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NLGPS LAUNCHES RI POLICY

GREATER MANCHESTER /
MERSEYSIDE / WEST YORKSHIRE
STEWARDSHIP REPORT
Q1 2019

Northern LGPS



INTRODUCTION

RESPONSIBLE INVESTMENT AT NORTHERN LGPS

GETTING STARTED

We are focusing our stewardship activity on major holdings and overlaid with an ESG risk analysis. We started our engagement programing this in Q1.

NLGPS is one of the largest pools of pension fund capital in the UK. It has assets of

£46bn

NLGPS has made major investments in infrastructure. Through the GLIL joint venture NLGPS and Local Pensions Partnership have committed more than

£1.8bn

Collectively Northern LGPS (NLGPS) represents one of the largest pools of pension fund capital in the UK. It represents the interests of the Greater Manchester, Merseyside and West Yorkshire Pension Funds with assets under management of £46bn. These assets are invested to fund the retirements of hundreds of thousands of beneficiaries who live both within the North and beyond. The Northern LGPS will always act in accordance the interests of those beneficiaries and we want our Responsible Investment activities to make a positive contribution to our region.

Environmental, social and governance (ESG) issues are important to the Northern LGPS for a number of reasons. ESG

factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to the Pool and its beneficiaries. These risks might be financial, such as the underperformance or failure of an investee company, or reputational, resulting from poor corporate behaviour.

In addition, our beneficiaries live in a society that is affected by the behaviour of investee companies. Therefore we expect high standards from those businesses. Consistent with the Northern LGPS's fiduciary duty to our beneficiar-

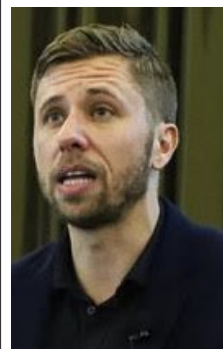
ies we will ensure that the businesses in which we invest are both financially and environmentally sustainable, have high standards of governance and are responsible employers. As far as possible the Northern LGPS will seek to invest in a way that is financially and socially beneficial for the North of England.

To put these aspirations into effect in January we launched our Responsible Investment Policy, and from Q1 2019 we have been undertaking a range of activities to begin exercising our collective influence as investors. Every quarter we will issue a report detailing the work we are doing to implement the policy to ensure that NLGPS is transparent about and accountable for its RI activities.

NLGPS Stewardship Day

In January over 70 people attended the inaugural NLGPS Stewardship Day at Aintree Racecourse in Liverpool where we launched the NLGPS Responsible Investment Policy and set out our approach to stewardship. The event was chaired by Councillor Paul Doughty and was attended by councillors, council staff involved with NLGPS, trade union representatives and others.

One of the event highlights of the day was a speech by the journalist James Bloodworth (pictured) who spoke about his experiences of poor working conditions in low-wage jobs in the UK including in an Amazon 'fulfilment centre' (warehouse) and as an Uber driver. These accounts form the basis of his book, *Hired: Six Months Under-*



cover in Low-Wage Britain. NLGPS has committed to make employment standards one of the major themes it will address in its RI activities, so this talk was of great interest and generated lots of discussion.

Bob Holloway, Pensions Secretary for the Local Government Association spoke to delegates about regulatory changes affecting the NLGPS. Other speakers included Alan MacDougall from PIRC who discussed corporate governance and shareholder voting.

INTRODUCTION

Our engagement approach

As set out in our Responsible Investment Policy, NLGPS seeks to engage both in its own right and in collaboration with others. In respect of our own engagement, NLGPS works with our responsible investment partner PIRC. This in turn involves a mixture of the ongoing engagement that PIRC undertakes with companies throughout the year, focused NLGPS engagement and activity taken through our participation in the Local Authority Pension Fund Forum (LAPFF). We believe that engagement needs to be backed up by robust voting and NLGPS member funds have sought to retain maximum authority to direct their own voting. Each quarter we will provide information on engagement activity. NLGPS discloses its voting on all companies online two days ahead of meetings (see later story).

NLGPS attends its first AGM

In mid-March our outgoing chair Paul Doughty attended the AGM of Chemring PLC, marking the first time we have attended an annual meeting in our own right. As part of our stewardship approach, we have focused our initial public equity engagements on companies where NLGPS has major holdings, overlaid with an ESG risk analysis.

Collectively NLGPS holds more than 5% of Chemring's outstanding shares. Tragically, last year one worker was killed and another injured in an explosion at the Chemring Countermeasures facility near Salisbury. In addition we were aware that the company experienced a significant level of shareholder dissent against a number of resolutions at its 2018 AGM.

We were pleased to hold a very productive meeting with both the chairman and chief executive after the AGM at which we discussed issues such as safety, diversity and workforce engagement.

Whilst much of our engagement will not be tied to AGMs, given the size of our holding we felt that it was important to attend in person in order to demonstrate our commitment to working constructively with companies where NLGPS is a major shareholder. We intend to attend other AGMs where we feel this will be beneficial.

NLGPS also initiated engagement with two more of its major holdings during Q1.

COMPANY ENGAGEMENT



Action on tailings dams

Institutional investors, led by the Church of England and Swedish Council of Ethics of the AP funds, have begun a large-scale initiative to prevent the further collapse of tailings dams. The initiative stems from the collapse of the Vale tailings dam in Brumadinho in late January. The Church of England convened a meeting of companies, investors, industry groups and industry experts on 4 March to discuss the causes of tailings dam failures, and a letter has been sent to mining companies. LAPFF has been closely involved and has played an important role in engaging with community representatives.

Social media companies

Following the tragic event in Christchurch in New Zealand in March, where 50 people were shot dead by a far-right terrorist in attacks on the Al-Noor Mosque and Linwood Islamic Centre, there has been renewed focus on the responsibility of social media companies. In particular Facebook was subject to severe criticism for failing to prevent the terrorist live-streaming the attack.

In response, the New Zealand Crown-Owned Investors, led by the NZ Superannuation Fund announced a collaborative engagement with social media companies to strengthen controls to prevent the live streaming and distribution of objectionable content. The New Zealand investors leading on this include the Accident Compensation Corporation, Government Superannuation Fund, National Provident Fund and Kiwi Wealth. All three members of NLGPS have agreed to back the initiative, which is also being supported by LAPFF. The engagement will initially focus on Facebook, Alphabet, which is the parent company of Google, and Twitter.

There is also a related engagement running in the US with shareholder resolutions being put for the third year running, to the annual meetings of Twitter, Facebook and Alphabet on objectionable content. These have been filed by New York State and Arjuna Capital and

they ask the companies to report on how effective their policies are to manage risks posed by controversies over the governance of online material. This includes election interference, fake news, hate speech, threats to democracy and freedom of expression and human rights abuses. So these resolutions provide an avenue for investors to indicate concerns to these companies through the ballot this proxy season.

THEMATIC PROJECTS



In the frame: Housing is now a high profile political issue

House-builders and ESG standards

One of the thematic projects NLGPS has initiated in Q1 is research and engagement in relation to house-building companies. There is now broad consensus that the UK faces a severe housing crisis. Many believe that we are not building enough new homes while both main political parties have set ambitious targets. In addition a lack of affordable housing, particularly in some new construction projects, has also been a subject of controversy. As a result housing is now viewed by the public as one of the most important issues facing the country.

This focus brings with it huge opportunities for the house-building industry. However, it also has led to growing scrutiny of the way that house builders operate which could have a material impact for investors. Many of these concerns overlap with Northern LGPS's responsible investment priorities, including its focus on the environment, executive pay, employment standards and practices and companies being a force for good in the communities

in which they operate.

Set against this backdrop, NLGPS decided to undertake an engagement programme with the UK's listed house-builders. A review of UK listed house-builders has been undertaken examining their approach to issues such as climate change reporting, delivering affordable housing and employment contracts in an industry known for subcontracting. This has already generated some interesting results and ideas about where some of the gaps in current practice might be. In the coming months the NLGPS will be engaging UK house-builders on our findings, praising good practice and where necessary pushing for improvements.

Investing in a Just Transition

One of the elements of the NLGPS RI policy that may become increasingly significant in future is our interest in encouraging a 'Just Transition' to a low-carbon economy. The Just Transition initiative is built around the importance of engaging with the social aspects of climate change

There is a significant regional aspect to this work. Unfortunately some communities in the North have suffered during

previous structural changes to the economy. Therefore we believe it is vital that the future changes to the nature of the economy that are likely to be necessary to tackle climate change take account of the regional employment effects. We believe that this fits well with the well-defined regional focus of NLGPS.

In February members of the NLGPS team held initial discussions with Nick Robins (pictured) of the Grantham Insti-



tute to discuss how we can start building a Just Transition element to our work on climate change. Potential employment changes in the North, and Yorkshire

in particular, already feature in some of the early work the Just Transition team is planning, so there is an overlap with the region in which many NLGPS beneficiaries live.

We will be working with Nick and colleagues more over the year. We are already starting to factor Just Transition into our engagement work, and it may also have implications for our growing infrastructure portfolio. We also look forward to working with other LGPS funds on this agenda through LAPFF.

THEMATIC PROJECTS

Stakeholder engagement

At NLGPS, we are acutely aware of the importance of taking other stakeholders into account when we look at investee companies. The Shareholder Rights Directive sets out that shareholders should communicate with other stakeholders in investee businesses, and we believe that over time there will be growing expectations of investors in this area. As such, NLGPS is building stakeholder engagement into its Responsible Investment activity, in company-specific, thematic and policy work. We were very pleased to undertake some initial stakeholder engagement meetings during Q1, and we plan to report on our stakeholder engagement activities on a regular basis.

Employee voice in corporate governance

The importance of giving employees a voice in the governance of business is an important aspect of the revised UK Corporate Governance Code, which came into effect from 1 January 2019. Giving employees a greater say is also an objective that NLGPS supports.

In February we were very pleased to be able to meet with Amanda Hillerby, the employee director at Mears Group, to talk about her experiences since joining the board last summer. NLGPS has a holding in Mears Group and we believe we are the first shareholders to talk to Amanda since her appointment to the board.

With respect to the public policy aspects of workforce engagement, NLGPS was also pleased to have a discussion with the TUC about its views on employees in governance. Unions have argued that employees should be able to elect directors from the workforce rather than companies choosing alternatives such as nominating an existing non-executive to engage with the workforce.

NLGPS has already raised employee representation at board level as a topic in its company engagements and will continue to do so during 2019. Our experience to date has been that a number of companies prefer the option of nominating an existing NED to appointing employees to the board.

POLICY

Voting transparency

Since the financial crisis there have been increasing demands for institutional investors to be accountable in relation to their engagement with companies, and this has been formalized in the Stewardship Code in the UK and equivalents elsewhere.

A core element of this accountability has been the expectation that investors disclose their voting record. Although a number of asset managers still decline to do so, most of the largest do make this information publicly available as do a growing number of asset owners. All NLGPS member funds have disclosed their record for a number of years now.

When NLGPS considered how to approach this issue we looked at best practice worldwide. A growing number of investors disclose how they will vote on certain resolutions during the year. In addition some of the largest public sector pension funds, CalPERS and CalSTRS, make all their votes available in advance of meetings via their online disclosures.

Given our similarity, both in membership and orientation on ESG issues, to US public sector funds NLGPS felt that it should align with its global peers. As such voting decisions on all stocks are now publicly available via our online voting disclosure site two days ahead of the relevant meeting.

While we believe that NLGPS is currently the only institutional investor in the UK to pre-disclose all of its votes in this manner, we expect that over time this will become standard practice.

AGM ACTION IN Q2

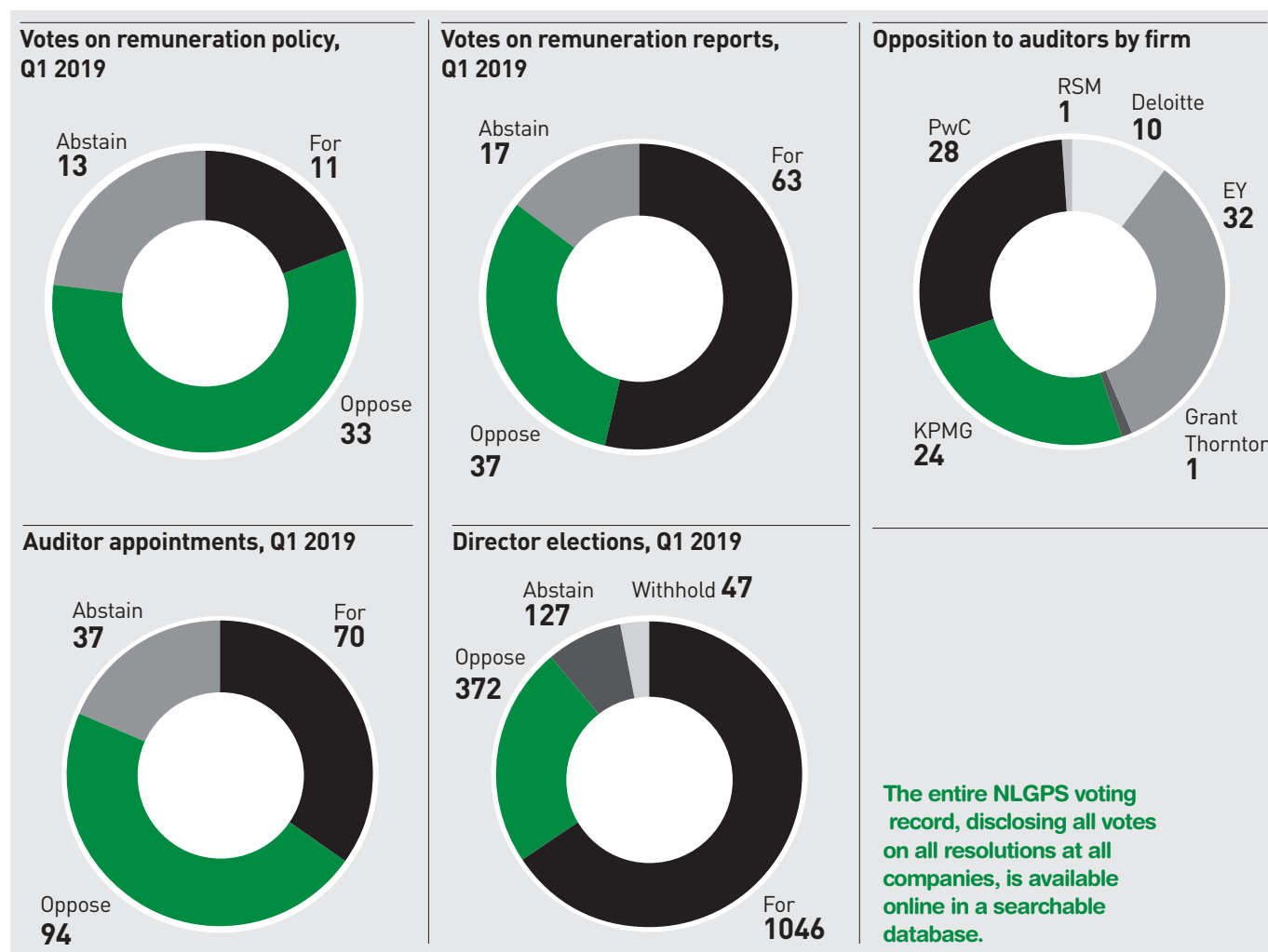
The Big Tent at Amazon

One of the most interesting AGMs of the US season is on **22nd May**. Online retail giant Amazon.com is facing a slew of shareholder proposals tackling a range of ESG issues. In total **12 resolutions** are on the ballot including **9** from the 'Big Tent' initiative. These cover issues including management of food waste, use of facial recognition technology, the need for an independent chair and gender pay equity. One of the most interesting proposals has been filed by Amazon Employees for Climate Justice which seeks a company-wide plan on climate change. NLGPS intends to support the 'Big Tent' proposals.

Exxon feels the heat

Oil giant Exxon Mobile Corp. faces a battle with shareholders at its AGM on **29th May**. The New York State Common Retirement Fund and the Church of England are voting against all Exxon directors and have urged other shareholders to do the same. The funds, which are part of the Climate Action 100+ group if investors say Exxons inadequate response to climate change is a serious governance failure. NLGPS members are part of Climate Action 100+ and intend to support the call for action.

Q1 VOTING OVERVIEW



Q1 review: NLGPS policy focuses on excessive pay, director independence and tackling potential auditor conflicts

NLGPS members voted at 318 meetings during Q1 2019. In its role as responsible investment adviser to NLGPS, PIRC was in contact with 121 companies where votes were cast during the quarter, and in 23 cases this led to further dialogue. In six cases this led to changes in voting decisions ahead of the meeting.

By nature of the fact that in most markets multiple directors face election at every AGM, director election resolutions are by far the most common. During the first quarter, NLGPS voted on the election of 1592 directors. In total, 66% of directors were supported, with 23% opposed. In the remainder of cases NLGPS abstained, or with-

held votes.

The most common reason for opposing or not supporting a board director's re-election was because of concerns about independence. This might result from a non-executive's financial links to the company, excessive board tenure or other factors. Some directors were opposed due to failure to attend board meetings. A lack of board diversity has been another factor.

Turning to executive pay, during Q1 NLGPS members voted on 117 remuneration reports or similar advisory votes on pay. In total NLGPS voted for 54% of the time, opposed on 32% and abstained on the remaining 14%. NLGPS mem-

bers also voted on 57 remuneration policies, in which case the vote is binding. More than half (33) of these policies were opposed, with NLGPS abstaining on a further 13 and voting for 11.

It is a deliberate strategy to take a particularly robust position on remuneration policy votes since these are both binding and forward-looking. If shareholders do not challenge inappropriate features in remuneration policy these can be locked in for several years.

Opposition to both remuneration policies and remuneration reports results from an assessment of both the structure and scale of reward. NLGPS members will oppose company policies where total awards available are deemed to be excessive. Voting policy takes a much broader view of pay than basic performance linkage.

Given the vital role that auditors

are expected to play in ensuring the veracity of companies' financial reporting, votes on their appointment are an impact accountability mechanism. Investors are increasingly wary of auditors undertaking significant amounts of non-audit work, because this may prejudice their independence, and expect firms to be rotated for the same reason. Where companies breach these expectations, NLGPS will oppose their appointment.

During Q1, NLGPS members opposed just under half (47%) of all auditor appointments, voting for around a third (35%) and abstaining on the remainder. Auditors undertaking significant amounts of non-audit work was an important factor. In terms of votes on specific audit firms, of the Big Four, it was EY that attracted the most oppose votes, followed by PwC and KPMG with Deloitte far less likely to be opposed.