WHAT NEXT?

GREATER MANCHESTER / MERSEYSIDE / WEST YORKSHIRE

STEWARDSHIP REPORT
Q2 2020

NorthernLGPS
The Collective Asset Pool for Greater Manchester Merseyside and West Yorkshire Pension Funds

RESPONSIBLE OWNERSHIP

RESPONDING TO THE COVID-19 CRISIS

During the second quarter of 2020, the Covid-19 pandemic continued to dominate the news and remained a focus on our Responsible Investment activity. Although by the end of the quarter markets recovered significantly from their March lows, the impact of the public health crisis will be felt for a considerable time to come.

With many countries, and their economies, in various forms of lockdown over the quarter, engagement work that NLGPS has participated in focused on companies in the sectors that have so far been hardest hit. As many have reflected, the crisis has revealed how much we rely on those who work in unglamorous sectors of the economy. Neither furloughed nor able to work from home, many workers have been exposed to heightened risk of Covid infection. Therefore much of our focus has been on worker conditions and company safety practices during the outbreak.

A standout example is the food processing industry, which has continued to operate throughout the pandemic. However in many countries food processing companies, and more specifically meat processing, have seen high levels of employees testing positive for Covid and sadly many fatalities. As a result health and safety standards at sites have become a key area of investor concern.

Much attention has been on the US, where Covid infections in meat processing first came light in the Spring. In May, the United Food and Commercial Workers International Union (UFCW) reported that 20 meatpacking workers had died from coronavirus while more than 5,000 workers had been hospitalised or are showing symptoms. Sadly since then numbers of infections and deaths have

The environmental impact

While the economic and social impact of Covid-19 cannot be underestimated, the decline in activity can also be seen in our environmental footprint. The International Energy Agency (IEA) predicts the world will use 6% less energy in 2020 than it did in 2019, in turn driving down the global coal demand by 8% meaning a far smaller global carbon footprint for the year.

With travel so heavily restricted across the globe, attendance at this year's AGMs has been strictly virtual – if the meetings went ahead at all (see separate story). Meanwhile many people within the LGPS, and more widely in society, have shifted to remote working. Many have found this a productive change in working arrangements and have not missed commuting. Equally, we should be mindful of those whose living arrangements make working from home difficult, or who miss the office environment.

Whilst none of us would wish for the crisis that has led to this reduced impact on the environment, it has raised some important issues for us. In addition to reduced emissions, and reduced travel costs, a shift to virtual meetings has normalised this as an engagement option for overseas companies. As we think about our approach to RI in the future, this will be an important consideration. It would seem counterproductive, for example, to undertake unnecessary international travel to engage with companies over the need for them to reduce their carbon footprint.

RESPONSIBLE OWNERSHIP

continued to rise.

Following our commitment to the Interfaith Center on Corporate Responsibility Coronavirus Response Statement - which demands enhanced worker protections during COVID-19, notably in the meat processing industry - we again collaborated with ICCR to put more pressure on companies that we believe continue to fall short.

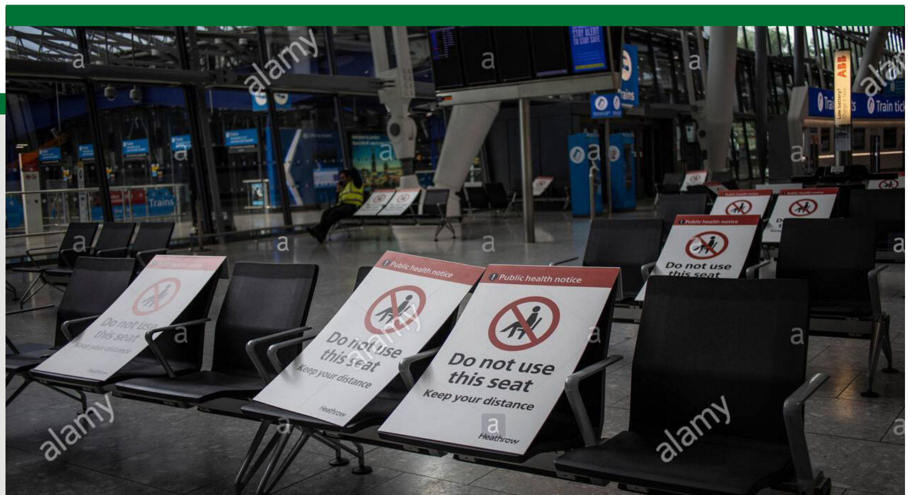
In May we sent a letter signed by our RI advisers PIRC, alongside 129 institutions with $2.4 trillion in combined assets, to several meat processing companies in which we are invested, including Tyson Foods, demanding higher standards for workers.

The expectations set out to companies include enforcing physical distancing; providing PPE; cleaning equipment; more testing; and giving employees pay increase to reflect the risk to their health of working during the pandemic. If taken, not only will these steps will better protect workers, and by extension, their families and broader communities, but limit the impact on production of possible plant closures.

The letter stated: “Failure to take all necessary actions that prioritize the safety and health of workers, to act responsively to employee concerns, and instil the trust and confidence of staff in company actions, may hinder production recovery efforts and the continuity of business operations. In contrast, employee absenteeism is likely to decrease when workers see a spectrum of effective strategies being implemented to keep them safe and financially secure if they happen to contract COVID-19 in the workplace.”

On behalf of NLGPS, PIRC also took part in a collaborative engagement with Brazil-listed JBS, the world’s largest meat processor, which also suffered many coronavirus cases across its international operations. The company has a footprint in the UK through its ownership of Moy Park, which operates in Northern Ireland. On an investor call in May, JBS confirmed it now supplied workers with PPE, temperature checks and workforce questionnaires as well as enforcing physical distancing.

Another engagement took place with Greencore, which supplies sandwiches to Marks & Spencer. At a June meeting, the



Covid and employment

NLGPS engagement has not been limited to protecting employees’ rights while they are at work; we also met with companies to understand how Covid-19 will affect employment levels in certain industries. Whilst job retention schemes are expected to remain in place in many countries for months to come, it is very likely that there will be large scale job losses in some sectors.

Analysis by McKinsey in May suggested that around 7.6 million jobs were at risk during lockdown, encompassing permanent layoffs, temporary furloughs, and reductions in hours and pay. It also stated that people and places with the lowest incomes are the most vulnerable to job loss, with 50 percent of all the jobs at risk in occupations earning less than £10 per hour.

As responsible investors, whilst we want to see companies manage their finances effectively, we must also take account of the need to behave responsibly towards other stakeholders.

The travel and leisure sectors are under particular pressure. In addition to announced lay-offs, which are growing in number, there are reports that some companies are using the Covid-19 crisis to undermine existing terms and conditions. This quarter British Airways was accused of threatening to fire tens of thousands of their staff and rehire them on worse pay and conditions, including pay cuts of up to 70%. The company is particularly reliant on business travel for its revenue, so is likely to be under significant financial pressure. Nonetheless, its stance appears to be at odds with other carriers, including those like Ryanair that have had poor industrial relations in the past, but appear to be behaving more responsibly during this crisis.

NLGPS participated in a webinar on the prospects for aviation sector organised by PIRC, and engagement with some of the major employers will take place this year.

Another sector identified by McKinsey and others as being particularly at risk in hospitality. Hotel chain Marriot International announced it would cut up to 30% of its workforce following government announcements that companies would have to start contributing to the furlough scheme. Marriott claims the lob losses are ‘unavoidable’ given the impact of Covid-19.

While NLGPS is sympathetic to the very real difficulties companies face during the pandemic, we will take every effort to ensure that the virus is not used as an excuse to treat employees unfairly. Having spoken to workers and their representatives in a number of companies facing job losses we are concerned at the medium-term risk to employment relations. In addition for public-facing companies like BA there is a risk of significant reputational damage.

ENGAGEMENT

The inequality of infection

At the end of June, the Office for National Statistics published a bulletin which looked at Covid-19 fatalities in England and Wales by occupation. This looked at deaths involving the coronavirus registered between 9 March and 25 May 2020.

The ONS found that men working in elementary occupations had the highest rate of death involving Covid-19, with 39.7 deaths per 100,000 men (421 deaths); of the specific elementary occupations, men working as security guards had the highest rate, with 74.0 deaths per 100,000 (104 deaths). Men and women working in social care, a group including care workers and home carers, both had significantly raised rates of death involving Covid-19, with rates of 50.1 deaths per 100,000 men (97 deaths) and 19.1 deaths per 100,000 women (171 deaths).

Among women, four specific occupations had raised rates of death involving Covid-19, including sales and retail assistants (15.7 deaths per 100,000 women, or 64 deaths).

Because of the higher number of deaths among men, 17 specific occupations were found to have raised rates of death involving Covid-19, some of which included: taxi drivers and chauffeurs (65.3 deaths per 100,000; 134 deaths); bus and coach drivers (44.2 deaths per 100,000; 53 deaths); chefs (56.8 deaths per 100,000; 49 deaths); and sales and retail assistants (34.2 deaths per 100,000; 43 deaths).

The ONS has also released analysis of fatalities and ethnicity, covering a similar period. After adjusting for region, population density, socio-demographic and household characteristics, the raised risk of death involving Covid-19 for people of Black ethnic background of all ages together was 2.0 times greater for males and 1.4 times greater for females compared with those of White ethnic background.

Males of Bangladeshi, Pakistani and Indian ethnic background also had a significantly higher risk of death involving Covid-19 (1.5 and 1.6 times, respectively) than White males once region, population density, socio-demographic and household characteristics were accounted for; whilst for females in Bangladeshi or Pakistani, Indian, Chinese and Mixed ethnic groups the risk of death involving Covid-19 was equivalent to White females.

UK food processing company reported that, in addition to improved health and safety conditions, workers would receive full sick pay for leave taken during the pandemic and would receive a bonus based on the time spent working during lockdown. The provision of 'hazard pay' by companies such as Greencore is welcome. Unfortunately not all companies in the industry have taken this approach, so this is a topic that is part of our engagements in the sector.

As the pandemic continues, the food processing sector will continue to be an area for investor engagement. We will continue to encourage companies to enforce the highest standards of worker safety.

Meetings go virtual

The 2020 AGM season, while typically busy, was like no other. Lockdown made it impossible to attend meetings in person, meaning some companies chose to delay their AGMs, temporarily sidestepping their yearly interaction with investors.

The more tech savvy companies meanwhile chose to embrace technology, holding virtual sessions over web conferences, Zoom and Microsoft Teams. This shift to virtual AGMs was something of a double-edged sword; on the one hand shareholders could attend irrespective of geography so long as they had an internet connection. Yet the very tech designed to make life easier for a world in lockdown, on occasion created new barriers to communication.

Positively, lockdown conditions meant NLGPS had several successful engagements with US companies such Delta Airlines, where one of our funds had co-filed a shareholder proposal.

LAPFF chair Cllr Doug McMurdo experienced both positive virtual interactions with global investee companies including Rio Tinto. However, at the Boeing AGM connections kept failing, meaning just one LAPFF question was accepted to which it took the company two months to respond.

Meanwhile, other companies forced shareholders to submit questions ahead of the AGM and subsequently chose whether they would answer these publicly or privately. And some companies have not enabled shareholder participation at all. Such selective behaviour led to an increase in the number of voting alerts

ENGAGEMENT

NLGPS issued.

Given the likelihood that travel will continue to be restricted over the next quarter and beyond, LAPFF will encourage organisations to make virtual meetings as seamless and productive as possible.

The public sector and Covid-19

As an investor in, and often a partner with, companies that provide public services, we are aware that this poses some unique risks to local government pension funds. We also considered that some of these risks might crystallise during the Covid-19 lockdown. Therefore we continued our programme of engaging with businesses that have a footprint in the public sector over the quarter to understand the scale of Covid19's impact on their short-, medium- and long-term prospects.

In May NLGPS chair Cllr Ged Cooney held a video conference with Balfour Beatty Chair Phil Aiken and asked for an update on the company's financial health and the health of its workforce. Cllr Cooney requested disclosure around employees who had been directly impacted by the virus.

Mr Aiken provided reassurances that health and safety is already paramount at Balfour Beatty, and that many employees already used PPE pre-coronavirus. He added that the company's surveillance and monitoring protocols aligned with the future Covid-19 protection measures.

However, Balfour was unable to provide precise figures relating to infection rates or fatalities within the workforce. Mr Aiken also warned of immediate risks within the supply chain including disruption to transportation, shortages or delays to delivery of materials due to closure of factories and distribution centres as well as the potential for insolvency within the supply chain itself.

The lack of Covid-19 reporting is not unique to Balfour Beatty and highlights the need for improved guidance around how companies should report infection and fatality figures. This falls under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, with new guidance provided by the Health and Safety Executive (HSE) this quarter. On our behalf, PIRC will be reviewing both RIDDOR reporting and other information available from the HSE.

Black Lives Matter

Events in the US in May, and the protests in response both in America and elsewhere, have pushed the issue of racial justice to the top of ESG priorities. This will undoubtedly strengthen the movement for greater diversity on boards, and we hope that it will also lead to greater focus on the need for equality at every level.

As we state in our Responsible Investment policy: "We fully support board diversity in its widest sense. Diversity is desirable not only in its own right, but also because there is evidence that diverse boards make better decisions.

In addition to supporting the 30% Club and recommendations of the Parker Review, we actively encourage employee representation at board level. We also consider that diversity and equal pay is important throughout organisations, not simply at board level."

As noted earlier, inequality is even evident in the effects of the current Covid-19 pandemic. Therefore we will ensure that our engagement with companies highlights the need for them to pay particular attention to those communities who are adversely affected.

We also fully support the statement issued by LAPFF in response, which is repeated here in full.

LAPFF gives its full support to the calls to end systemic racism sparked by the killing of George Floyd by a Minneapolis police officer in May.

Systemic racism is devastating to individuals and communities and has wider implications for sustainable shareholder value. The Forum is clear that a world which tolerates the subjugation of individuals based on race is one that deprives businesses of the diversity needed to build constructive work environments that lead to innovation and success.

The Forum is sympathetic to concerns about the health implications of holding mass protests during the Covid-19 pandemic, yet these cannot be used to supress legitimate debate.

In a prophetic warning months before Mr Floyd's death, the Office of the High Commission for Human Rights at the United Nations said (in March):

"Restrictions taken to respond to the virus must be motivated by legitimate public health goals and should not be used simply to quash dissent."

LAPFF will build on the momentum created by the latest global action to enforce human rights and protect members' shareholder value.

OTHER NEWS

Barclays pressured over fossil fuel financing

As we reported in Q1, NLGPS was involved in the ground-breaking shareholder resolution at Barclays this year, co-ordinated by Share Action, which sought to target the bank's role in financing fossil fuel companies. The resolution, which was co-filed by Merseyside Pension Fund, was the subject of subject of comprehensive shareholder engagement by a wide range of investors. The Local Authority Pension Fund Forum (LAPFF) played an active role and engaged with board members over the resolution.

Ultimately the bank deployed a rather canny tactic to split support for the resolution. It proposed its own resolution, which involved less commitments on the bank's behalf, and recommended that shareholders support that proposal. The board did not make any formal recommendation on the Share Action resolution.

Ultimately the board's resolution received a vote of over 99% in favour, while the non-management proposal received 24% in favour. NLGPS voted in favour of both. While Barclays may feel they successfully managed the process on this occasion, gaining a quarter of the vote is a very significant resolution for a new resolution of this kind. It is highly unlikely that Barclays and other banks will not face further challenges of this kind in future.

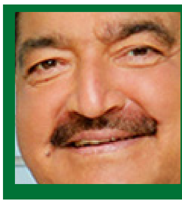
Corporate failures tarnish FTSE350

In what has been one of the most spectacular governance failures in recent memory, NMC Health went into administration, in a debacle that has seen the healthcare provider's auditors EY dragged into disrepute, and exposed weak voting practices by investors.

The former FTSE 100 company was placed into administration in April by High Court judge Sebastian Prentis who said, 'something had gone very wrong with [NMC's] management oversight'.

Administrators Alvarez and Marshal immediately replaced the board-including executive chairman Faisal Belhoul who had only been appointed as recently as March-along with four non-executive directors to provide 'more robust governance and oversee the work with the management teams'.

The company went into a tailspin in early 2020 after it admitted that information regarding the ownership of the company's shares was in doubt, and later revealed the existence of previously unreported borrowing facilities running into the billions.



BR Shetty 'shocked as anyone else'

BR Shetty, NMC's co-chairman who stepped down from the board in February, claims to be as 'shocked as anyone else', by the scandal arguing he is the victim of 'the fraudulent creation and operating of bank accounts in my name including many fraudulent transfers that I neither authorised, consented to, or had any knowledge of'.

While the alleged fraud at NMC is likely to take considerable time to unravel, the Financial Reporting Council has already launched an investigation into EY's audit for the year ending 31st December 2018, that failed to uncover £4bn in hidden debt.

NMC had numerous governance red flags, including directors whose independence might be questioned and historically high levels of non-audit work undertaken by EY. In addition some directors were former EY employees.

If that were not bad enough, it also emerged during the quarter that currency exchange firm Finablr, whose board included a number of people including Shetty who were also directors of NMC, also revealed previously undisclosed debts. In late April it announced that its net indebtedness position was $1.3bn; 'materially above' that previously stated. Shares in Finablr, a FTSE250 constituent, had been suspended a month earlier.

The failure of both a FTSE100 and FTSE250 at the same time marks a low-point for the UK market and it is vital that lessons are learnt. In collaboration with LAPFF there has been engagement with the UK's regulatory bodies.

The scandal – and the similar one unfolding at Wirecard - highlights the importance of investor oversight of companies' governance arrangements but also to look beyond company audits. EY and Deloitte are among the other big-name auditors facing criticism for failing to spot fraud.

There has also been some criticism of investor stewardship, including the failure to challenge poor governance practices at the companies. Whilst we can always do better, NLGPS funds did vote against numerous resolutions at NMC's recent meetings where we had the ability to do so.

It seems likely that the full story of these scandals will take months, if not years, to be fully revealed.

Palestine divestment back in the news

A landmark ruling by the Supreme Court in April has reopened the issue of divestment by local government pension schemes. The case, which was brought by the Palestine Solidarity Campaign (PSC) against the UK government, argued that the 2016 ban on divestment is unlawful, overturning the previous decision by the Court of Appeal.

The PSC – the UK's largest organisation campaigning for Palestinian human rights – had raised concerns about threats to freedom of expression, government overreach in local democracy, and the right of pension scheme beneficiaries to have a say in the investment and divestment of funds.

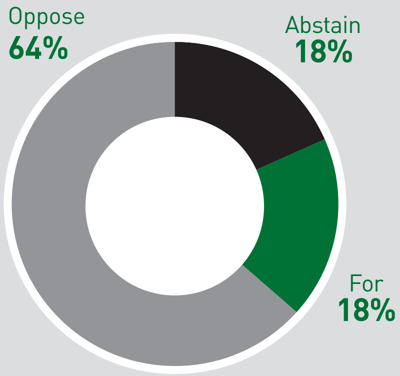
The issue is a complicated one. Many funds do not seek to employ divestment as an approach to ESG issues, be it human rights in Palestine or any other, and instead seek to engage with companies to achieve change. However, many people working within the local government pensions world saw the government's intervention as heavy-handed, and politically charged, particularly since there were no funds actively considering divesting over the issue. Therefor the Supreme Court ruling is a reasonable outcome.

While we generally believe the court ruling removes an unnecessary political restriction on the ability of funds to determine their own approach, NLGPS will continue to prioritise engagement as our approach with companies, whether undertaken by ourselves or through LAPFF. We will also continue to engage with all relevant parties to inform our activities.

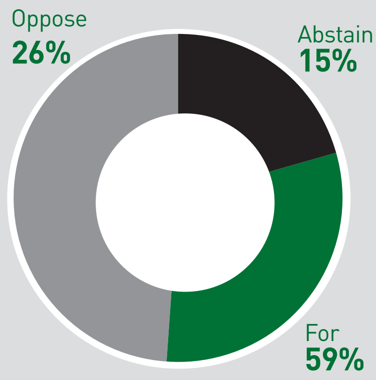
Finally, we do not expect that this is the end of the story, as the government has indicated that it is minded to return to the question of how to block divestment.

Q2 VOTING & ENGAGEMENT REVIEW

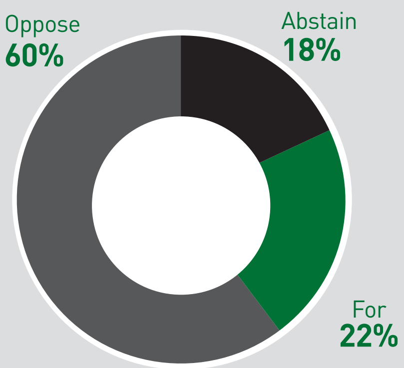
Votes on remuneration policy, Q2 2020



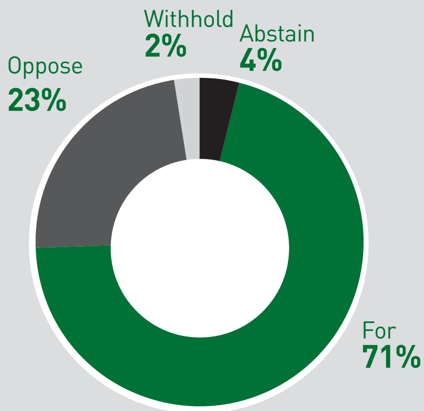
Votes on remuneration reports, Q2 2020



Auditor appointments, Q2 2020



Director elections, Q2 2020



Q2 is the busiest quarter of the year, when many companies in many markets hold their annual meetings. It is also when we see the most shareholder proposals on ESG issues, many of which NLGPS supported.

The entire NLGPS voting record, disclosing all votes on all resolutions at all companies, is available online in a searchable database.

Overall, NLGPS funds voted at 1814 meetings during the third quarter, encompassing AGMs, EGMs and Court meetings. In its role as responsible investment adviser to NLGPS, PIRC engaged with 314 companies around issues relating to meetings during the quarter, in addition to engagement activity that was not meeting-related. Our full voting record is available online in a searchable database at https://northernlgps.org/node/49

Director elections

Director elections are the most numerous resolutions we vote on each quarter. During Q2, NLGPS voted on the election of 12870 directors. In total, 71% of directors were supported, with 23% opposed. In the remainder of cases NLGPS abstained, or withheld support.

A number of directors were removed from the board of Petropavlovsk as part of a dispute between the board and major shareholders. We had backed the incumbents.

Elsewhere in Europe, companies receiving large votes against directors included Safran, KBC Groep, Worldline, ATOS, BASF, Ferrari, Geberit, Vivendi, Peugeot, Danone, Credit Suisse and CNH Industrial. Of 17 directors receiving oppose votes of 20% or more, we supported seven, opposed eight and abstained on the election of two.

In the US, there were significant votes against directors at Global Payments Inc, Waste Management Inc, PPL Corporation and Boeing. In the last case, concerns about candidates were clearly driven by the company's handling of the 737 Max crisis. We opposed both Susan C. Schwab, Arthur D. Collins Jr and Edmund P. Giambastiani Jr, the three directors who saw the largest votes against.

Executive remuneration

Overall, NLGPS opposed companies on advisory votes on remuneration in 49% of cases, abstained in a further 21%. Oppose votes on remuneration policies stood at 64%, compared to 18% abstain and 18% for.

In the UK companies that were defeated on remuneration report or policy votes included Tesco, Petropavlovsk and Playtech. We opposed in all cases. Near misses included Robert Walters and Pendragon, where we opposed, and Vistry Group and Intertek where we abstained.

In the rest of Europe there were defeats or large votes against over executive pay at companies including Sanofi, STMicroelectronics, Aroundtown, Wolters Fluwer and ENI. In all cases we either opposed or abstained.

In the US companies facing shareholder protests on 'say on pay' resolutions included Molson Coors, Ansys, CVS Health, Vornado Realty Trust, Paycom Software and Altria Group. Once again we opposed or abstained in all cases.

Auditors

During Q3 we voted against 60% of auditor appointments, typically in response to high levels of non-audit work being under-taken or long tenure and supported 22%. We abstained or withheld support in the remainder of cases.

In the UK we opposed the appointment of the audit firm at William Hill, Capital and Counties Properties and Sthree, all of which saw received over 10% against. In the rest of Europe both ATOS and CapGemini saw votes of over 10% against the appointment of their auditors. We opposed in both cases.

In the US, companies receiving a vote of 10% or more against the appointment of their auditor included The Mosaic Company, United Continental Holdings, UDR

Q2 VOTING & ENGAGEMENT REVIEW

Inc, Xcel Energy, Yum! Brand and GEC. We opposed in all cases.

Shareholder resolutions
Q2 was also a busy time for shareholder resolutions. In the UK we supported resolutions seeking the improvement of employee pensions at HSBC and the publication of goals and targets aligned with the Paris Agreement at Royal Dutch Shell. As noted earlier, we also supported the shareholder resolution at Barclays relating to financial of fossil fuel companies. In France we supported shareholder resolutions seeking to reduce over-boarding, extend employee share ownership and reduce the gender pay gap. Internationally, we supported proposals seeking greater disclosure in relation to climate risk at companies including Bank of Nova Scotia, Santos, Mizuho Financial Group, Fortum, Danske Bank and Total.

Of the 291 shareholder resolutions we voted on in the US market, we supported 278 (95%), opposed 10 and abstained on three.

We supported all shareholder proposals on key ESG topics such as greater disclosure of information on company policy and practice relating to climate change, lobbying activity, human rights due diligence, the need for an independent chair and in support of employee representation on boards.