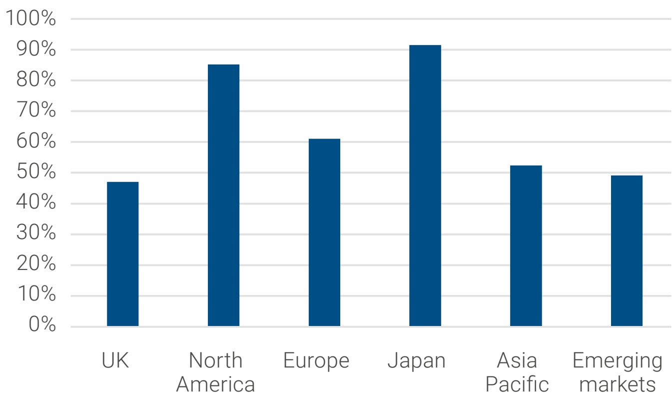
Global voting summary

Voting totals

Proposal category	For	Against	Abstain	Total
Antitakeover-related	104	1	0	105
Capitalisation	1813	283	0	2096
Directors-related	3224	630	116	3970
Remuneration-related	469	327	0	796
Reorganisation and Mergers	661	57	0	718
Routine/Business	2035	157	0	2192
Shareholder Proposal - Compensation	2	1	0	3
Shareholder Proposal - Corporate Governance	2	3	0	5
Shareholder Proposal - Directors-related	36	186	0	222
Shareholder Proposal - General Economic Issues	0	0	0	0
Shareholder Proposal - Health/Environment	0	0	0	0
Shareholder Proposal - Other/Miscellaneous	1	5	0	6
Shareholder Proposal - Routine/Business	1	21	0	22
Shareholder Proposal - Social/Human Rights	0	1	0	1
Shareholder Proposal - Social	1	5	0	6
Total	8349	1677	116	10142
No. AGMs	543			
No. EGMs	430			
No. of companies voted on	920			
No. of companies where voted against management on at least one resolution	477			
% of companies with at least one vote against	52%			

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

168
Total number of engagements during the quarter

158
Number of companies engaged with

Number of engagements on

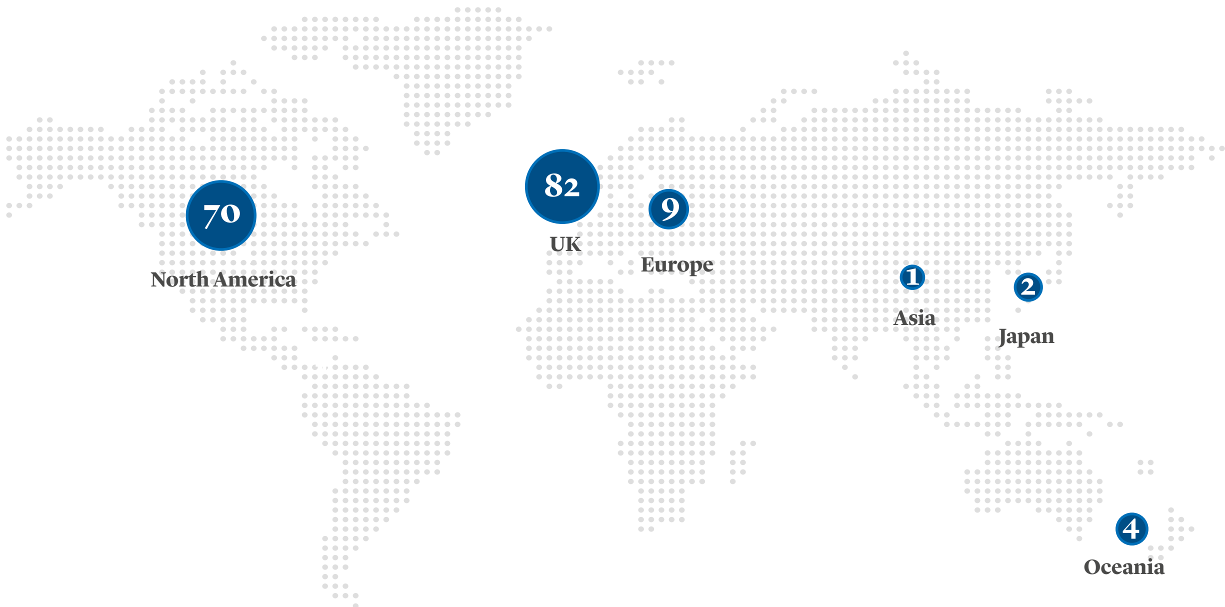
10
Environmental topics

30
Other topics (e.g. financial and strategy)

68
Governance topics

114
Social topics

Breakdown of our engagements by market



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Engagement type

2
Face-to-face

35
Conference call

131
Email/letter

Top five engagement topics

1. Gender and ethnic diversity – **92** engagements
2. Remuneration – **50** engagements
3. COVID-19 – **20** engagements
4. Disclosures – **15** engagements
5. Public health – **13** engagements

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 October 2020.

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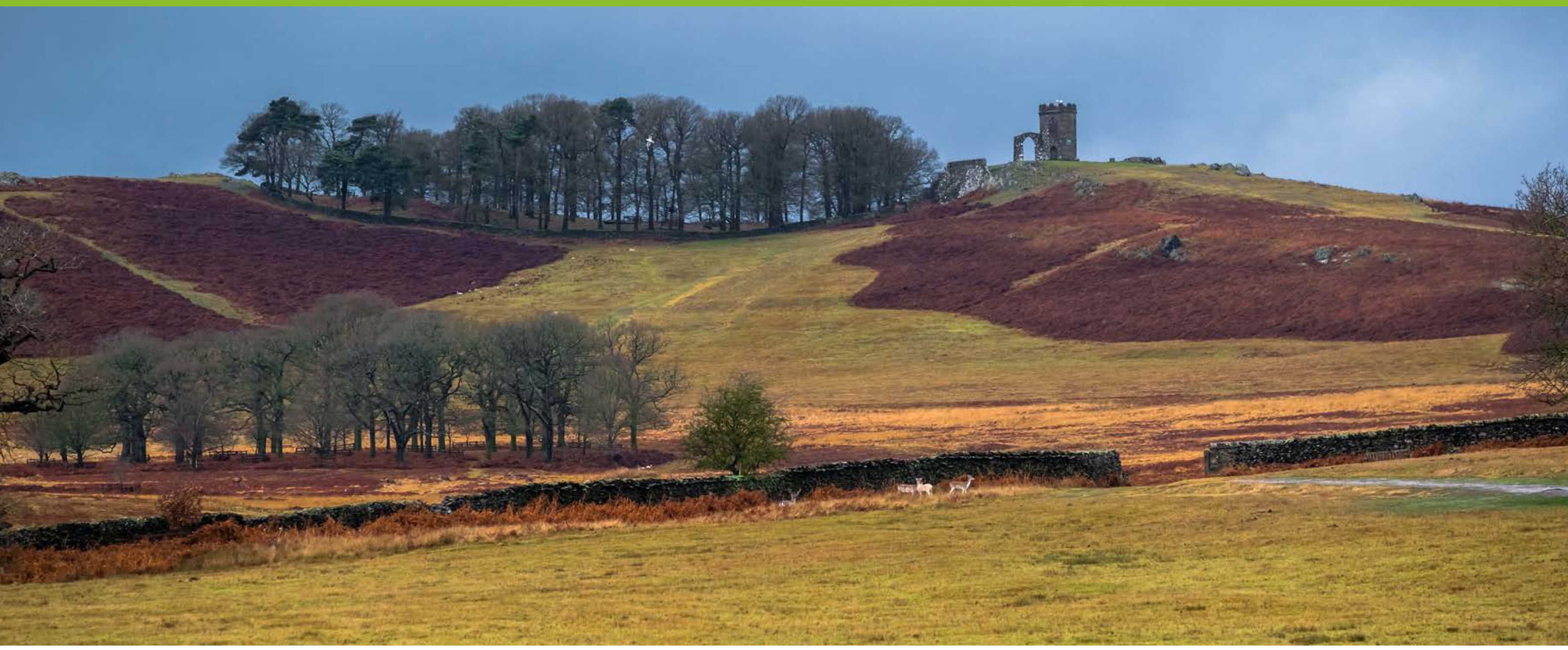
CC879102020

Legal & General
INVESTMENT MANAGEMENT

LGPS Central Limited

Quarterly Stewardship Update

SECOND QUARTER, 2020-21 (JULY - SEPTEMBER 2020)



Cheshire Pension Fund

Derbyshire Pension Fund

Leicestershire County Council Pension Fund

Nottinghamshire County Council

Shropshire County Pension Fund

Staffordshire Pension Fund
Local Government Pension Scheme

West Midlands Pension Fund

Worcestershire Pension Fund

Responsible Investment & Engagement

LGPS Central's approach

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

OBJECTIVE #1

Support investment objectives

OBJECTIVE #2

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

These objectives are met through three pillars:

*Our **Selection** of assets*

*Our **Stewardship** of assets*

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

This 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

While the COVID 19 health pandemic continues and disruption is becoming the new normal, climate change is a pressing twin crisis that manifests in various ways including, for instance, through the increased number of wildfires that we have seen across various regions globally.

Governments, industries and individual companies' ability to take drastic measures in light of the health pandemic seems unprecedented. Whether we are equally able to take necessary action against the longer-term climate threat is yet unclear. What seems clear, however, is that environmental and social sustainability are increasingly accepted as necessary catalysts for sustainable economic and financial outcomes over the long horizon. The EU is on track to establish a "sustainable investment taxonomy" as part of their Sustainable Finance Action Plan. During the last quarter, EU and China have agreed to co-chair an international taskforce on sustainable finance taxonomies which aims to set out commonalities of existing taxonomies by mid-2021. We very much welcome these developments, which will aid companies in what they should report on and investors in having access to robust, material information.

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 current three-year period (2020 – 23) are:

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

This quarter our engagement set[1] comprised 390 companies with 866 engagement issues[2]. There was engagement activity on 779 engagement issues and objectives[3], and achievement of some or all specific engagement objectives on 180 occasions. Most engagements were conducted through letter issuance or remote company meetings, where we, our partners or our stewardship provider in a majority of cases met or wrote to the Chair, a Board member or a member of senior management.

[1] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider.

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

[3] Multiple issues are often raised in dialogue with a company that may fall outside of core engagement objectives.

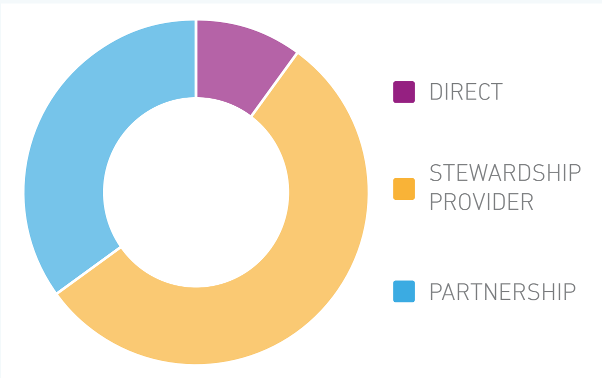
CLIMATE CHANGE ENGAGEMENTS

This quarter, our climate change engagement set comprised 148 companies with 183 engagements issues[4]. There was engagement activity on 157 engagement issues and achievement of some or all specific engagement objectives on 73 occasions.

In September, letters went out to all Climate Action 100+ (CA100+) companies asking them to commit to a net-zero carbon emissions target by 2050 for their operations, products and services to end users. It is a challenging order, yet it is an order commensurate to the risks that we face as a global economy and community. Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the latest Global Risks Report from the World Economic Forum. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. The letter from CA100+ investor members marks the start of a Benchmark Framework project that will allow evaluation of company progress on short-medium-and long-term trajectories to 2050, as well as scoring of companies within and across sectors.

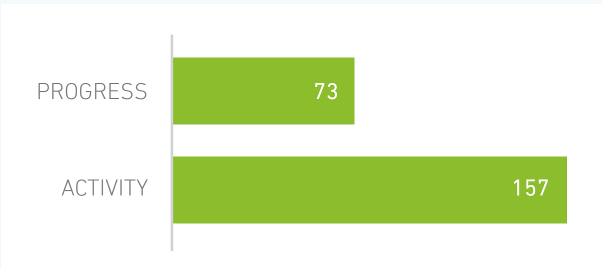
LGPS Central is co-leading or in the focus group of engagements with nine CA100+ companies, the majority of which are oil & gas and mining companies. During the last quarter we continued engagement with a **diversified mining company** that is part of the Climate Action 100+ (CA100+) engagement project. Together with CA100+ peer investors we met the Chair of the Board alongside senior management representatives to discuss how the Company is progressing its climate commitment across several key parameters. These include emissions reduction targets for the Company's operations (Scope 1 and 2)[5]; emissions reduction for its products (Scope 3); scenario testing; governance and remuneration to reflect climate ambitions, as well as climate policy advocacy. We were encouraged to hear that the Company is doing work to test its business resilience against various temperature scenarios, including 1.5C. In connection with this, the Company is going through an annual process of "life of mines" planning to capture emissions data from each operation and consider what emissions reductions can be delivered. The Company has previously announced a projected 30% decline in its Scope 3 carbon emissions by 2035. This will be achieved by managed decline of its coal assets. We were informed that this projection is being tested against a 1.5C and the details of methodology and results will be made public before the end of 2020. We expressed expectations that the Company use direct and indirect lobbying to proactively advocate Paris-aligned policy interventions. We also touched on the need for investors to gain insight into the motivation of executives with regard to carbon reduction targets. We were assured that climate targets will be a material part of executive compensation and that further details will be disclosed in the near term. The Company has hired a Climate Change Policy Director in recognition of the increasing relevance of climate change across the business and to help tackle this issue in a structured way. We will continue dialogue with the Company in a manner that reflects the step-change in expectation from investors through the CA100+ Benchmark Framework project.

ENGAGEMENT VOLUME BY TYPE



- 183 engagements in progress
- Majority of engagements undertaken via CA100+
- Step-change in investor expectations for net-zero ambition from all CA100+ companies through new Benchmark Framework

ENGAGEMENT VOLUME BY OUTCOME



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

[5] Scope 1 are direct GHG emissions that occur from sources that are owned or controlled by the company, Scope 2 are indirect GHG emissions from the generation of purchased electricity consumed by a company, Scope 3 are other indirect GHG emissions that occur as a consequence of the use of products and services provided by the company (e.g. combustion of fossil fuels for a vehicle).

PLASTIC ENGAGEMENTS

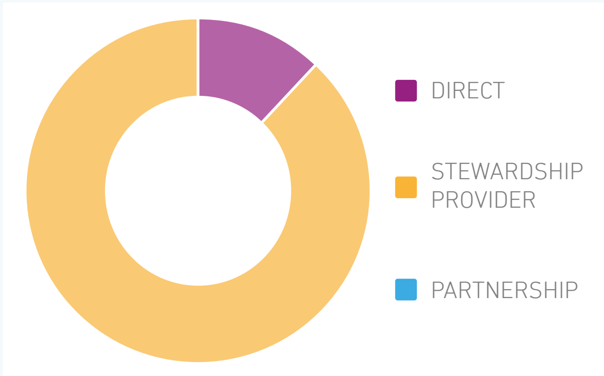
This quarter our single-use plastics engagement set comprised 14 companies with 16 engagement issues[6]. There was engagement activity on 15 engagements and achievement of some or all engagement objectives on seven occasions.

During the last quarter, we joined a sub-group of the PRI plastics working group and led by Dutch investors Achmea Investment Management and Actiam, that has set out to engage **packaging companies**. The objective is to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics. With increasing attention from governments to the negative impacts of plastic use and consumers calling for less harmful alternatives, investee companies in the plastic value chain are exposed to increasing regulatory risks, environmental risks, reputational risks and the risk of missing out to market developments.

We engaged a **US-based industrial packaging company** which is seeing greater interest from its customer base for sustainability in the last 4-5 years and as a result, is expanding its post-consumer resin (PCR) products, capabilities and technologies. PCR plastics are recycled materials from existing polyethylene terephthalate (considered safe and is represented on water bottles as a safe option) and other plastics. Demand for PCR is greater among customers in Europe than in North America and the Company is actively educating its customers both on the quality and safety of recycled products and on emissions impacts for specific products. In all these engagements, the investor group would like to see ambitious targets for reduction, re-use and replacement of plastic and clear Key Performance Indicators (KPIs) and timelines for how targets can be achieved. The aforementioned Company is currently going through a KPI setting procedure and we encouraged them to integrate relevant KPIs on sustainability progress in executive remuneration. The Company seems to welcome further investor input to the KPI setting process, and we will continue dialogue to discuss the development of targets and what progress is being made against those.

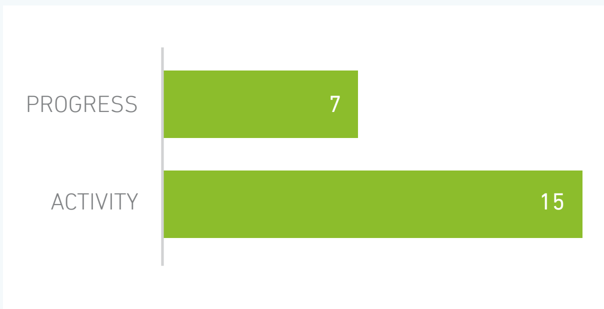
Together with four other investors, we continued our engagement with a **multinational food manufacturing company** headquartered in the US to discuss their global sustainable packaging targets. The Company is working towards a goal of having 100% reusable, recyclable or compostable packaging by the end of 2025. Good progress has already been made and as at the end of 2019 plastic packaging amounted to 62,488 MT with 15% of total plastic packaging not yet recyclable. The gaps that need to be closed are on multi-material packaging, cereal liners and flow-wrap. The Company is establishing regional action plans to test and learn how different solutions can help meet targets, but also to discover and discard what might not be working. These include pilot projects to use alternative packaging (e.g. all paper or metal), reduction of packaging volumes, incorporation of recycled materials, and potentially exclusion of certain materials that cannot be recycled or reused. The Company is also encouraging end-of-life plastic collection and recycling infrastructure in collaboration with waste management companies. Certain markets are further behind in terms of facilitating a circular economy. Work to partner across the Company's value chain is ongoing, with a focus on addressing industry barriers to sustainable packaging both among plastic suppliers and users. We were assured that the Company board has strong ESG performance oversight. Performance against sustainability metrics is reported to a Board sub-committee on Social Responsibility and Public Policy several times a year. The investor group has asked to continue engagement with the Company and to discuss further progress against the sustainable packaging targets with a board representative at the next iteration.

ENGAGEMENT VOLUME BY ***TYPE***



- 16 engagements during the quarter
- Sub-group of PRI Plastics Working Group engages packaging producers to support and encourage "Plastic transition" in the form of reduction, re-use and replacement of fossil-fuel based plastics
- Engagement with US-based food manufacturing company on their global sustainable packaging targets continues

ENGAGEMENT VOLUME BY ***OUTCOME***



[6] There can be more than one plastics-related engagement issue per company.

FAIR TAX PAYMENT AND TAX TRANSPARENCY ACTIVITY/ENGAGEMENT

This quarter, our tax transparency engagement set comprised 10 companies with 11 engagements issues[7]. There was engagement activity on 6 engagements and achievement of some or all engagement objectives on two occasions.

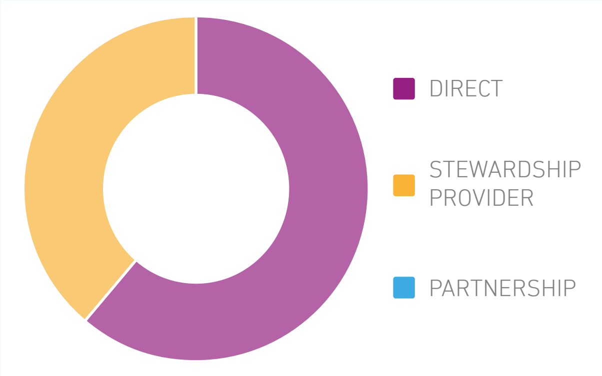
Governments continue to provide tax relief to businessess during this ongoing health pandemic and we anticipate pressure from the public to ensure that businesses that benefit from government support contribute more responsibly to society. This is likely to translate into more scrutiny of tax arrangements, employment law, worker health and safety, and executive pay against a backdrop of high unemployment and inequality. In tandem, we think investor interest and scrutiny on companies' responsible tax behaviour and their willingness to pay ther fair share of tax will increase.

We have continued collaboration with five fellow European investors to engage a selection of companies across technology, telecommunication, finance and mining sectors. In conversation with a **US-domiciled software and services company** we discussed the Company's approach to tax and how it defines and manages tax related risks. The Company established a Global Corporate Income Tax Matter Policy in 2019 and we were told that the Board stays closely involved and asks questions around tax risk through its Audit Committee. We probed the Company on its tax strategy for digital products and the use of foreign jurisdictions with lower tax rates. We are generally concerned if companies appear to utilise aggressive tax planning strategies. While the company we engaged assured us that it is not seeking tax havens, we would like to see that more clearly articulated in both policy and practice. The Company has a subsidiary incorporated in Ireland but which is tax resident in another jurisdiction paying zero tax. This raises some 'red flags' from the outset and does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework. We will seek further clarification from the Company on the underlying realities and whether we might expect a change in tax practices under the newly established tax policy.

On our behalf, EOS at Federated Hermes engaged a **European banking services company** on various ESG issue including tax transparency and responsible tax behaviour. The Company has previously taken on board EOS' tax expectation and shown a willingness to go beyond standard tax policy and financial reporting, in particular: 1. Framing the bank's approach to tax within its commitment to be a responsible bank, including staff conduct; 2. Including in its approach safeguards and controls related to subsidiaries and front office staff. EOS requested a meeting with the Chair of the Board Sustainability Committee and agreed to provide views on a sustainable banking impact scorecard and the Company's latest tax transparency.

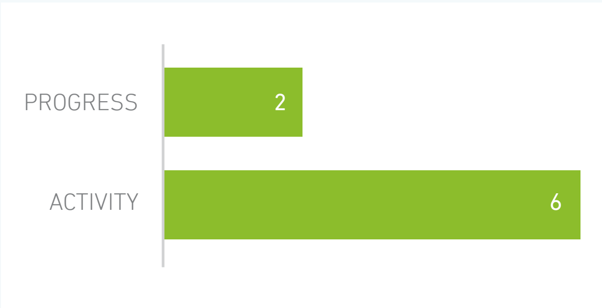
[7] There can be more than one tax-related engagement issue per company

*ENGAGEMENT VOLUME BY **TYPE***



- 11 engagements during the quarter
- Collaboration with peer European investors to engage a selection of companies across vulnerable sectors continues
- We expect continued scrutiny from investors and other stakeholders on responsible tax behaviour in a situation of prolonged COVID 19 pandemic

*ENGAGEMENT VOLUME BY **OUTCOME***



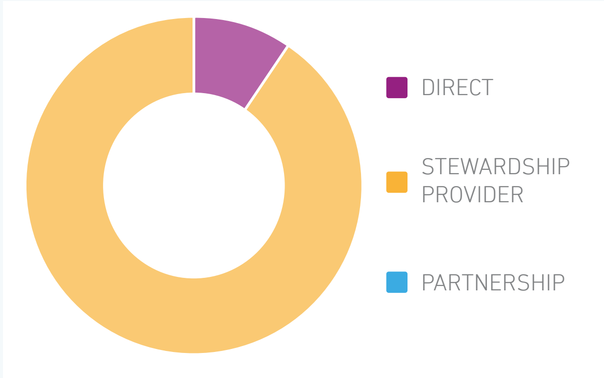
TECHNOLOGY AND DISRUPTIVE INDUSTRIES

This quarter our technology and disruptive industries engagement set comprised 16 companies with 27 engagements issues. There was engagement activity on all engagement issues and achievement of some or all engagement objectives on four 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 disinformation and harmful content on social media platforms. In the face of COVID 19 and a highly polarised US presidential election, it is all the more welcome that the World Federation of Advertisers has negotiated a deal with Facebook, YouTube and Twitter on harmful content including hate speech and aggression. The aim is to establish harmonised reporting standards across platforms and empower external auditors to oversee the system, which will launch in the second half of 2021.

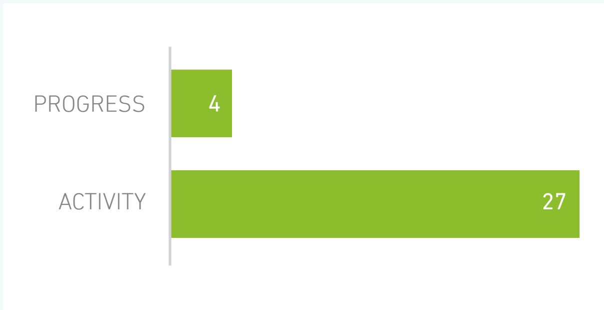
Over the last quarter, we took part in collaborative investor engagement, led by the New Zealand Crown-owned investors, with **Facebook** and **Twitter** to discuss their governance and operations to ensure appropriate social media content control. Both companies are taking encouraging steps to efficiently assess content and to remove objectionable content from their platforms. Technology is developing rapidly and with the help of AI the companies appear more effective at capturing contextual content such as hate speech. Facebook has established an Oversight Board to ensure fair decision-making in situations where free speech is at odds with authenticity, safety, privacy and dignity, and that will assist in hearing difficult and important content removal decisions. The Board may overrule management and may comment on policies in order to ensure that these are aligned with the Company's core values. Rebuilding trust with advertisers and users should be a focus for Facebook going forward. We expect them to move the discussion from a focus on risk management and mitigation to prevention. Twitter provides a public biannual transparency report which describes how content is managed in relation to issues like elections integrity, cyber security, data protection and harmful content amongst others. Twitter actively seeks collaboration with peers and other stakeholders in order to discuss the challenges and how they can best be tackled. The investor coalition has signalled to the companies the importance of board oversight and has requested to meet board directors at both companies in the next engagement.

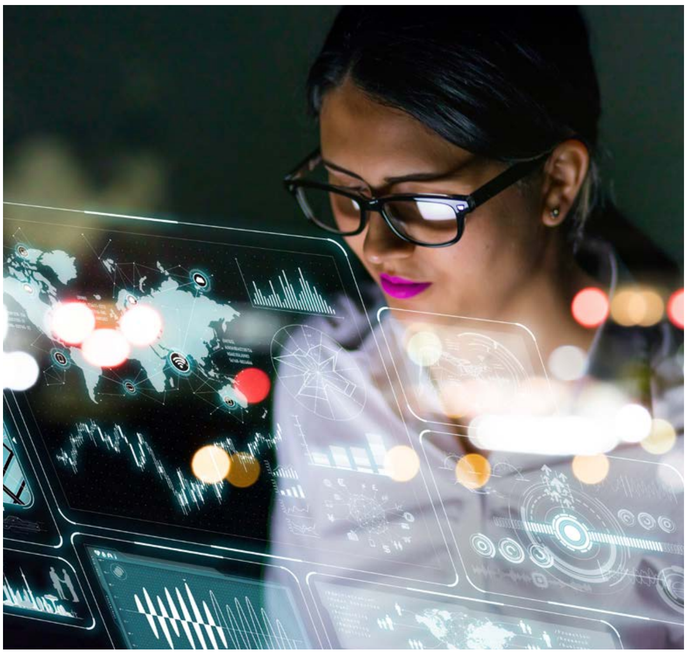
*ENGAGEMENT VOLUME BY **TYPE***



- 27 engagements in progress
- Broader stakeholder concern over hate speech and misinformation amplify ongoing engagements
- Facebook and Twitter taking clear steps to increase oversight and collaborate on social media content control

*ENGAGEMENT VOLUME BY **OUTCOME***





Examples of engagement outside of stewardship themes

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

Our engagement on the long-term investments risks inherent in deforestation continues, both at policy and company levels. 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. During the last quarter, investors led by Storebrand (Norway) and BlueBay Asset Management (UK), has formed an Investors Policy Dialogue on Deforestation (IPDD) initiative. LGPS Central is on the Advisory Committee of IPDD which during the last quarter met with the Ambassador of the EU delegation in Brazil to discuss IPDD's core expectations. We expect Brazilian authorities to halt and reverse deforestation while allowing investors access to data to monitor progress. This message has been communicated from investors over the last 4-5 months to the highest political levels, including to the Brazilian Vice President, the Governor of the Brazilian Central Bank and members of the Brazilian Congress. IPDD will be a two-year project that also aims to span other regions of the world that face deforestation risk. Alongside the policy engagement project, 80 investors including LGPS Central have sent letters to three Brazilian meat processors calling on the companies to better manage deforestation risks and to provide full traceability across their entire cattle supply chain. Two of the companies have made subsequent public commitments to traceability. One is committing to achieving full traceability in the Amazon by 2025 and the Cerrado by 2030, thus aiming to have a deforestation free supply chain by 2030. The other pledges to full traceability of its supply chain, including indirect suppliers, by 2025 (Amazon biome).

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 2019. Together with fellow 30% Investor Club members, and led by Royal London Asset Management, we engaged a Japanese financial services company on the issue of diversity and inclusion during the last quarter. Interestingly, the Company had not been approached by investors to discuss diversity previously, so this was the first dialogue on the issue. The Company explained that it views diversity of people, not just on gender but more broadly on ethnicity, age and nationality, as its greatest asset. A Diversity Promotion Committee has been established to ensure that measures such as child-care leave, flexible and shortened workhours, flexibility to change work location, support of women's empowerment (e.g. through leadership seminars) are offered to employees across the organisation. A general hurdle to achieving greater diversity at board level is the fact that historically, Japanese women in their 40ies and 50ies gave up their carrier to raise a family. During the investor meeting, we found the company had no targets for gender representation on the Board and deemed 30% Club aims unrealistic. Its only gender diversity goal is to increase female senior executives, which currently represent 4%, from 10 people to 20 people by 2025. We encouraged the Company to set and/or increase targets for diversity at all levels of the organisation and to provide more information to investors on how these targets will be met going forward.

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

Between July - September 2020, we:

- Voted at 354 meetings (4,197 resolutions) globally
- Opposed one or more resolutions at 170 meetings
- Voted with management by exception at 25 meetings and abstained at three meetings.
- Supported management on all resolutions at the remaining 156 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 four companies on five resolutions during this quarter. We voted in alignment with LAPFF recommendations in all of these cases.

EXAMPLES OF VOTING DECISIONS

At the AGM of **Alibaba Group (Alibaba)**, we voted against the re-election of Kabir Misra. Misra is a representative of a major shareholder (Softbank) in Alibaba and the Company has not determined him as independent. His election would take the overall board independence to 45% and below the majority. As a consequence, and in order to send a clear signal to the company about the importance of majority independence on the board, we also voted against non-independent director Maggie Wei. Wei is one of two female directors on the Alibaba board. While we would like to see a more gender diverse board, establishing a board that is majority independent is a necessary building block in order to foster that diversity going forward. Near 20% of shareholders opposed the election of these two directors at the AGM. Alibaba has put in place the "Alibaba Partnership" and related voting agreements, which limit the ability of shareholders to nominate and elect directors. The Alibaba Partnership currently comprises 36 members and has the right to nominate and appoint up to a simple majority of the directors of Alibaba. Our stewardship provider is seeking dialogue with Alibaba to discuss the nomination committee and the Alibaba Partnership. Alibaba founder Jack Ma is stepping down from the board which currently leaves the nomination committee without a chair.

At the **AGM of Vodafone Group Plc**, we voted against the re-election of a board member, David Thodey (member of the audit committee) due to concerns around over-boarding. David Thodey has three other non-executive appointments in addition to Vodafone. These include two chairmanship positions at Xero Limited and Tyro Payments, and Thodey is also a member of the audit and nomination committee at Ramsey Health Care Limited. Overall, this means significant commitment especially during the ongoing Covid 19 pandemic which could undermine his ability to serve effectively as a non-executive director of Vodafone. As stated in LGPS Central's voting principles, we expect board members to devote sufficient time to their directorships, to refrain from becoming "over-boarded" and to attend all relevant meetings including committee meetings (audit, nomination, remuneration or other). This is in line with the UK Corporate Governance Code which recommends that non-executive directors should have sufficient time to meet their board responsibilities. The day before Vodafone's AGM, the Company announced that it had received notice from David Thodey of his resignation from the Vodafone Board, which means he did not seek re-election at the AGM.

At the AGM of **Tesla**, we opposed the ratification of Named Executive Officers' Compensation. Tesla focuses remuneration around salary and equity awards. The focus is exclusively on equity awards for the CEO which the company argues aligns his interest with those of shareholders. We are concerned that the scale of potential awards is too high. In 2018, CEO Elon Musk was awarded $2.3 bn by the company, largely in stock options. We are also concerned about the fact that share options for the CEO can vest already this year, only one year since setting the award scheme, which in our view is not long term. On our behalf, EOS has expressed concern to Tesla over excessive award options capable of vesting in a short time frame to boost low executive base pay. More than 15% of shareholders voted against the executive pay which is a notable dissent that the company should heed. Further to this, we supported a shareholder proposal put to the AGM asking Tesla to embed respect for human rights within operations and through business relationships. Tesla is exposed to significant human rights risks in its operations and supply chain which may have a material impact on the Company. Existing disclosures to provide evidence of effective human rights due diligence is underwhelming. The requested report would describe (1) board oversight of human rights and (2) human rights due diligence processes, including systems for providing meaningful remedy when adverse human rights impacts occur. The Company appears to lack a clear "tone from the top" on these issues, including on labour relations issues, worker health and safety violations, and discrimination and harassment. Looking at the voting result, this concern is shared by approximately one quarter of the shareholder base.

At the AGM of **Diageo**, we voted against the Remuneration Policy on the grounds that it allows for excessive pay. Near 7% of shareholders opposed the Policy. Through our stewardship provider, EOS, we have engaged Diageo on the design of the remuneration policy and on actions taken in light of the health pandemic impacting the remuneration report. The primary concerns which have been voiced to the Remuneration Committee Chair are variable pay opportunity at 700% of base salary (and a high base salary); continued use of options; poor malus and clawback provisions. As stated in LGPS Central's Voting Principles, we hold the view that remuneration should be no more than is necessary and sufficient to attract and retain talent. Levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. The main reason for Diageo's approach to executive remuneration is the extent to which they are competing with US companies for talent. However, we remain generally concerned about pay practices in the US (opposing c. 80% of pay proposals in the US) hence this argument did not overturn our opposition to the remuneration policy. The Company decided to award the 2020 LTIP at normal levels, despite share price decline although there is a commitment to revise downwards at vesting if there have been disproportionate gains as a result of a rally in the market. On a positive note, the Company has signalled that it will introduce ESG measures into the LTIP, which will likely bring a more rounded approach to the remuneration scheme and align to long-term value

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 **11.11.2020**.

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

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