FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

9 June 2021

Report of the Director of Finance & ICT

Stewardship Report

1. Purpose

1.1 To provide the Pensions & Investments Committee with an overview of the stewardship activity carried out by Derbyshire Pension Fund's (the Fund) external investment managers in the quarter ended 31 March 2021.

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) (LGPSC):

- Q1 2021 LGIM ESG Impact Report (Appendix 2)
- Q4 2020/21 LGPSC Quarterly Stewardship Report (Appendix 3).

LGIM manages around £1.5bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; Emerging Market Equities; and Global Sustainable Equities. LGPSC currently manages around £0.4bn of assets on behalf of the Fund through its Global Emerging Market Equities Sub-Fund and Global Investment Grade Bonds Sub-Fund. It is expected that LGPSC 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 Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4 Background Papers

4.1 Papers held in the Investment Section.

5 Appendices

5.1 Appendix 1 - Implications.
5.2 Appendix 2 - Q1 2021 LGIM ESG Impact Report.
5.3 Appendix 3 - Q4 2020/21 LGPSC Quarterly Stewardship Report.

6 Recommendation(s)

That Committee:

a) note the stewardship activity of LGIM & LGPSC.

Report Author: Peter Handford
Director of Finance & ICT

Appendix 1

<u>**Implications**</u>

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

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ESG Impact Report

Q1 2021

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

Our mission

To use our influence to ensure that:

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

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

In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

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 while seeking to benefit from emerging opportunities. We aim to safeguard 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 ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. 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 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 influence and scale to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change.

Q1 2021 | ESG Impact Report

Action and impact

In the first quarter of 2021, we continued to focus our engagements with companies on the issues of executive pay and climate change, while also highlighting that the pandemic and growing global awareness of racial injustice have brought other societal inequalities to the fore.

First lead independent director (LID) on a German board

Following on our experience of engaging with companies, regulators and other stakeholders globally, we believe the presence of a LID is indispensable to a well-run board as they play a key role in supporting the supervisory board chair and are also an independent counter-power. In 2018, LGIM initiated an engagement campaign with the supervisory board chairs of 18 DAX 30 companies to formally request that they appoint a LID on their supervisory boards. In addition, LGIM made the same request directly to the German Commission in charge of the review of the code of governance (Regierungskommission Deutscher Corporate Governance Kodex) during its last consultation in 2019, to ask for the recommendation to appoint a LID on supervisory boards to be introduced.

At its 2021 Annual General Meeting (AGM), Siemens Energy submitted to shareholders the appointment of Mr Hans Hubert Lienhard to the innovative new position of special independent director on its supervisory board, in a role with responsibilities which correspond to those of a LID.

LGIM pre-declared our voting intention to publicly support the decision taken by Siemens Energy* and also encourage this practice among other German companies.

Holding caterer company Compass* to account on income inequality-related issues

Following the negative media coverage in the UK in January in relation to the content of free school meals distributed by Chartwells, a Compass Group subsidiary, LGIM joined an investor collaboration to hold the food and support services company to account. In a letter signed by investors representing a total of £3 trillion of assets under management, we publicly[1] wrote to Compass' CEO to demand an explanation and commitments from the company on the matter.

The CEO responded directly to us outlining the company's response, and we received some comfort about the various initiatives mentioned in the letter. We are monitoring the company's actions and will continue to engage with them.

UK board effectiveness reviews

In January, the Chartered Governance Institute (ICSA), released a report[2] on board effectiveness reviews of listed companies, to which LGIM's Investment Stewardship team contributed, with our Director of Investment Stewardship sitting on the Steering Committee.

*References to any securities are for illustrative purposes only

1. https://citywire.co.uk/funds-insider/news/esg-managers-raise-rashford-meal-concerns-with-compass/a1450007
2. https://www.icsa.org.uk/assets/files/pdfs/Publications/board-evaluation_full-report.pdf

Many of our suggestions were taken into account and this document broadly aligns with LGIM's guide on board effectiveness reviews.[3] The report introduces:

- A code for board reviewers undertaking the review for FTSE 350 companies
- Principles of good practice for listed companies and other organisations using the services of external board reviewers
- Reporting on board performance reviews: Guidance for listed companies

We believe this development will further encourage and support the efficiency of board effectiveness reviews in the UK, a key mechanism of corporate-governance best practice.

Taskforce on Nature-related Financial Disclosures (TNFD)

LGIM joined the TNFD Observer Group as a member in the first quarter of 2021. The TNFD seeks to provide a framework for corporates and financial institutions to assess, manage and report on their dependencies and impacts on nature. It also seeks to aid in the appraisal of nature-related risk and the redirection of global financial flows away from nature-negative outcomes and towards nature-positive outcomes. As an observer member, our primary contribution is to provide feedback on the output of the working groups, so as to help support the preparatory phase of the TNFD.

3. https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/board-effectiveness-reviews.pdf

Collaborative engagement on sustainable aquaculture

LGIM signed on to support the FAIRR investor engagement on sustainable aquaculture: managing biodiversity and climate risks in feed supply chains. As part of this initiative, we will encourage the world's largest salmon companies to develop strategic, science-based approaches to diversify their feed ingredient sources to better manage ESG risks associated with sourcing wild forage fish and soy. Companies will also be asked to disclose their strategies to diversify their feed ingredients towards lower impact and more sustainable alternatives.

Aquaculture remains the fastest-growing food-production sector, and accounts for over half of all fish consumed by humans. It, however, relies on the products of wild forage fish, where there is currently a lack of consensus on the extent to which fisheries can be exploited, which presents risks. We have written letters to the companies with our expectations and will follow these up with engagements, which will be discussed in future.

UK executive pay

Every year LGIM undertakes multiple engagements related to the structure and quantum of executive pay. Executive pay structures raise concerns over income inequality, considering that on average CEO pay was 144x the average UK worker in 2019.[4]

We have provided some specific named examples of engagements on executive pay in this report. However, many of our most successful engagements on pay-related issues remain behind closed doors, given the sensitivity of the discussions. We would like to highlight one of these engagements and the outcome during the quarter.

Over the last two quarters we have engaged with a FTSE 100 company whose remuneration committee thought it was essential to grant a one-off award to an executive director. We have concerns regarding the use of this type of pay structure at our investee holdings, where total pay is already significant and in particular when a single person is rewarded, rather than a whole team, for a achieving a set goal. We engaged with the company multiple times to dissuade the committee to make such an award, including escalating our discussions to the Chair of the Board and putting our concerns in writing. We were relieved when the company wrote to us and other shareholders to confirm that they would not be proceeding with the additional one-off award.

Voting policy changes

As part of an annual process, this year we updated our global policies to require company boards to comprise at least 30% female representation. Our UK and North American policies take this one step further requiring the board to include at least one person with an ethnic minority background.

Other important updates include a requirement to ensure that the Chair of the Audit Committee has relevant financial expertise, regular rotation of the external audit partner and for a regular auditor tender process to be carried out with auditor refreshment every 20 years.

We ask all companies to help reduce global poverty by paying at least the living wage to employees and by ensuring their Tier 1 suppliers do likewise. The living wage is usually higher than the minimum wage set by local regulation, to ensure that a sufficient wage is being earned to meet basic household needs.

COVID-19 has disrupted a company's ability to hold a physical AGM. We believe the physical AGM is an important shareholder right and platform for any shareholder to be able to be attend, be heard by the entire board and hold the board accountable for their actions. Historically, LGIM has been opposed to virtual-only AGMs but is supportive of a hybrid model. In light of the pandemic, LGIM has relaxed its views to support a virtual-only AGM, where regulations make it illegal to hold a physical meeting. However, in these circumstances, we would encourage companies to take every effort to give all shareholders an opportunity to pose questions via any electronic means and to have those answered at the AGM.

There are other changes to our policies, which can be found on our website.

4. CIPD in Association with the High Pay Centre "Executive Pay in the FTSE 100 – Is Everyone Getting a Fair Slice of the Cake".

Q1 2021 | ESG Impact Report

Significant votes

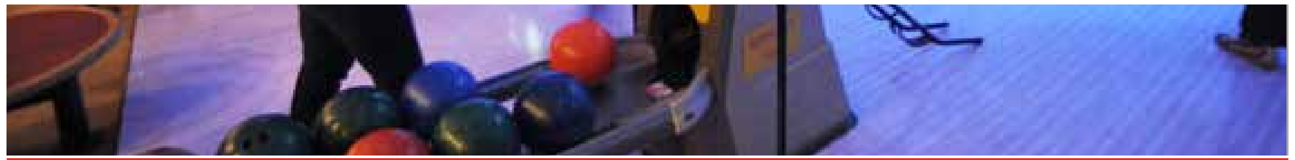
We have adapted our approach to provide detailed information to our clients on significant votes on a quarterly basis.

Company name: Walgreens Boots Alliance, Inc.*

Sector: Food and staples retailing | **market cap.** $46.1 billion (Source: Refinitiv, as at /04/2021)

Issue identified:	The company's compensation committee applied discretion to allow a long-term incentive plan award to vest when the company had not even achieved a threshold level of performance. This is an issue because investors expect pay and performance to be aligned. Exercising discretion in such a way during a year in which the company's earnings per share (EPS) declined by 88% caused a significant misalignment between pay and performance.
Summary of the resolution:	'Resolution 3 – Advisory vote to ratify named executive officer's compensation'. AGM date – 28 January 2021
How LGIM voted:	We voted against the resolution.
Rationale for the vote decision:	LGIM had a constructive engagement with the company in November 2020; however, it failed to mention the application of discretion during that call. We found this surprising given the significant impact it had on compensation, which was discussed, giving the company an opportunity to raise this. LGIM does not generally support the application of retrospective changes to performance conditions. Although the company was impacted by COVID-19, many of its shops remained open as they were considered an essential retailer. The company did not provide sufficient justification for the level of discretion applied which resulted in the payment of 94,539 shares or approximately $3.5m to the CEO in respect of the 2018-2020 award, which would otherwise have resulted in zero shares vesting.
Outcome:	The resolution failed to get a majority support as 52% of shareholders voted against.
Why is this vote significant?	It was 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: Hollywood Bowl Group*

Sector: Travel & Leisure | **market cap.** £389 million (Source: Refinitiv, as at 21/04/2021)

Issue identified:	The bowling alley operator has been financially impacted by the COVID-19 pandemic. This resulted in staff being furloughed and the company not paying dividends to shareholders. Despite this, the remuneration committee decided to exercise its discretion to allow for the performance period of the 2017 Long Term Incentive Plan (LTIP) award to be reduced from September 2020 to February 2020, to avoid having to factor in the financial consequences of the pandemic into the incentive plan. This resulted in the pro-rated LTIP vesting at 81% of salary.
Summary of the resolution:	Resolution 2 – approve remuneration report Resolution 3 – re-elect Nick Backhouse as director Resolution 7 – re-elect Ivan Schofield as director Resolution 8 – re-elect Claire Tiney as director AGM date - 27 January 2021.
How LGIM voted:	We voted against the remuneration report and escalated our concerns by a vote against all the members of the remuneration committee.
Rationale for the vote decision:	The remuneration committee did not consult with LGIM before taking the decision to retrospectively reduce the performance period of the LTIP. We applied our policy and sanctioned this practice by a vote against the remuneration report. Given the seriousness of our concerns and the precedent this could set, we decided to escalate our vote sanction by a rare vote against all members of the remuneration committee.
Outcome:	47.7% of shareholders opposed the remuneration report (resolution 2) and 15.8% the re-election of the chair of the remuneration committee (resolution 8).
Why is this vote significant?	We voted against the remuneration report and escalated our concerns by a vote against all the members of the remuneration committee.
	The remuneration committee did not consult with LGIM before taking the decision to retrospectively reduce the performance period of the LTIP. We applied our policy and sanctioned this practice by a vote against the remuneration report. Given the seriousness of our concerns and the precedent this could set, we decided to escalate our vote sanction by a rare vote against all members of the remuneration committee.
	47.7% of shareholders opposed the remuneration report (resolution 2) and 15.8% the re-election of the chair of the remuneration committee (resolution 8). The other members of the remuneration committee (resolution 3 and 7) were only opposed by 4.2% and 4.0% of shareholders respectively. LGIM will continue to monitor the company.
	We took the rare step of escalating our vote against all members of the remuneration committee given the seriousness of our concerns. This highlights the importance of ensuring that executive remuneration remains in line with stakeholder experience.

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Company name: AmerisourceBergen Corporation*	
Sector: Pharmaceuticals	**market cap.** $24.7 billion (Source: Refinitiv, as at 21/04/2021)

Issue identified:	During the same year the company recorded a $6.6 billion charge related to opioid lawsuits, its CEO's total compensation was approximately 25% higher than the previous year. By excluding the settlement costs, the Compensation Committee ensured executive pay was not impacted by an operating loss of $5.1 billion (on unadjusted basis). LGIM has in previous years voted against executives' pay packages due to concerns over the remuneration structure not comprising a sufficient proportion of awards assessed against the company's performance.
Summary of the resolution:	Resolution 3 - Advisory Vote to Ratify Named Executive Officers' Compensation AGM date - 11 March 2021
How LGIM voted:	We voted against the resolution.
Rationale for the vote decision:	We voted against the resolution to signal our concern over the overall increased compensation package during a year that the company recorded a $6.6bn charge related to opioid lawsuits and a total operating loss of $5.1 billion.
Outcome:	The resolution encountered a significant amount of opposing votes from shareholders, with 48.36% voting against the resolution and 51.63% supporting the proposal. LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.
Why is this vote significant?	LGIM considers it imperative that pay structures are aligned with company performance and that certain expenses over which directors have control and influence should not be allowed to be excluded in the calculation of their pay, in particular if these would be detrimental to the executive director(s) in question.

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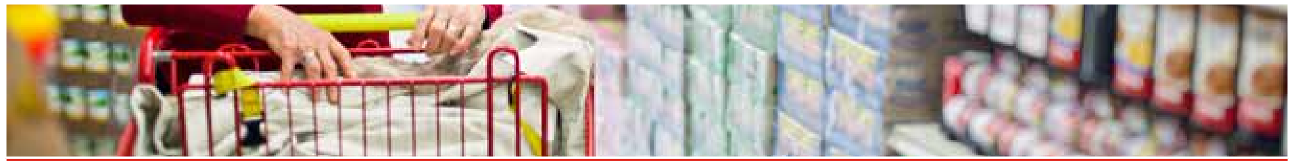

Company name: Imperial Brands plc*	
Sector: Consumer Goods	**market cap.** £13.9 billion (Source: Refinitiv, as at 01/04/2021)

Issue identified:	The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. A higher base salary has a consequential ripple effect on short- and long-term incentives, as well as pension contributions. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association.
Summary of the resolution:	Resolutions 2 and 3, respectively, Approve Remuneration Report and Approve Remuneration Policy AGM date - 3 February 2021
How LGIM voted:	We voted against both resolutions.
Rationale for the vote decision:	An incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE 100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience. Further, we would expect companies to adopt general best practice standards. Prior to the AGM, we engaged with the company outlining what our concerns over the remuneration structure were. We also indicated that we publish specific remuneration guidelines for UK-listed companies and keep remuneration consultants up to date with our thinking.
Outcome:	Resolution 2 (Approve Remuneration Report) received 40.26% votes against, and 59.73% votes of support. Resolution 3 (Approve Remuneration Policy) received 4.71% of votes against, and 95.28% support. LGIM continues to engage with companies on remuneration both directly and via IVIS, the corporate governance research arm of The Investment Association. LGIM annually publishes remuneration guidelines for UK listed companies.
Why is this vote significant?	We are concerned over the ratcheting up of executive pay; and we believe executive directors must take a long-term view of the company in their decision-making process, hence the request for executives' post-exit shareholding guidelines to be set.

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Company name: Toshiba Corp.*

Sector: Industrials Conglomerates	**market cap.** ¥1.91 trillion (Source: Refinitiv, as at 21/04/2021)

Issue identified:	Toshiba Corp's extraordinary general meeting (EGM) was precipitated by a significant decline in trust between its shareholders and management team following recent controversies, including allegations of abnormal practices and behaviour by the company surrounding its July 2020 AGM. As a result, the company faced two independent shareholder resolutions at the EGM calling for it to introduce remedies that would restore confidence and trust in the company's governance, management and strategy.
Summary of the resolution:	Resolution 1- Appoint Three Individuals to Investigate Status of Operations and Property of the Company Resolution 2 - Amend Articles to Mandate Shareholder Approval for Strategic Investment Policies including Capital Strategies EGM date - 18 March 2021
How LGIM voted:	We voted for the resolutions.
Rationale for the vote decision:	LGIM supported the resolution calling for the appointment of investigators to address doubts over the company's 2020 AGM conduct and vote tallying. We believe the enquiry, which is unlikely to be a burden on the company, will be an important step in rebuilding trust between shareholders and the company's executive team and board. We also supported the shareholder resolution mandating the company to present its strategic investment policy to a shareholder vote in order to send a clear message to the Toshiba Board and executive team: shareholders expect increased transparency and accountability.
Outcome:	Resolution 1 was passed with 57.9% of participating shareholders in support. The company promptly put investigators in place and set up a confidential hotline for any individuals who are willing to provide information. Resolution 2, in respect to the company's capital allocation and strategic investment policy received 39.3% support and did not pass. However, the vote serves to send a clear signal to the board and executive team that shareholders expect increased transparency and accountability.
Why is this vote significant?	The vote was high profile and controversial.

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Company name: Tyson Foods*

Sector: Food Producer	**market cap.** $28.6 billion (Source: Refinitiv as at 21/04/2021)

Issue identified:	A shareholder-led resolution requested that the company produce a report on Tyson's human rights due diligence process. The pandemic highlighted potential deficiencies in the application of its human rights policies. The following issues have been highlighted as giving grounds to this assessment: strict attendance policies, insufficient access to testing, insufficient social distancing, high line speeds and non-comprehensive COVID-19 reporting. Furthermore, according to the ISS AGM Benchmark report, there have been over 10,000 positive cases and 35 worker deaths. As such, the company is opening itself up to undue human rights and labour rights violation risks. Tyson is already subject to litigation for wrongful death of an employee filed by the family of the deceased. Additionally, there is a United States Department of Agriculture complaint for failure to protect employees of colour who are disproportionately affected by Covid-19, and two Federal Trade Commission (FTC) complaints for misleading representations about worker treatment, the nature of relationships with farmers, and conditions at poultry farms in its supply chain.
Summary of the resolution:	Resolution 4 – Report on Human Rights Due Diligence AGM date - 11 February 2021
How LGIM voted:	LGIM supported the resolution.
Rationale for the vote decision:	LGIM believes that companies in which we invest our clients' capital should uphold their duty to ensure the health and safety of employees over profits. While the company has health and safety, and code of conduct, policies in place and may have introduced additional policies to protect employees during the pandemic, there was clearly more it could have done. This is indicated by the reported complaints and rates of infection among its employee population. We believe that producing this report is a good opportunity for the board to re-examine the steps they have taken and assess any potential shortfalls in safety measures so that they can improve controls and be better prepared for any future pandemic or similar threat.
Outcome:	The resolution failed to get a majority support as only 17% of shareholders supported it.
Why is this vote significant?	Our clients were particularly interested in the outcome of this vote.

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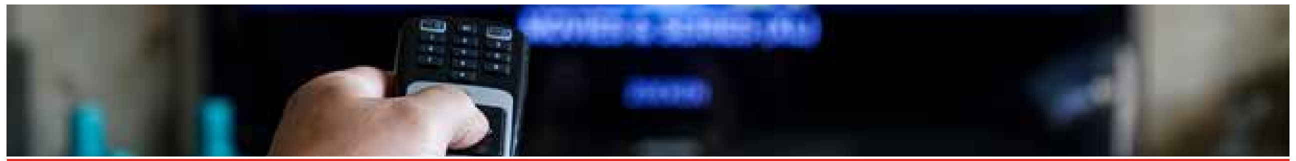

Company name: Future plc*

Sector: Media & Entertainment	**market cap.** £2.8 billion (Source: Refinitiv, as at 21/04/2021)
Issue identified:	The company proposed a bonus scheme that could award its chief executive just over £40 million. The Value Creation Plan could pay out up to £95 million in stock-based awards annually over three years to employees, based on total shareholder return and dividends. We had concerns around the potential increase in total quantum, as the proposed plan does not comply with LGIM's pay policy.
Summary of the resolution:	Resolution 3 – Approve Remuneration Report Resolution 4 – Approve Remuneration Policy Resolution 10 – Re-elect Hugo Drayton Resolution 18 – Approve Value Creation Plan AGM date - 11 February 2021
How LGIM voted:	We voted against the resolutions.
Rationale for the vote decision:	We did not engage with the company as we have clearly set out our expectations on remuneration in our principles document. We voted against the remuneration report and policy as we did not consider there to be sufficient justification for the proposed increase to the LTIP, and the proposed plan does not comply with LGIM's published pay policy. We voted against the value creation plan due to the potential increase in total quantum of pay. We voted against the chair of the remuneration committee as we have current and previous concerns with the remuneration plans.
Outcome:	The resolutions received the below in votes against: Resolution 3 – 35% Resolution 4 – 27% Resolution 10 – 10% Resolution 18 – 35% Whilst all resolutions passed, the company did receive significant votes against a number of these resolutions.
Why is this vote significant?	This was a high-profile vote, which has such a degree of controversy that there is high client and/or public scrutiny.

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Company name: Samsung Electronics*

Sector: Technology	**market cap.** ₩564.1 trillion (Source: Refinitiv, as at 21/04/2021)
Issue identified:	In January 2021, Lee Jae-yong, the vice chairman of Samsung Electronics and only son of the former company chairman, was sentenced to two years and six months in prison for bribery, embezzlement and concealment of criminal proceeds worth about ₩8.6 billion. Lee Jae-yong was first sentenced to five years in prison in August 2017 for using the company's funds to bribe the impeached former President Park Geun-hye. While Lee was released from prison, he was not acquitted of the charges. Based on the court's verdict, Lee actively provided bribes and implicitly asked then president Park to use her power to help his smooth succession. The court further commented that the independent compliance committee established in January 2020 has yet to become fully effective.
Summary of the resolution:	Resolution 2.1.1 – Elect Park Byung-gook as Outside Director Resolution 2.1.2 – Elect Kim Jeong as Outside Director Resolution 3 – Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member AGM date: 17 March 2021
How LGIM voted:	We voted against all three resolutions.
Rationale for the vote decision:	LGIM engaged with the company ahead of the vote. However, we were not satisfied with the company's response that ties have been severed. We are concerned that Lee Jae-yong continues to make strategic company decisions from prison. Additionally, we were not satisfied with the independence of the company board and that the independent directors are really able to challenge management. LGIM voted against the resolutions as the outside directors, who should provide independent oversight, have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company.
Outcome:	The meeting results are not yet available.
Why is this vote significant?	This was a high-profile vote, which has such a degree of controversy that there is high client and/or public scrutiny and the sanction vote was a result of a direct or collaborative engagement.

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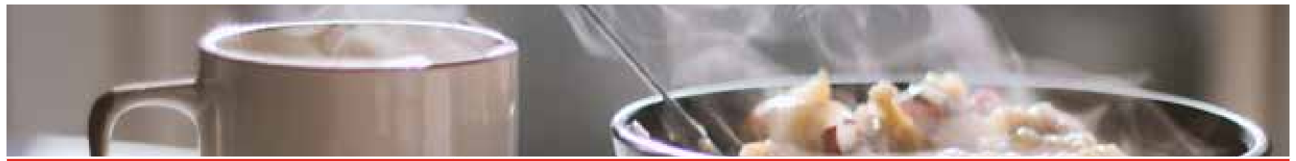

Company name: Mitchells & Butlers*

Sector: Travel and Leisure	**market cap.** £1.7 billion (Source: Refinitiv, as at 21/04/2021)

Issue identified:	Given the current COVID-19 restrictions and their impact on this pub & restaurant company's financials, the company sought shareholder approval for an equity raise through an underwritten Open Offer in March 2021. Three of the company's major shareholders came together and consolidated their holdings under a new holding company, Odyzean Limited. They together hold approximately 55% of the issued share capital of Mitchells & Butlers and therefore the majority of votes. As well as taking up their own share of the Open Offer, the concert party committed to underwrite any remaining offer shares not taken up by existing shareholders.
Summary of the resolution:	Resolution 1: Authorise Issue of Equity in Connection with the Open Offer Resolution 2: Authorise Issue of Shares Pursuant to the Open Offer at a Discount to Middle Market Price Resolution 3: Authorise Implementation of Open Offer These resolutions were presented at the company's special shareholder meeting held on 11 March 2021.
How LGIM voted:	We voted against all three resolutions.
Rationale for the vote decision:	We opposed Open Offer given our concerns about the influence of the newly incorporated holding company, Odyzean Limited, over our investee company's governance and the interests of minority investors. This concern was heightened by the announcement of expected changes to the structure and independence of the board as stated in the prospectus. LGIM would have expected a fair traditional rights issue to protect minority investors. We also noted that the concert party was able to buy deeply discounted shares without paying a control premium through their underwriting of the open offer.
Outcome:	Only 6.8% of shareholders opposed these resolutions. LGIM will continue to monitor the company closely.
Why is this vote significant?	We have taken the rare step of opposing a capital raise given our serious concerns for minority shareholders' rights.

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Company name: SSP Group plc*

Sector: Consumer Discretionary - Travel and Leisure	**market cap.** £2.5 billion (Source: Refinitiv, as at 21/04/2021)

Issue identified:	**Issue 1 – remuneration-based** Many companies, especially those operating in sectors particularly hard-hit by COVID-19, have in the last year sought to introduce alternative long-term share incentives. Where performance-based awards are replaced with time-vested shares (restricted shares), which exhibit a higher likelihood of vesting, we expect the award opportunity to be significantly reduced to take account of the increased value. Institutional guidelines note a minimum 50% discount as an appropriate starting point. However, best market practice has since evolved to take account of any substantial reduction in the share price year-on-year to ensure that potential windfall gains when the market recovers are avoided. At SSP Group, whilst the remuneration committee proposed a 50% discount, it did not further reduce the award size despite the share price not having sufficiently recovered, lingering below 50% of the pre-pandemic price. Thus, the proposed award size would actually be larger than the number of pre-COVID-19 shares previously offered under the LTIP, despite its likelihood of vesting having increased dramatically. **Issue 2 – share issuances without adequate shareholder protections** At a capital raising by SSP Group in June 2020 – in the height of the coronavirus pandemic – the company issued additional capital through a legal structure that bypassed shareholder pre-emption rights.
Summary of the resolution:	Resolutions 3 and 4 – Approve Remuneration Policy and Restricted Share Plan (RSP) Resolutions 15-17 – Approve general share issuance authorities AGM date - 25 March 2021
How LGIM voted:	LGIM voted against the introduction of the RSP (Item 4) and the Remuneration Policy (Item 3). We also voted against the share issuance authorities (Items 15-17) given that we considered that the company had misused similar authorities during the previous year.
Rationale for the vote decision:	The proposed RSP award size (in number of shares) represented a potential increase in time-vested shares offered compared to the pre-COVID-19 award of performance-based LTIPs, this is not in line with our policy and did not warrant support. We were involved in the pre-vote consultation and fed back our views accordingly. Additionally, we believe that the SSP Board took advantage of a loophole in the UK Companies Act that was possible within its general share issuance authority approved by shareholders at the 2020 AGM. A vote against the renewal of such authority was therefore warranted.
Outcome:	Resolution 3: 9.79% votes against, with a further substantial number of abstain votes. Resolution 4: 10.25% votes against. Resolution 15: 21.77% votes against.
Why is this vote significant?	Ahead of the AGM, there had been rumblings from investors regarding the proposed RSP award size. But more importantly, the move away from performance-based share incentive to time-based awards, which vest subject to no further performance targets, is concerning and can set a dangerous precedent if not appropriately discounted. The high vote against the standard share issuance authority (Item 15) demonstrates shareholders' concern with capital raises that may lead to shareholders suffering dilution.

*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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Case study: Amazon*

Sector: Communications.
Market cap: $1.68 trillion (source: Refinitiv, as at 21/04/2021)

What was the issue?

It came to our attention through some of our asset-management peers that Amazon had been accused of interfering with efforts by its workers to unionise, ahead of a vote by workers in an Alabama facility on unionisation.

What did LGIM do?

We signed a letter to Amazon along with more than 70 other investors with collective assets under management (AUM) of $6.4 trillion, to emphasise the role that worker representation plays in supporting companies in identifying and managing operating risks. We highlighted that Amazon should meet the expectations set out in the UN Guiding Principles on Business and Human Rights, and that as an internationally recognised human right, workers should be free to exercise their freedom of association and right to collective bargaining.

We set out the expectation that Amazon should have in place policies and processes appropriate to its size and circumstances, including:

(a) A policy commitment to meet their responsibility to respect human rights

(b) A due diligence process to identify, prevent, mitigate and account for how the company addresses its potential impacts on human rights

(c) Processes to enable the remediation of any adverse human rights impacts Amazon causes or to which it contributes

Outcome

It is against this background and with these expectations, that we applaud the launch by Amazon of its Global Human Rights Principles. Through this policy, we have taken note of the company's commitment to The UN Guiding Principles on Business and Human Rights, which in turn recognise the fundamental right of workers to exercise their right to organise, should they choose to do so. We are also encouraged by the announcement that Amazon has commissioned a human rights impact assessment by an external consultant.

However, in spite of these initiatives that have been announced and following discussions with Amazon's Head of ESG Engagement, we remain concerned that the company has yet to demonstrate how it meets the commitments that it has set, not only with respect to human rights but also to transparency and stakeholder engagement. Our engagement with the company continues.

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

LGIM's engagement campaign on ESG transparency

As a long-term investor with an active ownership approach, LGIM is an advocate for greater ESG transparency. Given the growing consensus on the financial materiality of ESG factors, many investors like LGIM are increasingly seeking to integrate them within their investment processes. In order to accurately understand risks and opportunities, investors need access to relevant, comparable, consistent, and verifiable ESG data across markets regardless of size, geography or asset class; in other words, better transparency from companies on their ESG performance.

However, access to what is considered 'non-financial' and ESG information has been traditionally overlooked, mostly because such information was rarely included in the annual reports or seen by the auditors. We believe ESG transparency is a responsibility which belongs to the board of directors. They need to ensure their company's ESG credentials can be appropriately used by markets so they can efficiently price in this information.

Therefore, as previously announced, LGIM is stepping up its commitment to foster greater ESG transparency within markets. From 2022, LGIM will be voting against the chair of the board of all LGIM Transparency score laggards (LGIM ESG Score).

This means that we will sanction companies not providing an overall minimum level of disclosures on the following metrics:

- ESG reporting standards
- Verification of ESG reporting
- Scope of greenhouse gas (GHG) emissions
- Tax disclosure
- Director disclosure
- Remuneration disclosure

Performance on each of these metrics is assessed by third-party provider Sustainalytics. For further information on each of these key criteria, please refer to our public ESG score methodology document. Our investee company scores are publicly available on our website.

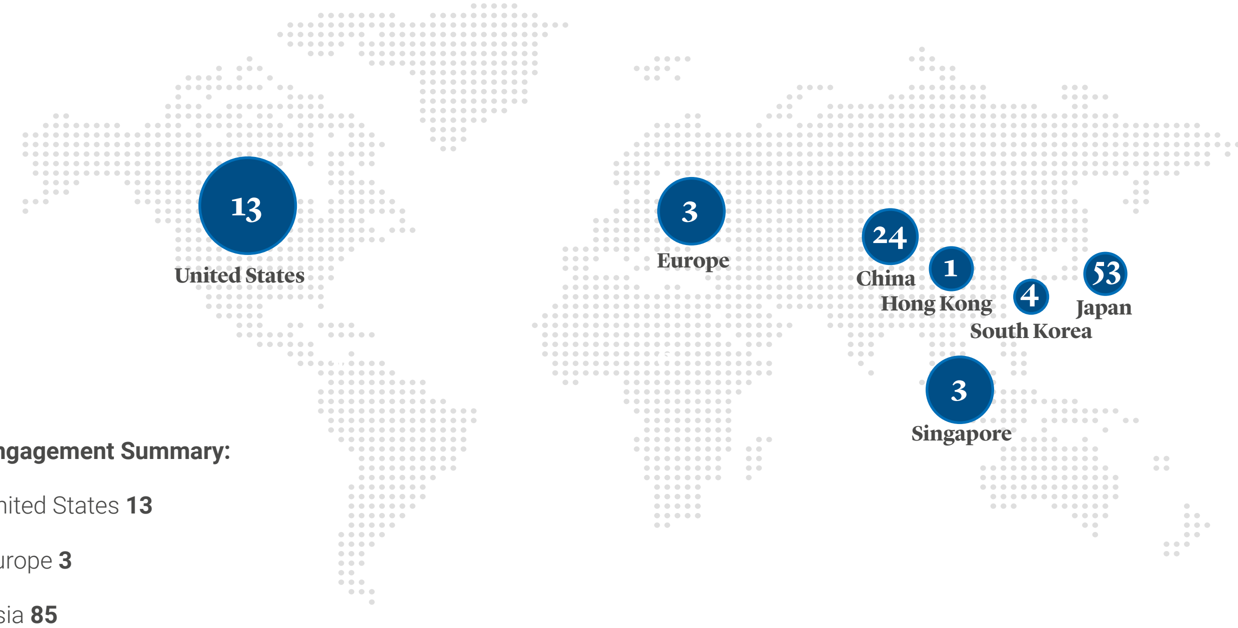
Engagement before sanction

Whilst the expected disclosures are very standard ESG requirements, we chose to give our investee companies one year following our sanction announcement so that they can improve their disclosures and/ or check the data held by our third-party provider. We have sent engagement letters to 101 investee companies, a target group of the biggest companies we hold which have a low Transparency score ('T score').

The financial community and various stakeholders increasingly rely on ESG data provided by third party providers. Inaccurate ESG information held by a third-party provider and used by the investment community might result in markets inaccurately pricing company shares or bonds. ESG laggards are likely to be penalised by the markets; it is therefore important that boards step up on this issue and make sure the information third-party providers have on their companies is accurate and that investors can use it.

Our engagement campaign aims at creating this awareness among boards and the sanction to incentivise them to improve the quality of their ESG disclosure, including both the company's own ESG reporting and ESG data held on them by data providers.

Engagement Universe



Engagement Summary:

United States **13**

Europe **3**

Asia **85**

Measuring the impact of our engagement

Using a similar approach as for our previous transparency campaign in 2019 and 2020, we aim to report on the result of our engagement to our clients.

Focus on corporate ESG disclosures in Asia

As part of this engagement campaign, LGIM sent engagement letters to 81 investee companies listed in five Asian markets – China, Hong Kong, Japan, Singapore and South Korea.

In the first of a series of blogs, we provide further details as to why our engagement with our investee companies in this region on the topic of ESG transparency matters:

A closer look at Asia
https://www.lgimblog.com/categories/esg-and-long-term-themes/lgim-s-engagement-on-esg-transparency-a-closer-look-at-asia/

Sustainability engagements

We continue to engage with companies, policymakers and other investors to promote sustainability.

Zeroing in on net zero

We continue our engagement with high-carbon industries around their strategies for the energy transition.

BP*, with whom LGIM co-leads engagements under the multi-trillion-dollar Climate Action 100+ investor coalition, has made a series of new announcements detailing their expansion into clean energy. These include projects to develop solar energy in the US, partnerships with Volkswagen (on fast electric vehicle charging) and Qantas Airways (on reducing emissions in aviation), and winning bids to develop major offshore wind projects in the UK and US.

As a reminder, our recommendation for the oil and gas industry is to primarily focus on reducing its own emissions (and production) in line with global climate targets before considering any potential diversification into clean energy. BP had previously announced that it would be reducing its oil and gas output by 40% over the next decade, with a view to reaching net-zero emissions by 2050.

In an update on their net-zero strategies, **Royal Dutch Shell*** has also announced they expect their overall carbon emissions to have peaked in 2019, with oil production expected to decline every year from now on. Fellow oil major Total* has pledged that all future bond issuance from the company will be linked to externally audited climate targets, with the company paying higher interest rates if they are not met.

We will continue to engage with oil and gas companies around the strength of their targets and the credibility of their planning assumptions in this area.

We also recognise the importance of policy in creating the right incentives for companies. With methane emissions in 2020 seeing the highest increase in four decades, LGIM and other investors managing over £30 trillion in assets have called on the EU to set standards for this aggressive planet-warming gas.[5]

Investors renew push for EU methane emissions standard on gas: letter[5]

In a different part of the natural resources industry, we have ongoing engagements with mining companies not just on their environmental strategies, but also the 'S' and 'G' of ESG.

Embroiled in a scandal after the destruction of a 46,000-year old heritage site in Western Australia, LGIM and other investors have continued to press **Rio Tinto*** for more accountability, believing that the initial responses (and the board oversight) were inadequate. After the departure of three directors (including the CEO) were announced last year, the chairman has declared he will now step down. We were pleased to see the media comment favourably on our public stance, with the Australian Financial Review noting that, "To its enduring credit, Legal & General stood alone in challenging [the chairman] from the outset.[6] Other City investors urged [him] to act, but only once momentum had shifted and apathy had abruptly become unfashionable."

Legal & General investment arm demands votes on FTSE 100 firms' climate plans[7]

We have opposed the pay package at the 2021 AGM, and will continue to engage with the company on how it plans to reform its culture and renew its social licence to operate, as well as on other governance concerns. In particular, we remain concerned with the treatment of minority investors at its majority-owned subsidiary, **Turquoise Hill*.**

On a more positive note, however, we welcome the growing number of extractive companies – including Rio Tinto*, Glencore*, Woodside Petroleum*, Santos*, Total* and Royal Dutch Shell* – announcing they will be offering shareholders an advisory vote on their climate strategies. We believe this 'say on climate' is well-aligned with LGIM's existing engagement on climate, including and the use of voting to exercise clients' shareholders rights.

Throughout the 2021 AGM season, LGIM will support all 'say on climate' resolutions which it believes are crucial to the business and will pre-announce its votes, where such an announcement would send a strong message to key stakeholders.

Legal & General: Give the city a say on firms' climate change plans[8]

5 https://www.reuters.com/article/us-eu-methane-letter/investors-renew-push-for-eu-methane-emissions-standard-on-gas-letter-idUSKBN2BN3MN

*References to any securities are for illustrative purposes only

6 Financial Review, 9 March 2021, article available here

7 https://uk.finance.yahoo.com/news/legal-general-net-zero-votes-climate-change-environment-110650551.html; https://www.thetimes.co.uk/article/legal-amp-general-investment-arm-demands-votes-on-ftse-100-firms-climate-plans-zzncq0zbr

8 https://www.thetimes.co.uk/article/legal-amp-general-investment-arm-demands-votes-on-ftse-100-firms-climate-plans-zzncq0zbr

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Public policy update

LGIM has a responsibility to ensure that global markets operate efficiently, to protect the integrity of the market, and to foster sustainable and resilient economic growth. In this regard, LGIM focuses its ESG policy engagements on issues that we believe are key to achieving this.

United Kingdom

LGIM continues to engage with stakeholders on the UK Listing Review which has been led by Lord Hill. The review is part of a wider push from the government on ensuring the UK market remains attractive to both international investors and innovative growth companies looking to list. Areas of focus for Lord Hill have been on i) allowing dual class share structures in the premium listing segment; ii) reducing the free-float requirements; iii) rebranding the standard listing segment; iv) liberalising rules regarding special-purpose acquisition companies; and v) recommending review of the prospectus regime.

LGIM and the Investment Association have been actively engaging with Lord Hill's team. While supportive of many of Lord Hill's recommendations, there are some concerns about how far to go to ensure that the strong position on, and reputation for, good corporate governance currently held by the UK is maintained. For example, dual-class share structures in the Premium Indices will not sufficiently protect minority and end investors against potential poor management behaviour. This can potentially lead to value destruction and avoidable investor loss. As a result of our stance on this issue, LGIM did not participate in the IPO of Deliveroo* via either our active or index funds.

2021 has brought a step-change in focus on industry regulation as we see increasing signs of countries and governments reviewing the gig economy status. We take our role as a responsible steward of our clients' capital very seriously and engage with several companies in this sector on ESG concerns, like the rights of employees and proposed share-class structures. We believe in the active ownership of the companies in which we invest and think change from within can be the most impactful way to influence positive change in a company, for employees and shareholders alike. LGIM will now engage with the Financial Conduct Authority as they now consider Lord Hill's recommendations.

LGIM has also engaged with the Financial Reporting Council on various topics, including the future of corporate reporting, which is looking at ensuring that reporting continues to meet the needs of all stakeholders in the economy. There are several formal consultations on ESG issues (audit reform, social factors and climate-related disclosures) that have recently been released by the UK's Government that the LGIM team will be engaging with.

*References to any securities are for illustrative purposes only

European Union

As part of our focus on supporting governments to meet their Paris Agreement and net-zero commitments, LGIM has co-authored a paper with policy experts from Chatham House on the European Commission can align the reformed Common Agricultural Policy (CAP) with the Green Deal and EU Climate Law. We brought together an alliance of policy experts, business groups, and investors (representing €2 trillion of assets under management) who have publicly supported our recommendations to the EU. Our recommendations include:

1. Encourage use of enforceable performance-based targets that link support to member states and farmers, commensurate with the cost of delivering public good or environmental services;

2. Shift away from incentives that prioritise yields at the expense of the climate and environment, and balance this with new monetary incentives that put a value on sustainable agriculture;

3. Decouple support from production metrics for single commodity transfers with high associated greenhouse gas emissions (e.g. beef and dairy);

4. Apply the Just Transition Mechanism to support farmers' social and economic well-being, where impacted by CAP reforms.

Agricultural subsidies constitute a third of the EU's total budget and are pivotal in determining how land across Europe is utilised and which commodities are produced. Reforming the CAP is therefore essential for climate mitigation, negative emissions, and long-term environmental resilience in terms of climate adaptation, biodiversity improvements, and food security. We believe these recommendations will be broadly supported by both markets and regulators.

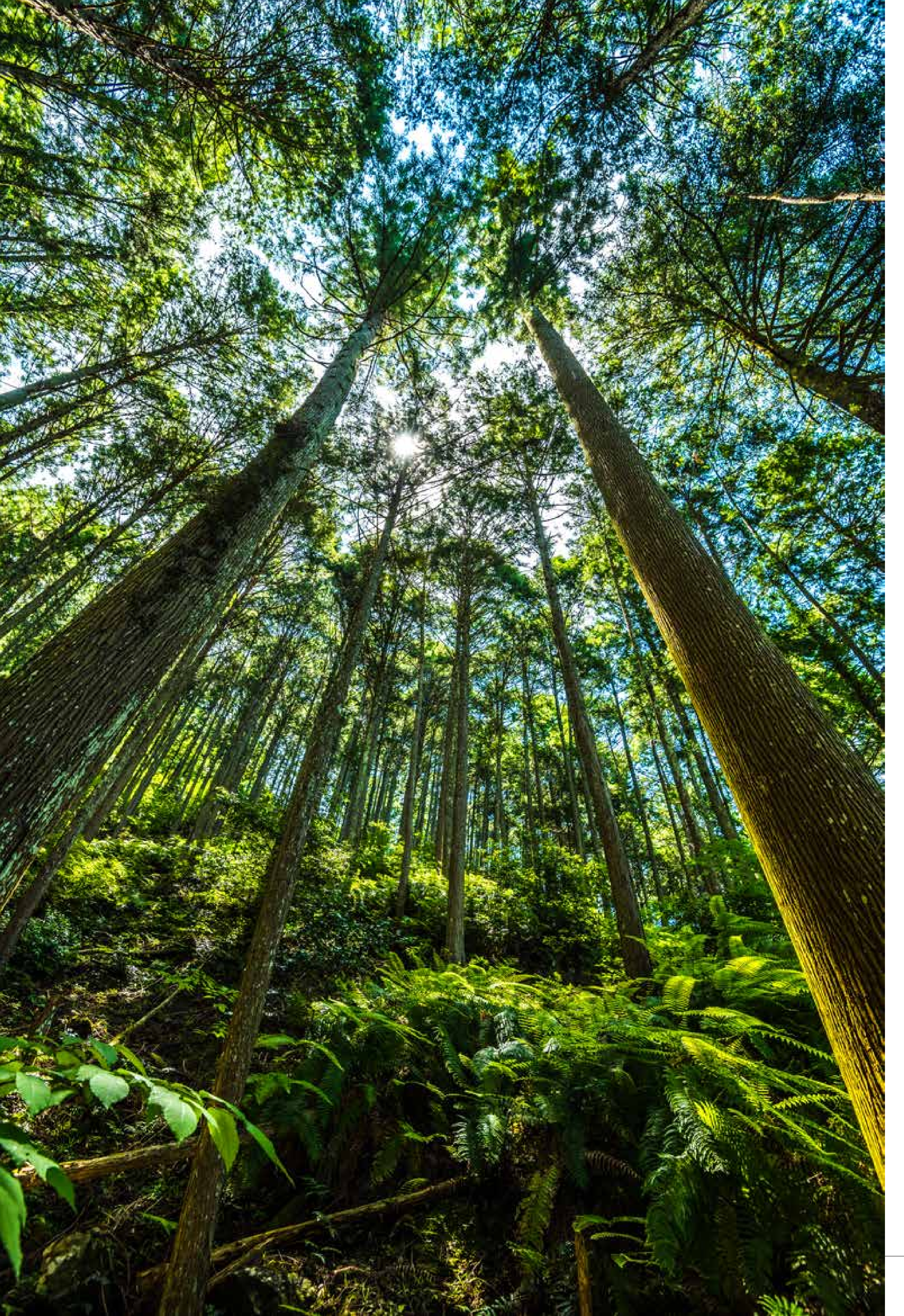
LGIM also continues to engage with various aspects of the EU's Sustainable Finance Action Plan, including the implementation of Sustainable Finance Disclosure Regulation and the subsequent Regulatory Technical Standards.

Japan

LGIM has continued to work with the International Corporate Governance Network to provide input into the revision of the Japan Corporate Governance Code. We have expressed our views across several topics e.g. board independence and diversity, timing of the securities report and other issues related to the AGM, and disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD). LGIM will engage in the public consultation.

LGIM has engaged with the Japan Association of Corporate Executives on climate change and energy policy. We encouraged strengthening their position on climate and energy policies, and highlighted the increasing need for companies to align with the goals of the Paris Agreement.

LGIM was also invited to participate in two government studies on stewardship and ESG. The first was led by the Cabinet Office which looked into how investors were approaching gender diversity. The second, commissioned by the Ministry of Economy, Trade and Industry, aimed to explore the views of investors on corporate governance issues in Japan. Full reports of both projects will be published in the coming months.



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United States

The election of a new administration in the United States has – almost overnight – taken the ESG and climate change discussion from 'why' to 'how'. During the election, Joe Biden spoke on a podcast about climate change, saying it is the "number one issue facing humanity. And it's the number one issue for me". The US president is living up to his word. Almost within minutes of arriving in the oval office Biden started signing the executive orders, announcing non-enforcement on Department of Labor Rules that would have hampered ESG fund selection, and re-joined the Paris Agreement. It is a huge policy U-turn from the world's second largest emitter, and the positive implications will be felt not only across the US but also far beyond its borders. LGIM and LGIMA are already stepping up engagements and supporting with the new administration on several ESG topics.

Other markets

LGIM continues to closely follow and engage with the ESG disclosures landscape. Most recently, we have been pleased to see the IFRS have confirmed their intent to launch a Sustainability Standards Board by the end of the year. It will be important that an ESG disclosure standard is developed quickly and provides decision-useful information for investors. Harmonisation between markets will be important, particularly with regard to the EU's reform on the Non-Financial Reporting Directive.

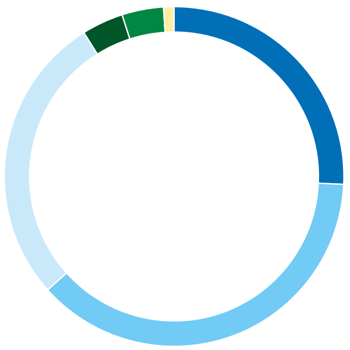
Regional updates

UK - Q1 2021 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	50	0	0
Capitalisation	315	26	0
Director-related	468	38	0
Remuneration-related	89	28	0
Reorganisation and Mergers	24	4	0
Routine/Business	352	4	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	1	1	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1299	101	0
Total resolutions	1400		
No. AGMs	75		
No. EGMs	70		
No. of companies voted on	127		
No. of companies where voted against management on at least one resolution	44		
% of companies with at least one vote against	35%		

Source for all data LGIM March 2021. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover-related - 0
- Capitalisation - 26
- Director-related - 38
- Remuneration-related - 28
- Reorganisation and Mergers - 4
- Routine/Business - 4
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Director-related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 1
- 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 we supported management
- No. of companies where we voted against management

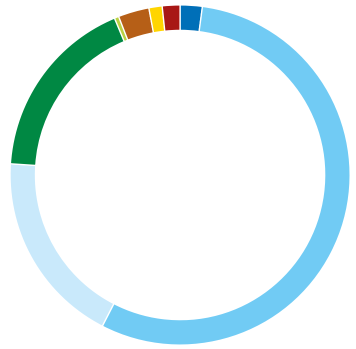
LGIM voted against at least one resolution at **35%** of UK companies over the quarter

Europe - Q1 2021 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	1	0	0
Capitalisation	97	5	0
Director-related	659	91	41
Remuneration-related	89	44	0
Reorganisation and Mergers	10	0	0
Routine/Business	422	37	5
Shareholder Proposal - Compensation	0	1	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-related	8	6	1
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	5	3	0
Shareholder Proposal - Other/Miscellaneous	2	0	0
Shareholder Proposal - Routine/Business	3	4	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1296	191	47
Total resolutions	1534		
No. AGMs	63		
No. EGMs	21		
No. of companies voted on	83		
No. of companies where voted against management on at least one resolution	63		
% of companies with at least one vote against	76%		

Source for all data LGIM March 2021. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management/ abstentions



- Antitakeover-related - 0
- Capitalisation - 5
- Director-related - 132
- Remuneration-related - 44
- Reorganisation and Mergers - 0
- Routine/Business - 42
- Shareholder Proposal - Compensation - 1
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors-related - 7
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 3
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 4
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against

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

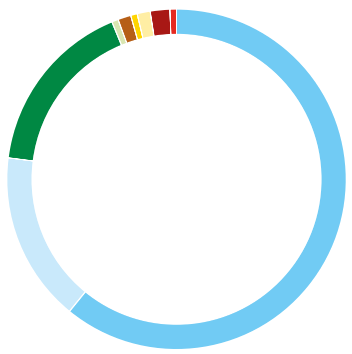
LGIM voted against at least one resolution at **76%** of European companies over the quarter

North America - Q1 2021 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	3	0	0
Capitalisation	9	0	0
Director-related	324	98	0
Remuneration-related	37	26	0
Reorganisation and Mergers	9	0	0
Routine/Business	37	27	0
Shareholder Proposal - Compensation	3	0	0
Shareholder Proposal - Corporate Governance	0	1	0
Shareholder Proposal - Director-related	3	2	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	1	0
Shareholder Proposal - Other/Miscellaneous	0	2	0
Shareholder Proposal - Routine/Business	0	3	0
Shareholder Proposal - Social/Human Rights	0	1	0
Shareholder Proposal - Social	0	0	0
Total	425	161	0
Total resolutions		586	
No. AGMs		44	
No. EGMs		9	
No. of companies voted on		53	
No. of companies where voted against management on at least one resolution		44	
% of companies with at least one vote against		83%	

Source for all data LGIM March 2021. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover-related - 0
- Capitalisation - 0
- Director-related - 98
- Remuneration-related - 26
- Reorganisation and Mergers - 0
- Routine/Business - 27
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 1
- Shareholder Proposal - Directors-related - 2
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 1
- Shareholder Proposal - Other/Miscellaneous - 2
- Shareholder Proposal - Routine/Business - 3
- Shareholder Proposal - Social/Human Rights - 1
- Shareholder Proposal - Social - 0

Number of companies voted for/against

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

LGIM voted against at least one resolution at **83%** of North American companies over the quarter

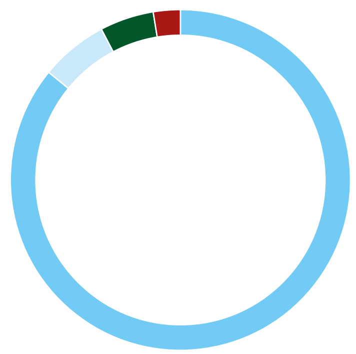
Q1 2021 | ESG Impact Report

Japan - Q1 2021 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	0	0	0
Capitalisation	1	0	0
Director-related	530	67	0
Remuneration-related	32	5	0
Reorganisation and Mergers	9	4	0
Routine/Business	48	0	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	2	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	620	78	0
Total resolutions		698	
No. AGMs		67	
No. EGMs		4	
No. of companies voted on		71	
No. of companies where voted against management on at least one resolution		45	
% of companies with at least one vote against		63%	

Source for all data LGIM March 2021. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover-related - 0
- Capitalisation - 0
- Director-related - 67
- Remuneration-related - 5
- Reorganisation and Mergers - 4
- 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 - 2
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against

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

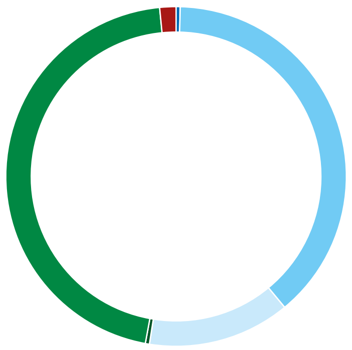
LGIM voted against at least one resolution at **63%** of Japanese companies over the quarter

Asia Pacific - Q1 2021 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	0	0	0
Capitalisation	11	1	0
Director-related	348	100	0
Remuneration-related	135	35	0
Reorganisation and Mergers	9	1	0
Routine/Business	208	118	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	1	4	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	713	259	0
Total resolutions	972		
No. AGMs	131		
No. EGMs	11		
No. of companies voted on	138		
No. of companies where voted against management on at least one resolution	125		
% of companies with at least one vote against	91%		

Source for all data LGIM March 2021. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against management



- Antitakeover-related - 0
- Capitalisation - 1
- Director-related - 100
- Remuneration-related - 35
- Reorganisation and Mergers - 1
- Routine/Business - 118
- 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 - 4
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against

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

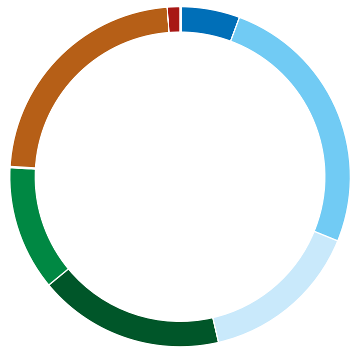
LGIM voted against at least one resolution at **91%** of Asia Pacific companies over the quarter

Emerging markets - Q1 2021 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	0	1	0
Capitalisation	771	46	0
Director-related	771	152	59
Remuneration-related	62	126	0
Reorganisation and Mergers	481	146	0
Routine/Business	795	98	0
Shareholder Proposal - Compensation	2	0	0
Shareholder Proposal - Corporate Governance	0	1	0
Shareholder Proposal - Director-related	19	189	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	10	10	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	2911	769	59
Total resolutions	3739		
No. AGMs	104		
No. EGMs	328		
No. of companies voted on	417		
No. of companies where voted against management on at least one resolution	190		
% of companies with at least one vote against	46%		

Source for all data LGIM March 2021. 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 / abstentions



- Antitakeover-related - 1
- Capitalisation - 46
- Director-related - 211
- Remuneration-related - 126
- Reorganisation and Mergers - 146
- Routine/Business - 98
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 1
- Shareholder Proposal - Directors-related - 189
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 10
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions

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

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

Global voting summary

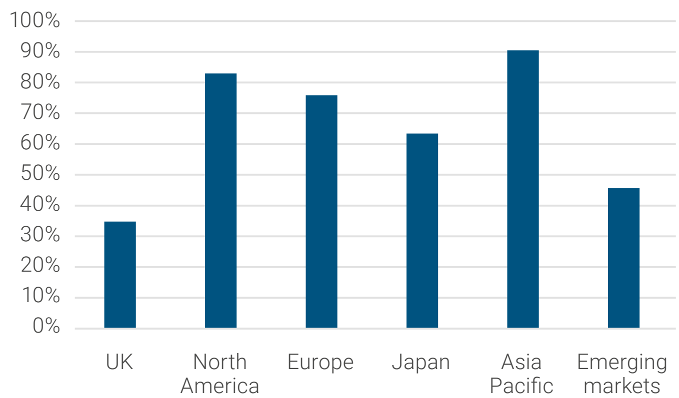
Voting totals

Proposal category	For	Against	Abstain	Total
Antitakeover-related	54	1	0	55
Capitalisation	1204	78	0	1282
Director-related	3100	546	100	3746
Remuneration-related	444	264	0	708
Reorganisation and Mergers	542	155	0	697
Routine/Business	1862	284	5	2151
Shareholder Proposal - Compensation	5	1	0	6
Shareholder Proposal - Corporate Governance	0	2	0	2
Shareholder Proposal - Directors-related	31	197	1	229
Shareholder Proposal - General Economic Issues	0	0	0	0
Shareholder Proposal - Health/Environment	5	4	0	9
Shareholder Proposal - Other/Miscellaneous	3	3	0	6
Shareholder Proposal - Routine/Business	14	23	0	37
Shareholder Proposal - Social/Human Rights	0	1	0	1
Shareholder Proposal - Social	0	0	0	0
Total	7264	1559	106	8929
No. AGMs	484			
No. EGMs	443			
No. of companies voted on	889			
No. of companies where voted against management on at least one resolution	511			
% of companies with at least one vote against	57%			

Number of companies voted for/against abstentions

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

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



Source for all data LGIM March 2021. The votes above represent voting instructions for our main FTSE pooled index funds

Q1 2021 | ESG Impact Report

Global engagement summary

Key engagement numbers

234
Total number of engagements during the quarter

216
Number of companies engaged with

Number of engagements on

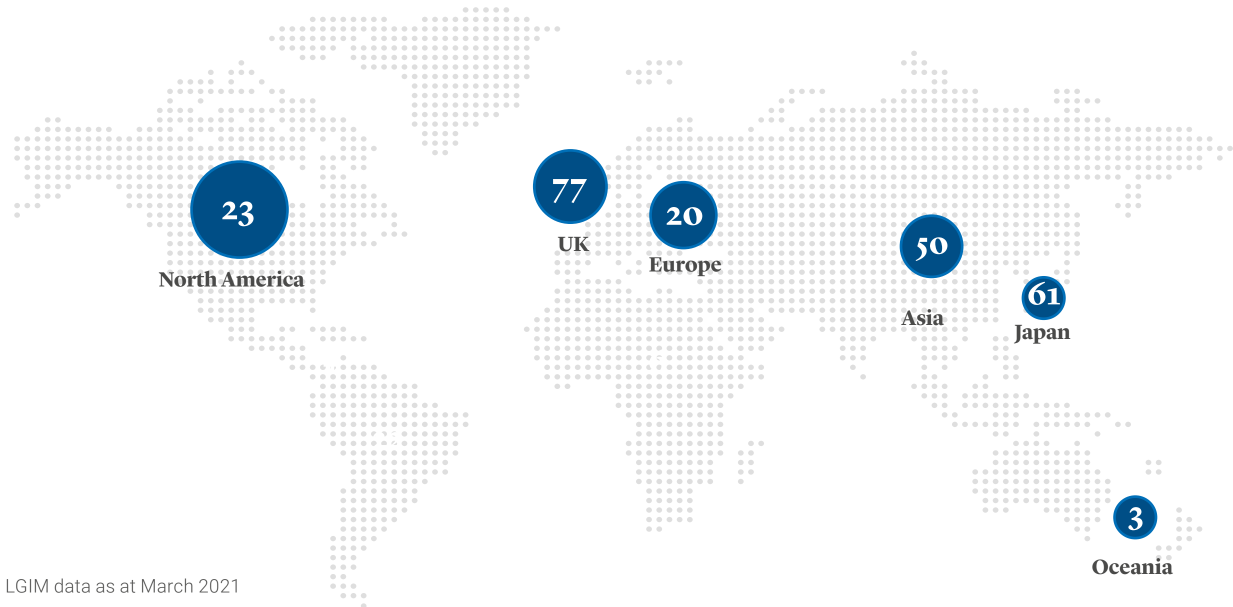
42
Environmental topics

139
Other topics (e.g. financial and strategy)

193
Governance topics

43
Social topics

Breakdown of our engagements by market

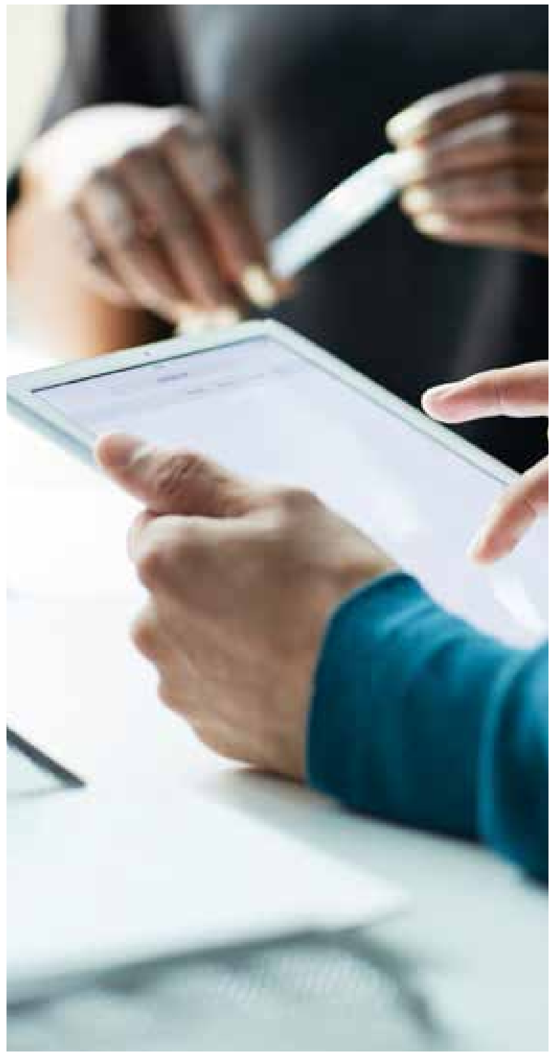


LGIM data as at March 2021

Engagement type

91
Conference calls

143
Email/letter



Top five engagement topics

1 ESG disclosures (including LGIM ESG score)
108 engagements

2 Remuneration
55 engagements

3 Climate Change
38 engagements

4 Board composition
26 engagements

5 Strategy
19 engagements

LGIM data as at March 2021

Contact us

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

LGIM talks

The LGIM blog

Important information
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LGPS Central Limited

Quarterly Stewardship Update

FOURTH QUARTER, 2020-21 (JANUARY - MARCH 2021)

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 (LGPSC) *stewardship* activity. Our stewardship efforts are supplemented by global engagement and voting services provided by EOS at Federated Hermes (EOS). For more information please refer to our Responsible Investment & Engagement Framework and Annual Stewardship Report.

ADDITIONAL DISCLOSURES

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

Signatory of:

PRI Principles for Responsible Investment

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

01 Engagement and Stewardship Themes

The UN Framework Convention on Climate Change (UNFCCC) issued a report in February 2021 analysing the updated climate action plans submitted by 75 nations ahead of COP26[1]. This analysis found that current policies will not come close to meeting the goals of the Paris Agreement. According to the UN Intergovernmental Panel on Climate Change, the population must reduce its 2030 CO_2 emissions by approximately 45% from 2010 levels and reach net zero by 2050. The report showed that the revised climate action plans, which cover 40% of countries party to the 2015 Paris Agreement and account for 30% of global emissions, would only deliver a combined emissions reduction of 0.5% from 2010 levels by 2030. This highlights a critical need for heavy emitting countries to ramp up their efforts to decarbonise.

Governments, industries and individual companies' ability to take drastic measures in light of the COVID-19 health pandemic seems unprecedented. Whether we are equally able to take necessary action against the pressing and longer-term climate change crisis, is yet unclear. During 2020, LGPSC signed IIGCC-coordinated letters to EU and UK leaders calling for a sustainable recovery from the COVID 19 pandemic. Over the last quarter, we have seen the UK Government launch its build back better plan which sets out pathways for sustainable growth post COVID-19 and investment in climate friendly infrastructure, skills and innovation to enable the transition to a lower carbon economy. The plan includes the Government's 10-point agenda for a Green Industrial Revolution. The Government intends to support investment through the new UK Infrastructure Bank to encourage investment in the Net Zero transition and to boost innovation through a new £375 million Future Fund. These are encouraging steps and in line with investor requests. An investor group including LGPS Central have also asked the COP26 President (The Rt. Hon Alok Sharma) to support investors by seeking publication of key underlying assumptions tied to the International Energy Agency's (IEA's) Net Zero Emissions 2050 scenario[2]. Further clarity from IEA on underlying assumptions and commodity price projections for this scenario will provide a basis on which to conduct further analysis into the implications of climate change for investment portfolios and asset allocation decisions.

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. While the bulk of our engagement effort is centred around these themes, we also regularly cover other key ESG issues such as fair remuneration, board composition, and human rights. We have included two such 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[3] comprised 605 companies. There was engagement activity on 1,563 engagement issues and objectives[4]. Our stewardship provider, EOS, carried out the majority of these engagements. Engagement issues are not necessarily tied in with ongoing engagements or with specific engagement objectives. Against 579 specific engagement objectives set by EOS, there was achievement of some or all on 137 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] The 26th UN Climate Change Conference of the Parties (COP26) will be hosted by the UK Government in Glasgow 1 – 12 November 2021
[2] IEA published "Net-zero by 2050 – A Roadmap for the Global Energy Sector" on 18 May 2021
[3] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider.
[4] There can be more than one engagement issue per company, for example board diversity and climate change.

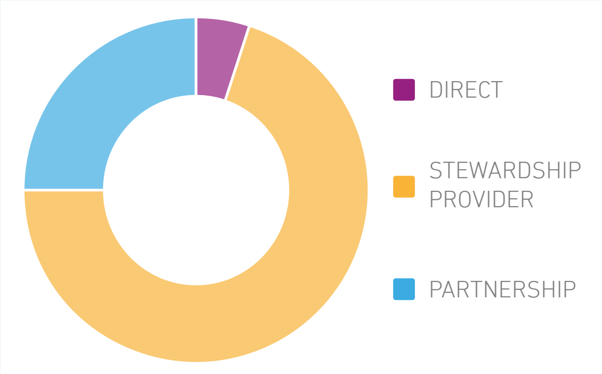
CLIMATE CHANGE ENGAGEMENTS

This quarter, our climate change engagement set comprised 252 companies with 324 engagements issues[5]. There was engagement activity on 315 engagement issues and achievement of some or all specific engagement objectives on 102 occasions.

Climate Action 100+ (CA100+) released its Net Zero Company Benchmark which assesses the world's largest corporate greenhouse gas emitters on their progress in the transition to a net zero future. This will be a valuable resource for investors attempting to assess and engage with corporations on their progress. However, results show that only a quarter of these companies have included scope 3 emissions in their Net Zero commitments. There is also a need for companies to set shorter term targets consistent with their longer-term ambitions, in order to avoid "back-loading" the decarbonisation. Back-loading would mean that a greater share of the total decarbonisation is left to happen closer to 2050 and potentially, greater reliance on yet unproven carbon abatement technologies such as Carbon Capture, Utilisation and Storage (CCUS). We would like to see companies embrace 1.5-degree scenarios in their scenario analysis and commit to aligning their future capital expenditure with their long-term emissions reduction targets. While much has been achieved, the CA100+ Benchmark tool sheds critical light on gaps in companies' practices and reporting. There is a shared sense among many investors that the next decade is a critical "transition decade" and we will continue to press companies to close gaps.

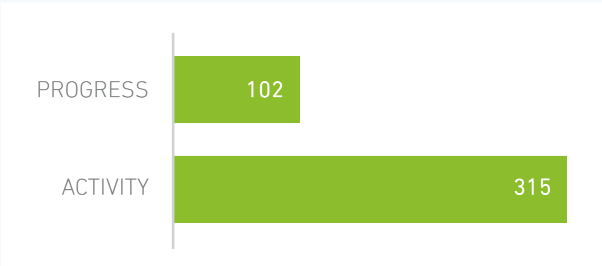
LGPS Central is co-leading or in the focus group of engagements with eight CA100+ companies, the majority of which are oil & gas and mining companies. Through a combination of direct engagement and collaborative engagement via the CA100+ focus group, we have engaged with an **electric utility** on the topics of Paris Alignment and corporate lobbying practices. The Company lacks top-line statements on climate policy and its industry association relationships are generally at odds with positive advocacy on climate policy. Recently, the Company has made more progress on its corporate lobbying transparency. Amongst other things, the Company has agreed to conduct an annual review of its trade association memberships alongside committing to an annual disclosure update 180 days after the end of the calendar year. They have also hired a new staff member with a focus on investor relations and disclosures. It is hoped that this signals a further commitment to transparency and disclosure as, despite improvements, current disclosures are not enough to assure investors that the company's lobbying activities are fully aligned with the Paris Agreement. In terms of Paris Alignment, the company has set a target for reducing its GHG emissions up to 2025. This target covers at least 95% of scope 1 and 2 emissions and the most relevant scope 3 emissions, and it is aligned with the goal of limiting global warming to 1.5°C. LGPS Central and fellow investors would like to see a stronger climate ambition, including a commitment to clear medium and long-term GHG reduction targets.

ENGAGEMENT VOLUME BY **TYPE**



- 324 engagements in progress
- Majority of engagements undertaken via CA100+
- CA100+ companies assessed through new Benchmark Framework, highlighting need for short-term targets in line with Net Zero by 2050 ambitions

ENGAGEMENT VOLUME BY **OUTCOME**



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

PLASTIC ENGAGEMENTS

This quarter our single-use plastics engagement set comprised 33 companies with 41 engagement issues[6]. There was engagement activity on 39 engagements and achievement of some or all engagement objectives on 11 occasions.

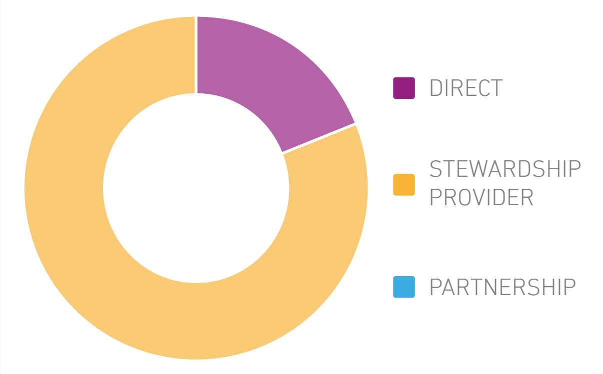
We have continued our engagement with six **packaging companies** through a sub-group of the PRI plastics working group led by Dutch investors Achmea Investment Management and Actiam. With increasing attention from governments on the negative impacts of plastic use and consumers calling for less harmful 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. The investor group has put forward expectations of companies to: set targets for their use of sustainable materials and clearly disclose progress against those targets; clearly outline the initiatives they are using to reduce plastic pollution; ensure full alignment between the company's sustainable materials strategy and carbon emissions reduction strategy; and include sustainability-related performance KPIs in executive remuneration.

As part of the collaborative project, we met with a **US-based packaging company** to discuss their progress against the identified expectations. The call was constructive, and the company outlined several steps they are taking to improve their management of plastic waste. This includes enhancing their target for the total amount of solutions made from recycled content; improving their transparency by committing to publish a sustainability report; and exploring the use of natural-based solutions as part of their initiative to improve recycled content. We will continue the dialogue to ensure the company remain aligned with their targets, whilst continuing to push for further action against the stated expectations.

PLASTIC PELLET INDUSTRY STANDARD

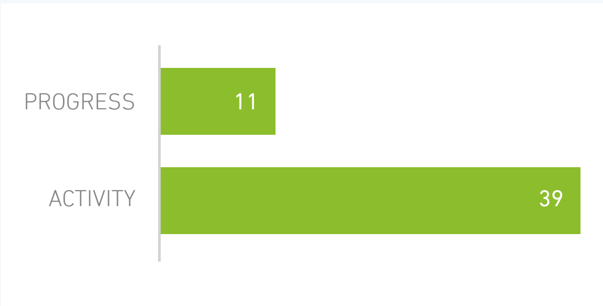
Billions of plastic pellets or "nurdles" make their way into the natural environment each year, which poses a serious threat to the ecosystem and potentially also a health threat to people. LGPSC is collaborating with the Investor Forum, peer investors and other stakeholders including Marine Scotland, the British Plastics Federation and the British Standards Institute to sponsor and create the first industry specification to prevent plastic pellet pollution. The new specification, a so-called Publicly Available Specification (PAS), will set out measures to prevent plastic pellet leakage and help companies demonstrate good practice in pellet loss prevention across their supply chains. The overarching goal of the PAS is to help companies achieve and maintain zero pellet loss across their pellet handling operations. After 9 months of preparation, an expert group with representatives from 23 organisations (plastic pellet producers, plastic manufacturers, recyclers, retailers, trade associations, NGOs and government agencies) proposed a plastic pellet PAS which went out for consultation during Q1 of 2021. Fauna & Flora International, the investor-sponsor group's representatives, are pleased that the expert group achieved consensus on the following key points; the need for the PAS to be a performance standard, allowing verification of efficacy of the pellet management measures being used, and continual improvement in performance by companies. We intend to use the plastic pellet PAS as a direct reference in engagement with relevant industries including plastics manufacturers, transportation, retailing and recycling organisations once it is made public.

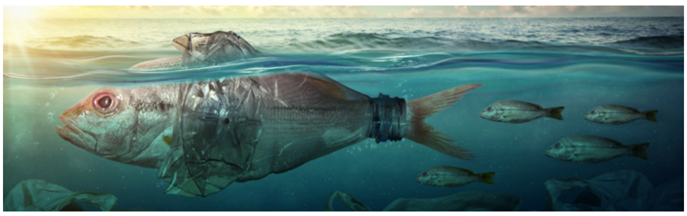
ENGAGEMENT VOLUME BY TYPE



- 41 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 six companies on their global sustainable packaging targets continues

ENGAGEMENT VOLUME BY OUTCOME





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

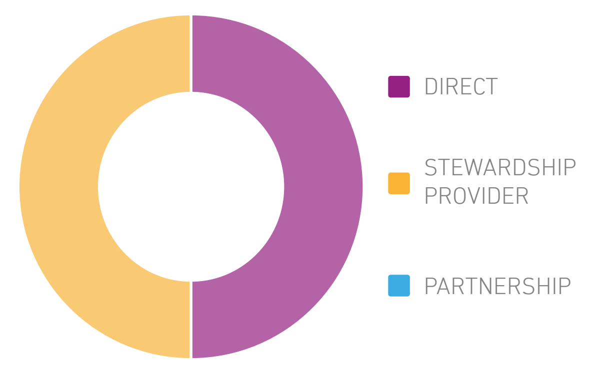
FAIR TAX PAYMENT AND TAX TRANSPARENCY ACTIVITY/ENGAGEMENT

This quarter, our tax transparency engagement set comprised 14 companies with 14 engagement issues. There was engagement activity on 9 engagements and achievement of some or all engagement objectives on three occasions.

Governments continue to provide tax relief to businesses 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.

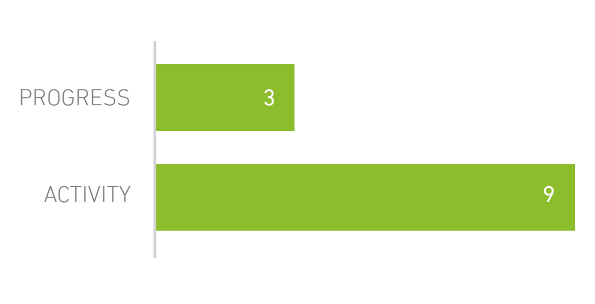
During 2020, we collaborated with five fellow European investors to engage a selection of companies across technology, telecommunication, finance and mining sectors. During the last quarter, we have held discussions to assess progress for these engagements and whether to expand the scope of the project. One of the six companies that we engaged during 2020 is a clear leader both in terms of overall approach to responsible tax behaviour and level of transparency. Further engagement is not needed. Another company showed that it takes a holistic approach to tax and to paying its fair share by achieving a broad economic contribution in host countries where it operates through taxes paid. We will follow up with this company in relation to a tax policy it has established after a recent merger. The other companies are largely lacking in tax transparency and there are "red flags" on issues like companies having subsidiaries incorporated in one jurisdiction but which are tax residents in another jurisdiction paying zero tax. This does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework, which we see as a standard that is relevant to assessing responsible tax behaviour. We will continue engagement with the four "laggard" companies and we are assessing the inclusion of some more companies that appear to pursue particularly aggressive tax strategies and/or lack a tax policy, and/or pay the lowest effective rate of tax. At the end of the quarter we reached out to one of the companies (**an American technology company**) which did not respond to our initial outreach last year. While the company has come back with a response which references amongst others the Audit & Risk Oversight Committe's Charter, we are pressing for a meeting with the Board Committee so that we can learn more and discuss/probe the detail of the Board's oversight on tax related issues.

*ENGAGEMENT VOLUME BY **TYPE***



- 14 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

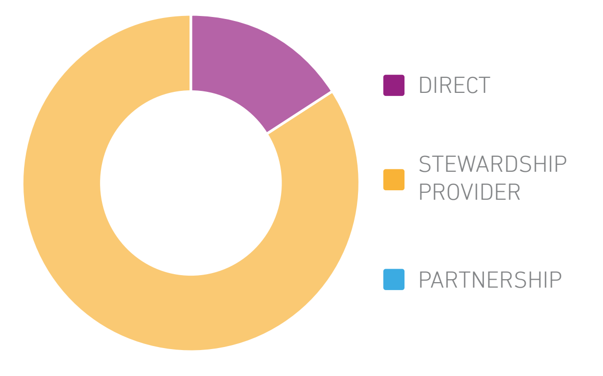
This quarter our technology and disruptive industries engagement set comprised 31 companies with 52 engagements issues. There was engagement activity on 49 engagement issues and achievement of some or all engagement objectives on eight occasions.

LGPSC has joined a collaborative investor engagement, led by the Council on Ethics to the Swedish National Pension Funds discussing human rights risks with a group of American technology companies. This engagement is part of a broader project to engage technology companies on a wide range of human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech. The collaboration has developed a set of human rights expectations which were shared and discussed with the identified technology companies in Q4 2020. These expectations are designed to provide a baseline for ongoing engagement and a means for more constructive and effective dialogue.

In March 2021, we met with one of the **American Technology** companies to discuss the progress they have made against the articulated expectations. Encouragingly, the company appear to be taking the expectations on board and have outlined a number of steps they are taking to ensure greater responsibility and oversight of human rights risks. This includes conducting human rights training for all members of staff; developing a Code of Conduct; establishing a Human Rights Defender Working Group which now meets regularly; and producing an annual Human Rights Disclosure Report. We will continue to work with the company to ensure they remain committed to these actions.

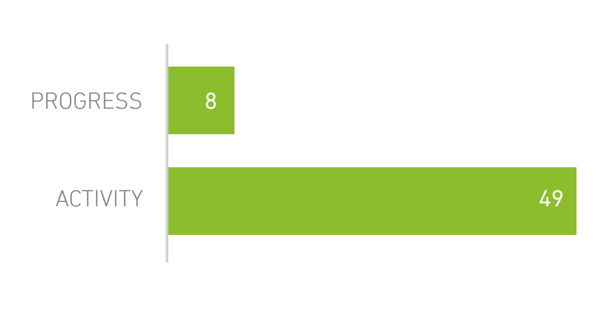
On our behalf, EOS engaged an **Asian Technology Hardware & Equipment** company on several ESG related matters including the treatment of the Uyghur people and climate change. Data analysis showed that the Company may have sourced from a chemical company whose supplier is blacklisted for its involvement in forced labour practices in Xinjiang. The Company said that, aside from an external investigation, it had carried out a supplier survey of over 400 China-based first-tier suppliers. It found that two of the surveyed suppliers had three Uyghur workers who were not related to the government programme in Xinjiang. No suppliers of the Company source from Xinjiang. EOS was satisfied with the company's response to this issue. EOS further asked for science-based carbon reduction targets to be set in line with the government's 2050 carbon neutrality commitment. The development of renewable energy in the region is in its early stages and the regulatory framework is the most important consideration for the Company in responding to climate change, from a long-term perspective. Encouragingly, the Company has made progress on the uptake of renewable energy. EOS expressed an expectation of the company to drive climate change leadership.

ENGAGEMENT VOLUME BY TYPE



- 52 engagements in progress
- Development of Human Rights expectations for technology companies
- Encouraging steps taken by one technology company in line with expectations

ENGAGEMENT VOLUME BY OUTCOME



Examples of engagement outside of stewardship themes

Alan Fraser Images / Shutterstock.com

COMBATTING MODERN SLAVERY

In the course of 2020, LGPS Central joined a collaborative investor-initiative convened by Rathbones Brothers Plc (Rathbones) to press 22 laggard **FTSE 350 companies** that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies over a certain size (turnover of more than £36 million per year) have to post a modern slavery statement on their website. Furthermore, they must have a process in place by which the statement is approved by the board; signed by a director; and reviewed annually. The project has a two-fold objective of highlighting the importance of eradicating modern slavery in supply chains of FTSE 350, and across businesses globally, as well as encouraging a greater degree of challenge from investors on social issues. The engagement was a success and 20 out of 22 companies have become compliant with the Modern Slavery Act during 2020 due to investor pressure. A phase II engagement project has been launched by Rathbones during Q1 of 2021, to engage a further 62 FTSE350 companies asking for Modern Slavery Act compliance. As per end April 2021, all companies have responded and 45 are now compliant. Initial positive responses have given an opening for future meetings to discuss companies' approaches to modern slavery. This is an important step beyond the initial ask of compliance with the Modern Slavery Act, to focus on the content of the statement and to enable investors an understanding of the key risks facing individual companies.

HUMAN RIGHTS IN AREAS OF CONFLICT

We expect businesses that operate in areas of war and conflict to take particular care to respect human rights. The Israeli-Palestinian conflict poses a complex set of human rights risks for companies and we are partnered with organisations such as Local Authority Pension Fund Forum (LAPFF) who actively engage on this. In a report published by the UN High Commissioner for Human Rights in February 2020, more than 100 companies have been identified as having business activities in the Israeli Occupied Territories (IOT). LAPFF has identified a core list of companies from the UN list that, in its view, give rise to a clearly defined set of concerns in the IOT, and that has a significant number of LAPFF member pension fund holdings. That core list comprises 16 global and Israeli companies[7]. Alongside direct engagement with these companies, LAPFF is also in dialogue with the Special Rapporteur on the Palestinian Territories at the UN and is looking to have further meetings with the UN Human Rights Council. This is in order to stay abreast of evolving international law relating to this issue.

LGPS Central is in dialogue with one of these companies, Motorola Inc. asking that the company disclose information on how human rights issues are managed, including but not limited to, disclosure on their corporate human rights policy and their human rights impact assessments. If companies do not respond or provide sufficient information, there are several different avenues LGPS Central can take to escalate the engagement including voting against the Board/Board members. Further to this, LGPS Central's external stewardship provider, EOS, is engaging 10 companies with activities of concern in the IOT, which may impact upon the basic freedoms of Palestinians. The companies have so far provided EOS with information on their due diligence and how investigations have been strengthened to reflect the high-risk region and an overview of the grievance mechanisms in place. One company has confirmed a cessation of activities linked to the construction of illegal or contested settlements. These engagements commenced in 2020 and continue in 2021. The engagement approach is apolitical, while distinguishing between those situations that contravene international law and those that do not.

[7] Alstom SA, Altice Europe NV, Bank Hapoalim, Bank Leumi, Booking Holdings, Delek Group, Expedia Group, First International Bank, General Mills, Israel Discount Bank, Mizrahi Tefahot Bank, Motorola Solutions Inc., Paz Oil Co., Trip advisor Inc., Indorama, and Yes Bank

02 Voting

POLICY

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

During this quarter, we revised our LGPSC Voting Principles reflecting our heightened expectations on companies in two areas. Firstly, we would like to see stronger diversity on Boards both in terms of gender and ethnicity based on our long-held view that diversity is integral to sound decision-making. We expect FTSE 100 and 250 companies to have at least 33% women on their Boards and will consider voting against the Chair of companies with materially less female representation unless there are clear and justifiable reasons why 33% is not achievable in an interim period. Furthermore, we expect any FTSE 100 company to disclose information on ethnic minority representation at board level in line with the Parker Review report with the aim of having at least one director from an ethnic minority background. Secondly, we reinforce our view that companies should align their operations and business strategy with the Paris Agreement. Should a company's response to the risks and opportunities presented by climate change appear to be materially misaligned with the Paris Agreement, we will consider voting against the Chair, and other relevant directors or resolutions. Specifically, if a company is assessed by the Transition Pathway Initiative (TPI)'s Management Quality Framework to be at a level 3 or below (where 4 is maximum score), LGPSC will consider voting against the company Chair, and other relevant directors or resolutions.

COMMENTARY

Between January and March 2021, we:

- Voted at 523 meetings (5,376 resolutions) globally
- Opposed one or more resolutions at 217 meetings
- Voted with management by exception at 18 meetings and abstained at four meetings.
- Supported management on all resolutions at the remaining 284 meetings.

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

EXAMPLES OF VOTING DECISIONS

We voted for all resolutions including the executive compensation as well as the Chair of the Compensation Committee, Andrea Jung, at the AGM of **Apple**. Despite leading the largest company in the world, the CEO's 2020 granted compensation was modest by comparison at 0.51x of its US peer median and exemplary relative to the US technology sector, particularly in light of the company's performance. Overall compensation is driven by a high share ownership structure strongly aligned with long-term shareholder returns that, despite concerns about quantum, is reasonable within the US technology sector. The 2020 short-term incentive was based on 50/50 net sales and operating income targets. It is preferable that compensation is linked to strategic metrics, rather than purely financial ones and it is pleasing to note that the short-term incentive will be adjusted by a 10% ESG modifier starting in 2021. The introduction of the ESG modifier demonstrates responsiveness to 12.1% shareholder support, including from LGPS Central, for a shareholder proposal last year to assess the feasibility of including sustainability as a performance measure for senior executive compensation.

At the AGM of German consumer services company **TUI AG**[8] we voted against the election of Jutta Doenges (resolution 8.1) and Alexey Mordashov (resolution 8.4) to the Supervisory Board because of the failure to establish a sufficiently independent Board. Jutta Doenges is identified as non-independent by the company and Aleksei Mordashov is a significant shareholder, owning 30.1 percent of the Company's issued share capital, and is equally not considered independent. As stated in the LGPS Central Voting Principles we expect the majority of board members to be independent. As a concession to the German legal requirement that one-half of the supervisory board must be made up of employee representatives, it is accepted practice that the supervisory boards of German companies be at least one-third composed of independent non-executive members. Requiring one-third of the board to consist of independent directors minimises the potential for conflicts of interest and enhances the quality of board oversight. At TUI AG, the board is only 30 percent independent, which is below market practice. We voted for the independent directors Edgar Ernst and Janina Kugel in order to emphasise the expectation of stronger independence on the Board. Resolution 8.1 was opposed by 12.6% of shareholders, while resolution 8.4 was opposed by 24.4%, showing that lack of independence is a concern among a relatively large group of shareholders.

At **Ping An Insurance Company of China, Ltd**'s AGM we voted against the election of Ng Sing Yip due to concerns over lack of board gender diversity (resolution 8.11 at the AGM). As stated in LGPS Centrals' Voting Principles, we believe the most effective boards include a diversity of skills, experiences and perspectives. This is a view we uphold across markets. Resolution 8.11 passed but was opposed by 4.9% of shareholders. We also voted against the approval of issuance of equity or equity-linked securities without pre-emption rights for H shares (resolution 11 at the AGM). We are concerned that this would lead to excessive dilution of existing shareholders. In correspondence with the company ahead of the AGM, EOS expressed on our behalf opposition to the request made by the board for the authority to issue shares without pre-emptive rights, up to 20% of the share capital. While we understand the need for flexibility, we are concerned about the dilution of shareholder positions and would only support such a general authority up to 10% of the share capital, unless there is a specific purpose, which is not the case. Although resolution 11 was passed by the Ping An AGM, a clear opposition was voiced by 30% of shareholders who voted against.

We voted against management remuneration at the AGM of **Sul America**, a Brazilian Insurance company due to concerns over poor disclosure and the failure to link pay and appropriate performance (resolution 15 at the AGM). As per LGPS Central's voting principles we expect companies to clearly disclose how remuneration is related to business strategy and company performance. Such performance conditions should ensure that there is no reward for failure, nor for luck, and any performance award granted should be clearly linked to disclosed targets. Sul America's disclosure lacked transparency regarding certain key remuneration figures, including the remuneration of its highest paid executive. The figure reported by the company did not appear inclusive of all elements of the executive's pay. We also voted against electing company directors due to concerns over gender diversity (resolution 5 at the AGM). Only 18% of the Sul America Board is female, which is incongruous with our belief that, to be effective, boards should include a diversity of skills, experiences and perspectives.

We voted for all resolutions at **Daimler's** (Automobiles & Components) AGM. This included resolution 5 on the appointment of the auditor. Daimler has commenced a selection and proposal process for the auditor rotation, which will lead to the appointment of a new audit firm for the 2024 financial year at the latest. Given the forthcoming separation of the industrial businesses and the majority listing of Daimler Trucks & Buses (Extraordinary Shareholder Meeting planned in the autumn of 2021), an accelerated change of the audit firm would not be in the interest of shareholders. Due to the ongoing Covid-19 crisis, Daimler's AGM was held in the form of a virtual meeting, which our stewardship provider, EOS, joined via a live video stream. The CEO announced that the Company wants to accelerate the electrification of its product portfolio and play its role in expanding the necessary public charging network. EOS posed questions during the virtual meeting focused on the Company's alignment with the Paris Agreement in its strategy and lobbying activities. It is of particular interest and concern how the Company will align its future capital expenditure with the Agreement's objective of limiting global warming to 1.5° Celsius, predominantly through the development of fully electric platforms.

[8] TUI AG is listed on the London Stock Exchange

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central currently contributes to the following investor groups:

All information is prepared as of **18.05.2021**.

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

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

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