PROXY SEASON 2024

DISSENT

AND RETRENCHMENT

GREATER MANCHESTER / MERSEYSIDE / WEST YORKSHIRE

NORTHERN LGPS
STEWARDSHIP REPORT
Q2 2024

NorthernLGPS

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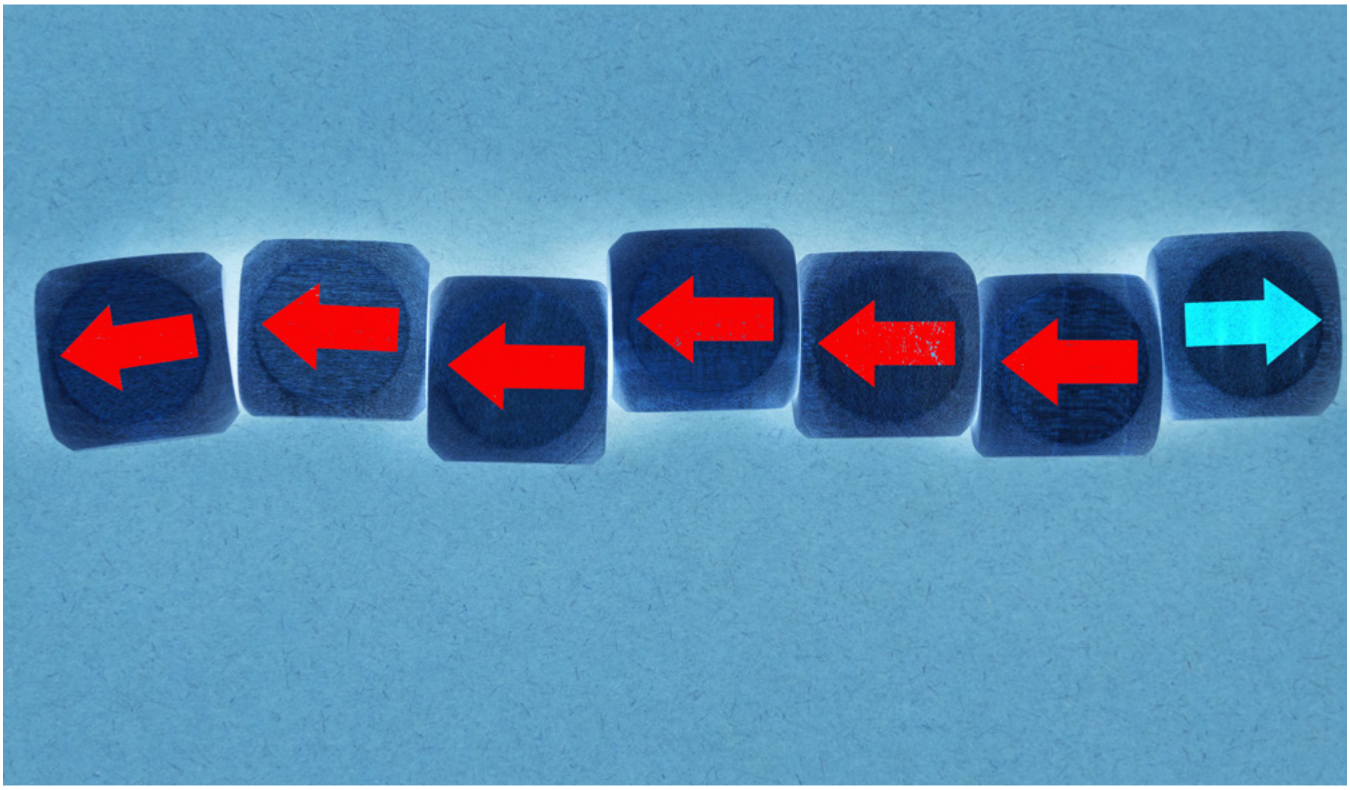

Assessing voting trends & the impact of the ESG backlash

With the 2024 proxy season now over, the majority of publicly listed companies have now held their Annual General Meetings (AGMs) and allowed shareholders to exercise their voting rights. Proxy season has thus provided an opportunity for investors to voice their opinions by casting proxy votes either in support of management or to raise concerns. Companies must put a range of proposals to a shareholder vote, examples include the makeup of the board, directors' pay and appointment of auditors. Shareholders may also put forward resolutions that advocate for a different strategic direction or adopt more robust environmental, social and governance (ESG) practices.

Strategic voting on these proposals, alongside effective engagement, can bring about positive change for investors and other stakeholders alike. For example, in 2023, a resolution was filed by shareholders (including on behalf of Northern LGPS) at Starbucks requesting a workers' rights review. This was passed with majority shareholder support. As previous Northern LGPS stewardship reports have highlighted, this voting result, the subsequent review and further engagement have supported improvements at the company, and work on a joint framework between the company and employee representatives has subsequently been announced.

Despite the role that voting and engagement on ESG factors has played in reducing material risks facing investors, polarisation of the issues in North America and regulatory uncertainty have led to increased criticism of the ESG agenda from some quarters. JPMorgan, State Street, PIMCO and Invesco have now withdrawn from Climate Action 100+, the investor-led initiative which engages the world's largest emitters to take action on climate change. In July, the US House Judiciary Committee sent letters to all US-based members of the initiative questioning their involvement in the group. This followed the publication of [a report] issued by the committee accusing climate groups, including CA100+, of behaving like a "climate cartel" colluding to decarbonise the American economy by "forcing corporations to disclose their carbon emissions, to reduce their carbon emissions, and to enforce (and reinforce) their disclosure and reduction commitments by handcuffing company leadership

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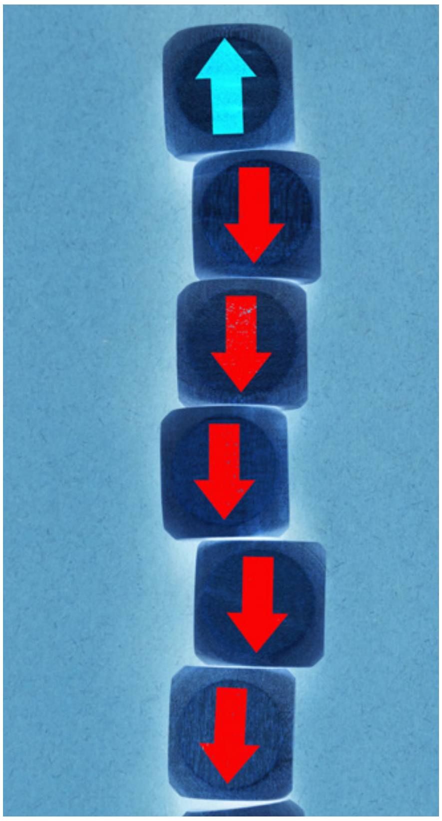
and muzzling corporate free speech and petitioning"[1]. With the asset management industry under increasing pressure to align stewardship activities with a diverse range of client views, the expectation is that the respective voting positions on key climate resolutions would be sanitised, leading to reduced shareholder dissent on key resolutions.

This is certainly the case in the US context, where PIRC, Northern LGPS's responsible investment adviser, has found that, average support for resolutions requesting more robust climate policy at a group of major listed companies fell from just over 19% in the 2023 proxy season to 16% in the 2024 proxy season. It is also worth noting that fewer climate-related resolutions made it to the ballot this year with poorly supported proposals from 2023 less likely to be re-filed. Of 15 resolutions identified as being filed at the same company in consecutive years, there was on average a 5.3 percentage point decline in support. Climate lobbying transparency proposals were worst hit, seeing on average an 8.5 percentage point drop. One such proposal at US truck manufacturer PACCAR saw a particularly precipitous fall in support, from 46% to 28%. Climate resolutions at Boeing and Raytheon also saw support decline by greater than 10 percentage points

Despite apparent retrenchment, shareholders were still willing to vote against management proposals on climate strategies if considered to be inadequate. Although the vast majority of 'say on climate' resolutions put to shareholders this year were passed, three received less than 90% support: Repsol (70%), Shell (73%) and Glencore (83%). Additionally, Northern LGPS funds were among the majority of Woodside Energy shareholders to vote down the company's climate transition plan. 58% of the shareholders rejected the proposal based largely on the



plans lack of ambition of targeting net zero by 2050 for Scope 1 and 2 emissions only. There were additional concerns over planned oil and gas projects.

An issue which shareholders have typically been more willing to escalate with investee companies is executive pay. During the first half of 2024 remuneration proposals were rejected by shareholders at Norfolk Southern, BE Semiconductor, Plus500, Zebra Technologies, Vonovia and 3M Company, meaning over 50% of votes cast were against the recommendation of management. The largest of this type of vote was at Norfolk Southern, which saw its CEO's pay rise rejected by 69% of shareholders. This comes a year after the company was implicated in a disastrous train derailment in East Palestine, Ohio. Norfolk Southern also saw three incumbent directors, including its chair, defeated by activist investor Ancora Holdings. Similarly, Boeing saw 35% of votes cast in opposition to its outgoing CEO's pay, who received a $30 million special share award despite the company facing a reputational crisis after high-profile quality control incidents. Meanwhile in the UK, AstraZeneca received 35% dissent to its remuneration package, after paying its CEO more than any of his FTSE 100 peers. Finally, fashion retailer Boohoo saw 15% of votes cast against its remuneration report, after £1 million bonuses were proposed for its directors despite missing targets. However, the company avoided receiving even greater dissent by agreeing to backtrack on the bonuses a month prior to the AGM in response to shareholder criticism. Despite these cases, the overall level of dissent declined compared to last year. Instances in which advisory remuneration votes received significant opposition votes (10%+) saw average dissent fall from 31% to 26%. Similarly, the proportion of shareholder opposition in relation to binding remuneration votes saw a decline from 27% to 23%.

Whilst it would be oversimplistic to attribute the apparent decline in shareholder activism at the ballot to the politicisation of ESG, it certainly appears to have had an impact. Other factors may include more activist investors tilting away from certain stocks, such as oil and gas, which in turn effects voting outcomes. Overall, Northern LGPS' voting record has been pivotal in holding managers to account, bringing about progress on environmental, social and governance issues and preventing regression on crucial standards of best practice. As such, regardless of the macro trends, Northern LGPS continues to take a robust voting policy to amplify its voice as a responsible investor.

1 CLIMATE CONTROL: EXPOSING THE DECARBONIZATION COLLUSION IN ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INVESTING. (2024). Available at: https://judiciary.house.gov/sites/evo-subsites/republicans-judiciary.house.gov/files/evo-media-document/2024-06-11%20Climate%20Control%20-%20Exposing%20the%20Decarbonization%20Collusion%20in%20Environmental%2C%20Social%2C%20and%20Governance%20(ESG)%20Investing.pdf?_gl=1 [Accessed 27 Aug. 2024].

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Deforestation

Overview: Forests are among Earth's most valuable natural ecosystems, crucial for regulating the environment, preserving biodiversity and ensuring food security. However, they are being destroyed at an alarming rate, endangering lives and livelihoods around the globe.

Deforestation can for the most part be attributed to seven key commodities: cattle, soy, palm oil, timber, cocoa, coffee and rubber[2]. Global demand for agricultural commodities is the primary driver of deforestation and ecosystem conversion, of which cattle, soy and palm oil alone account for 53%[3]. Furthermore, deforestation and forest degradation also accelerate climate change by releasing concentrated stores of carbon into the atmosphere, contributing up to 20% of the world's greenhouse gas emissions[4].

The financial impacts of deforestation should not be underestimated. Over half of the world's total GDP—approximately $44 trillion—relies on nature and its services, exposing economies to the risks of nature loss[5].

Businesses today have a tremendous impact on forests through their direct operations and supply chains, with forest commodities serving as building blocks for millions of products traded globally. However, an analysis of the top 350 companies and 150 financial institutions with the greatest impact on tropical deforestation by Forest500 found that nearly a quarter of the companies have not made any public commitments towards addressing deforestation, while over half do not have a public deforestation policy[6].

Nevertheless, companies are increasingly deploying supply chain strategies, such as conducting risk assessments, enhancing traceability, and implementing monitoring systems to ensure commodities like timber, beef, soy, palm oil, and paper are sourced responsibly. In addition, companies often partner with certification schemes, including forestry-related certification schemes like the Roundtable on Sustainable Palm Oil (RSPO), Forest Stewardship Council (FSC), and Round Table on Responsible Soy (RTRS), to showcase their commitment to sustainable forest management. However, the effectiveness of these voluntary schemes in addressing deforestation and land conversion is contested. The certifications have faced numerous controversies and criticisms due to misleading information and inconsistencies in governance, standards, and implementation, which ultimately results in having a limited impact on tackling deforestation[7]. There is also an inherent conflict in being able to purchase sustainability labels, which could potentially prioritise market access and consumer perception over genuine sustainability, allowing harmful practices to persist.

Materiality: A recent report by Race to Zero (the UNFCCC-supported global campaign rallying non-state actors) states that deforestation could emerge as the 'new coal' in financial institutions' portfolios due to the substantial financial, regulatory, and reputational risks associated with exposure to companies driving deforestation[8]. Despite the potential impact of deforestation on businesses, CDP (a global NGO tracking corporate environmental disclosures) found that only a third of reporting companies could quantify the risks, with the total potential financial impact reported at over USD 78.6 billion. Reputational and market risks are identified most frequently by more than half of the companies (52%), followed by physical risks (acute and chronic), regulatory, and technological risks.

This poses a material risk for investors, not only due to the financial impacts and operational disruptions, but also broader systemic risks affecting biodiversity, climate change, and the rights of indigenous and local communities.

One of the most significant deforestation risks facing investee companies is forthcoming regulations. Companies with exposure to deforestation in not only their direct operations but also supply chains risk facing increasing challenges in accessing international markets. The EUDR, which comes into effect in December 2024, aims to prevent deforestation by requiring companies to prove they are free from deforestation, including legal deforestation. Applicable to all companies operating or selling goods in the EU, the regulation also mandates implementation across the global supply chain. Violations can result in fines of up to 4% of EU revenue, confiscation of revenues from implicated products, and temporary bans on selling relevant non-compliant products. Comparable regulations are anticipated in the UK and US, though challenges remain in establishing robust traceability mechanisms necessary for compliance with EUDR standards. Regular compliance checks will target companies sourcing commodities from high-risk regions, such as Brazil, Indonesia, and Malaysia. Companies linked to deforestation in their own operations and supply chains also face reputational and business risks, including legal liabilities and loss of market access.

Additionally, the Science-Based Targets Initiative (SBTi) has issued its Forest, Land and Agriculture (FLAG) guidance. The framework is designed to help companies in land-intensive sectors reduce their greenhouse gas emissions, which currently account for 22% of global emissions. Companies in land-intensive sectors that plan to set or update their science-based targets will now be forced to examine their links to deforestation, make zero deforestation commitments, and set appropriate targets—or risk not having targets verified.

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2 Goldman, E., M.J. Weisse, N. Harris, and M. Schneider. 2020. "Estimating the Role of Seven Commodities in Agriculture-Linked Deforestation: Oil Palm, Soy, Cattle, Wood Fiber, Cocoa, Coffee, and Rubber." Technical Note. Washington, DC: World Resources Institute. Availableonline at: wri.org/publication/estimating-the-role-of-sevencommodities-in-agriculture-linked-deforestation

3 WWF and BCG (2021). Deforestation- and conversion-free supply chains: A guide for action. Available at: HYPERLINK https://wwflac.awsassets.panda.org/downloads/wwf_bcg_deforestation_and_conversion_free_supply_chains_a_guide_for_action_3_.pdf"https://wwflac.awsassets.panda.org/downloads/wwf_bcg_deforestation_and_conversion_free_supply_chains_a_guide_for_action_3_.pdf.

4 Watson, C. and Schalatek, L. (2020). Climate Finance Thematic Briefing: REDD + Finance. Available at: https://climatefundsupdate.org/wp-content/uploads/2020/03/CFF5-2019-ENG-DIGITAL.pdf.

5 Evison, W., Ping Low, L. and O'Brien, D. (2023). Managing Nature Risks: From Understanding To Action. Available at: https://www.pwc.com/gx/en/strategy-and-business/content/sbpwc-2023-04-19-Managing-nature-risks-v2.pdf.

6 Global Canopy (2024). Forest500 Annual Report 2024. Available at: https://forest500.org/wp-content/uploads/2024/02/Forest500_Annual-Report-2024_Final.pdf.

7 Greenpeace International (2020). Deforestation: Certified. Available at: https://www.greenpeace.org/static/planet4-international-stateless/2021/04/b1e486be-greenpeace-international-report-destruction-certified_finaloptimised.pdf.

8 Race To Zero (2022). Assessing the Financial Impact of the Land Use Transition on the Food and Agriculture Sector. Available at: https://climatechampions.unfccc.int/wp-content/uploads/2022/09/Assessing-the-financial-impact-of-the-land-use-transition-on-the-food-and-agriculture-sector.pdf.

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DEFORESTATION

HILTON FOOD GROUP

Overview: Hilton Foods Group is a UK-based international food packaging and processing company listed in the FTSE 250 index. The company specialises in packaging and distributing meat products, meat alternatives and pre-prepared foods across 10 countries in Europe and Asia-Pacific.

Issues: Hilton Food Group's does not have a publicly available supplier code of conduct, which PIRC views as crucial to addressing deforestation risks within its supply chain. Moreover, the company's current deforestation strategy involves setting requirements on a 'market-by-market' basis to align with supplier maturity levels. However, it is PIRC's view that embedding a clear zero deforestation policy within a public supplier code of conduct would provide a more robust mechanism for reducing deforestation risk. A supplier code of conduct is generally viewed as an effective mechanism for leveraging a company's relationship with its suppliers and cascading action throughout the supply chain. Importantly, they outline the corrective actions a company takes when a violation is found. This demonstrates to stakeholders that the company is adequately monitoring their suppliers and has an escalation process to prevent non-conformance.

Engagement: During Q2 PIRC engaged with Hilton on its approach to reducing deforestation in its supply chain. The company provided an overview of their deforestation policies, commitments, and progress. Although Hilton Food has committed to achieving 100% deforestation and conversion-free practices by 2025, the company has different deforestation commitments for each market with varying expectations for different suppliers. This prompted PIRC to raise questions about the company's approach to splitting their targets and cut-off dates for suppliers based on geographies. In response, Hilton representatives explained their market-specific approach to deforestation was adopted as suppliers were at different levels of maturity, while supporting direct suppliers to meet their commitments. In response to a query about how the company communicates its expectations and addresses non-compliance in the absence of a supplier code of conduct, they stated that expectations are clearly communicated to suppliers.

Outcome: PIRC outlined its expectation for embedding zero deforestation requirements into a public supplier code of conduct. In response, the company indicated willingness to consider drafting a public code of conduct. The company affirmed it is progressing towards its 2025

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commitments and expressed openness to continued engagement on the matter later this year.

TRAVIS PERKINS PLC

Overview: Travis Perkins plc, headquartered in Northampton, UK, is a prominent British builders' merchant and home improvement retailer. The company offers a diverse array of building materials, timber, plumbing and heating supplies, kitchens, bathrooms, landscaping materials, and tool hire services. Travis Perkins is listed on the London Stock Exchange and is a constituent of the FTSE 250 Index.

Issues: Travis Perkins demonstrates an over-reliance on certification schemes and third-party auditors to meet its deforestation commitments. This over-reliance on third parties often results in companies lacking sufficient internal capabilities to assess and manage their deforestation risk. The company asserted that certification schemes and third-party auditors maintain better relationships and have a better understanding of their processes, which is why they trust them to better manage their suppliers. This approach to managing risks is potentially harmful to a company's long-term strategy as there is a risk of companies losing oversight and control of their supply chains and the opportunity to engage with their suppliers on best practice. Certification schemes can be beneficial for companies to obtain, often signalling to consumers that a product meets certain standards. However, all certification schemes have their limitations and are currently too weak to prevent deforestation, ecosystem conversion and human rights abuses. PIRC believes that certification schemes should therefore be supplementary to a company's strategy. While they may support companies in facilitating traceability and transparency, they should not be relied upon to deliver change at the commodity-level.

Engagement: During PIRC's engagement with Travis Perkins on January 20, 2024, the company discussed their approach to addressing deforestation, focusing primarily on timber, which is their most significant high-risk commodity. The company has set varied supplier requirements depending on the route-to-market, with own-brand goods subject to more rigorous assessments, while other goods undergo third-party and risk-based evaluations. When asked about setting a cut-off date for suppliers to be deforestation free, Travis Perkins indicated they had not set a specific timeframe, and it handles non-compliance on a case-by-case basis. They emphasised suppliers were expected to be deforestation-free "now rather than later," having previously set a deadline by which deforestation must have ceased. The company acknowledged they had not yet committed to a time-bound goal for eliminating deforestation in their supply chain but were open to doing so in the future. Regarding readiness for upcoming supply chain deforestation regulations in the UK and EU, company representatives noted that the industry was largely unprepared, with trade bodies lobbying the EU to delay implementation, which they anticipate will happen. They cited challenges in obtaining necessary information from suppliers, such as site geocoordinates, which are often considered trade secrets.

Outcome: In order for the company to reassure all of their relevant stakeholders that they are working towards the goal of being 100% deforestation free, PIRC suggested setting a time-bound commitment. PIRC also emphasised the importance of Travis Perkins building their internal capacity, with the final goal of them having complete oversight of their supply chain. Not needing to rely on external parties will result in Travis Perkins being able to better manage their supply chain and ensure that there are no violations of their standards. Finally, PIRC notes that Travis Perkins' supplier code of conduct needs more explicit deforestation guidelines and hold suppliers to a higher standard.

CRANSWICK PLC

Overview: Cranswick plc specialises in the production and distribution of food products including fresh pork, sausages, bacon and cooked meats, which are sold through food retailers. Additionally, Cranswick supplies pre-sliced, pre-packaged charcuterie products, and pre-packed sandwiches, and has expanded into artisan pastry and pet food production. The company's subsidiaries include Cranswick Country Foods plc, Crown Chicken Limited, and Cranswick Pet Products Limited.

Issues: Companies that do not have full traceability of their supply chains are currently unprepared to meet the incoming EUDR. Cranswick currently lacks full traceability of its soy supply chain and relies on a certification scheme which allows for 'mixed' commodities. In these circumstances, the certified commodity is mixed with the uncertified commodity and sold to users as 'mass balanced'. The issue with this model is that it allows supply chains to continue to be filled with commodities that are not 100% deforestation free and inadvertently supports suppliers that engage in deforestation. PIRC highlighted concerns with Cranswick's use of '100% mass balanced soy' certification and stressed the importance of switching to 'segregated soy' in line with the EUDR. PIRC also emphasised that labelling products as '100% mass balanced' can be misleading to consumers who cannot differentiate between different types of labels, as it gives off the impression that the product is 100% deforestation-free.

Engagement: PIRC's engagement with Cranswick on 29th May 2024 focused on the company's commitment to sourcing deforestation-free soy by 2025 and challenges in achieving full segregation in their sourcing. The company indicated that their primary deforestation risk lies in sourcing of soy for animal feed and were working towards reducing their reliance on soy, particularly in pig feed. When asked about their approach to the upcoming EU Deforestation Regulation (EUDR), Cranswick highlighted their greatest challenge would be in sourcing the required fully segregated DCF soy, particularly in South America, where crushers and ports are not prepared to provide the segregated commodity. As such the company believes that the 'mass balance' certification which it currently obtains for its soy as the best certification currently available, although it allows companies to mix sustainably sourced and conventionally sourced materials in

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the supply chain. When PIRC questioned whether the company intended to renew its Science Based Target (SBT) under the updated Forest, Land & Agriculture (FLAG) methodology which requires a no-deforestation commitment, the company indicated they were working to validate their updated target by the end of 2024.

Outcome: PIRC emphasised the importance of moving to a 'segregated soy' system ahead of the implementation of the EUDR. The company explained that they purchase soy from the EU which does not have a system in place that facilitates the sale of 'segregated' commodities, unlike in the US. Nevertheless, the company fully intends to be prepared to meet the regulations of the EUDR and are positive that the incoming legislation will drive improvements in the soy market and allow Cranswick to have full traceability of their soy supply chain.

MARSTON'S PLC

Overview: Marston's Plc, based in the UK, operates over 1,350 pubs and bars nationwide, including managed, franchised, and leased establishments. The company also holds a significant stake in the Carlsberg Marston's Brewing Company. Subsidiaries include Marston's Estates Limited and Marston's Operating Limited.

Issues: Marston's is still in the early stages of developing an approach to eliminate deforestation from their operations and supply chain. This leaves Martson's exposed to heightened deforestation risks as they have not yet identified high-risk areas within their business. A lack of preparedness leaves Marston's vulnerable to incoming regulatory changes, which are expected in the UK following the introduction of the EUDR. In addition to that, they are exposed to supply chain disruptions, reputational risks and possibly financial losses.

Engagement: On June 7, 2024, PIRC engaged Marston's plc to discuss the implications of upcoming deforestation regulations and urged the company to establish voluntary targets to showcase leadership. During the discussion, Marston's highlighted that deforestation risks in its supply chain are primarily associated with food commodities, wooden fixtures and fittings, paper and packaging, with food sourced predominantly overseas posing the highest risk. They emphasised their current focus on certifying palm oil to mitigate deforestation risks. With the UK Forest Risk Commodity Regulation looming, Marston's anticipates heightened responsibility in assessing agricultural impacts within their supply chain. When queried about setting a science-based FLAG target alongside their Scope 3 commitment, which involves establishing a zero-deforestation goal, Marston's indicated that obtaining SBTi validation for these targets is 'a possibility for the future.' They are expected to include disclosures related to this in their upcoming TCFD report. Responding to a question on disclosing forest-related information under CDP, Marston's expressed concerns about additional hurdles, indicating it may not be feasible in the near term.

Outcome: PIRC recommends that Marston's set company-wide commitments and establish more stringent supplier requirements. As a first step, the company should prioritise improving their nature-related disclosure. The data collection process will allow them to assess their performance, better understand the gaps in their strategy and work towards a goal of becoming 100% deforestation free.

NEXT PLC

Overview: NEXT plc, a UK company founded in 1864, is a retailer specialising in clothing, homeware, and beauty items. The company operates through several segments including online and retail stores, financial services, property management, and international retail operations. Its divisions include NEXT Online, NEXT Finance, NEXT Retail, Total Platform, Joules, Property Management, and International Retail, Sourcing, and other operations.

Issues: PIRC engaged companies in the apparel sector as they are a major consumer of cotton and man-made cellulosic fibre (a derivative of timber).

Cotton has been linked to significant deforestation and land conversion risks; however, the commodity is yet to be covered by regulations such as the EUDR. This has resulted in corporates de-prioritising cotton in an effort to meet incoming regulation. This is a risk as regulation might change but the apparel sector struggles with cotton traceability as the raw material is further upstream in their supply chain, decreasing the leverage they have. The apparel sector is reliant on the Better Cotton Initiative to certify their products as sustainable and deforestation free. However, Better Cotton has recently faced criticism for links to illegal deforestation in Brazil, making NEXT's reliance on this certification scheme a significant risk. This issue is compounded by NEXT's inconsistent approach to target setting. Rather than adopting a comprehensive, company-wide strategy, they have implemented a commodity-based approach to their policies. For example, the company's exclusion policy covers social risks in their cotton supply chain but does not cover the associated environmental risks. Finally, NEXT's inability to commit to setting company-wide deforestation targets could also complicate updating their SBT under the new FLAG guidelines.

Engagement: Deforestation risks associated with cotton featured prominently during PIRC's engagement with Next plc on June 12, 2024. NEXT highlighted significant progress with regard to their responsible sourcing of

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timber commitments and with regard to other material commodities. However, they acknowledged they are not yet able to make a company-wide commitment to end deforestation. Their primary focus now is on complying with the EUDR, which involves improving traceability and transparency within their supply chain. While cotton poses one of the biggest deforestation risks for the company, it is currently not covered under the legislation. However, the firm highlighted its efforts to mitigate risks associated with cotton. Currently, the firm has achieved full traceability of cotton in the US and has a policy of not procuring from Uzbekistan, Turkmenistan, and Xinjiang due to forced labour concerns. In other areas, the company relies on certifications such as Better Cotton to address environmental and social risks associated with the commodity due to their limited influence and visibility in the upstream end of the supply chain. Additionally, the company's internal supplier management system includes verification and audits and a testing programme to ensure cotton they procure does not originate from high-risk regions listed in the company's exclusion policy.

Outcome: PIRC expressed its interest in seeing NEXT improve their traceability and map out their entire cotton supply chain. Given the risks associated with over-reliance on certification schemes, particularly the loss of supply chain oversight, we stressed the importance of better traceability. Furthermore, we reiterated the importance of making a company-wide deforestation commitment as it would be crucial to maintaining their SBT under the new FLAG guidelines.

Expectations for future engagements: We expect companies that source or use any commodity linked to deforestation to commit to deforestation- and conversion-free production and sourcing. The commitment should cover all commodities, regions, and suppliers, including indirect ones. Companies should also aim to achieve full traceability of commodities across their supply chain and explicitly commit to respecting human rights.

To implement this commitment, companies need a clear transition strategy outlining how their operations and supply chain will become free of deforestation and land conversion. This includes setting clear expectations for suppliers and creating robust mechanisms to enforce them.

While regulations present challenges, they also offer opportunities for effective collaboration among companies, governments, investors, and smallholders to enhance traceability capabilities and prevent global forest loss.

ETHNICITY PAY GAP

The Ethnicity Pay Gap (EPG) measures the difference in average pay and bonuses between ethnic minority and white staff across all roles and seniority levels (distinct from legally mandated 'equal pay'). Engagement with companies disclosing EPG data has shown its crucial role in tackling workplace racial inequality.

The 2020 'Colour of Money' report by The Runnymede Trust revealed that although minority ethnic groups constitute 18.3% of the British population, labour market discrimination was evident and resulted in an 'ethnic penalty' in earnings. The pandemic worsened these inequalities, with data indicating that ethnic minority employees were three times more likely to face reduced working hours compared to their White counterparts[9].

Therefore, transparency regarding EPG is paramount. Collecting this data allows organisations to understand and address pay disparities and ensure their workforce reflects societal diversity. Unlike the mandatory Gender Pay Gap reporting, EPG disclosures are done on a voluntary basis, with only 35 FTSE 100 companies currently reporting the data. The UK government has issued guidance for employers reporting EPG data, in addition to institutions such as the CIPD.

Issues: "Without corporate disclosure of key diversity and inclusion metrics, investors are unable to identify which companies "walk the talk" and which only have strong public relations teams."
Department for Business and Trade, 2017.

EPG reporting enables shareholders to monitor investee company performance on racial equity. A McKinsey study has previously found that firms demonstrating 'the least ethnic and gender diversity' were 27% more likely to underperform on profitability[10]. The UK government-commissioned McGregor-Smith review further indicated that ensuring racial equity in the workplace could boost the UK economy by £24bn per year, illustrating systemic risks posed by inequality[11].

Despite EPG reporting being voluntary in today's market, the Labour Party's 2024 manifesto promised to introduce EPG reporting for large employers and a new Racial Inequality Act, mandating firms to publish ethnicity payroll data to reveal wage disparities[12]. Companies adopting EPG reporting stand to benefit from staying ahead of potential regulation.

Investor engagement towards ethnic equality is also significant[13]. A Majority Action report found increased support among major asset managers for shareholder proposals on racial equity audits and board diversity[14]. Additionally, 86% of employees consider inclusion

9 Khan, O. (2020). The Colour of Money: How racial inequalities obstruct a fair and resilient economy. Runnymede. Available at: https://cdn.prod.website-files.com/61488f992b58e687f1108c7c/61bcc1c736554228b543c603_The%20Colour%20of%20Money%20Report.pdf.

10 McKinsey & Company (2020). Diversity Wins: how inclusion matters. Available at: https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters/Diversity-wins-How-inclusion-matters-vF.pdf.

11 McGregor-Smith, R. (2017). Race in the Workplace. Available at: https://assets.publishing.service.gov.uk/media/5a7f81c6ed915d74e33f6dc4/race-in-workplace-mcgregor-smith-review.pdf.

12 The Labour Party (2024). Change: Labour Party Manifesto 2024. Available at: https://labour.org.uk/wp-content/uploads/2024/06/Change-Labour-Party-Manifesto-2024-large-print.pdf.

13 PwC (2022). Asset and Wealth Management Revolution 2022: Exponential Expectations for ESG. Available at: https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-and-wealth-management-revolution-2022.html.

14 Majority Action and Service Employees International Union (2023). Equity in the Boardroom. Available at: https://static1.squarespace.com/static/5d4df99c531b6d0001b48264/t/63ec394a25dc852766ff02a4/1676425549842/MA_EquityintheBoardroom_2022REPORT.pdf.

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and diversity crucial when choosing an employer[15]. The combined investor interest and employee expectations make EPG reporting materially beneficial for companies.

Outcomes: During Q2 PIRC joined 12 engagement meetings with companies as part of the Good Work Coalition of investors. Of the companies engaged, four do not currently report their ethnicity pay gap, primarily due to low availability of employee data on ethnicity (also known as self-disclosure rate or SDR) and the absence of a data collection process. Employee concerns about data collection, storage, use, and potential identification significantly contribute to low SDRs. In contrast, successful strategies found to increase SDRs include setting objectives, role-modelling, storytelling, introducing competition through league tables, and linking disclosure requests to onboarding and D&I events throughout the year.

Another barrier was high disclosure rate thresholds companies felt necessary to attain before publicising their data, typically around 80%. However, investors highlighted that companies with lower SDRs improved to over 80% once they began reporting, as transparency helped alleviate employee concerns.

Analysis of the engagements also revealed that EPG reporting is often the first step for companies to prioritise and focus on actions that reduce racial inequity. For example, HSBC noted that addressing ethnic inequity within the business revealed that their gender initiatives primarily benefitted White women, while their ethnicity initiatives mainly supported black men, neglecting the intersectionality of being both a woman and black. Compass Group discovered business areas with low representation of certain ethnic groups caused a negative mean ethnicity pay gap through reporting. This insight allowed them to address and remove barriers to progression, ensuring their senior-level positions are fully representative of society.

From a materiality perspective, effective use of data to identify inequity issues improves workforce experience, lowers turnover rates, enhances staff retention, and reduces hiring and training costs, ultimately boosting long-term organisational performance.

Companies Engaged on EPG during Q2	Industry	Does the company disclose an Ethnicity Pay Gap Report?
Bakkavor	Food	NO
Admiral	Insurance	YES
NatWest	Finance	YES
Abrdn	Finance	NO
British American Tobacco	Consumer Goods	YES
St James' Places	Finance	YES
Standard Chartered	Finance	YES
HSBC	Finance	YES
Phoenix Group	Insurance	YES
SSP	Food and Beverage	NO
Associated British Foods	Food	NO
Compass Group	Food and Hospitality	YES

A key observation from engagements is the disparity in data quality and reporting prominence between financial sector and food and hospitality industry. Among the four FTSE 100 food and hospitality companies PIRC engaged, only one reports their EPG. The industry's characteristics—shift work, high staff turnover, staff shortages, short-term and casual contracts, zero-hour contracts, and constant staff churn—contribute to low ethnicity disclosure rates and limited priority for EPG assessment and reporting. In contrast, the financial industry's salaried positions and higher pay rates facilitate more robust reporting. There is optimism that through continued engagement with the Good Work Coalition, alongside information sharing and legislative efforts, will improve EPG reporting in the food and hospitality industry in the coming years.

Follow-Up: Breaking down EPG data into ethnicity categories is the ultimate reporting goal. However, this task is complex. Therefore, where companies do report, investors would like to see ethnicity data disaggregated beyond the binary 'White and Ethnic Minority' categories. Ideally, disaggregation should include five broader categories: White British, White other, Mixed, Asian, Black and Other. This breakdown will be assessed in next year's reporting and discussed with companies during annual follow up engagements.

15 Monster Government Solutions (2020). Diversity & Inclusion: How to Build a More Inclusive Hiring Program. Available at: https://www.monstergovernmentsolutions.com/docs/deia/Monster-inclusive-hiring-guide.pdf.

EFFECTIVE ENGAGEMENT Q2

DECARBONISING THE CHEMICALS INDUSTRY

Greater Manchester Pension Fund calls on Yara International to set 1.5-aligned emissions targets

Issues: The chemicals sector exerts a significant impact on climate change, accounting for 5% of global greenhouse gas (GHG) emissions[16]. As a result, the sector faces significant transition risks, including higher costs associated with the EU Emissions Trading System. The majority of the sector's emissions fall under Scope 3, which encompasses companies' value chains; including both upstream emissions (by the company's suppliers) and downstream emissions (from the products' use phases).

Emerging technologies, however, are increasingly making a green transition economically viable for the sector. By replacing petrochemical feedstocks with green hydrogen (produced by the electrolysis of water with green energy), and powering operations with renewable energy, companies can produce emissions-free chemicals. This in turn serves a growing market for green chemicals, as upstream companies seek to slash their own value chain emissions. Furthermore, green hydrogen is expected to become cheaper than 'blue' hydrogen (which uses fossil fuels with carbon capture and storage) in most markets by 2030[17].

While significant opportunities exist in the decarbonisation of chemical value chains, realising them demands unwavering ambition and substantial upfront investment. Recent macroeconomic challenges, including high energy prices, have led some chemical companies to reduce capital expenditure, increasing associated transition risks over the longer term. Moreover, limited capital expenditure budgets risk being allocated to what PIRC views as ineffective solutions such as biomass feedstocks, which contribute to significant value chain emissions, deforestation and biodiversity loss. Therefore, PIRC's engagement has sought to ensure investee companies develop adequately ambitious and focused transition plans for long-term success.

Engagement: As part of ShareAction's Chemical Decarbonisation Initiative, PIRC engaged with several European chemicals companies on reducing value chain emissions throughout the first half of 2024. Meetings were held with Lanxess, Evonik, Covestro, and Croda.

Significant engagement also took place with Yara International, the world's second largest producer of ammonia. While 73% of the company's emissions are associated with the value chain (52% downstream, 17% upstream and 4% from transport[18]), the company has thus far failed to set medium- or long-term Scope 3 emission targets. Their current short-term targets lack ambition, comprising only a modest absolute target for downstream emissions and an upstream intensity target set to expire in 2025, which fails to drive absolute Scope 3 reductions. In response to these shortcomings, PIRC co-signed a letter to Yara's CEO in February 2024 expressing concerns over the inadequacy of their targets and the delayed timeline for their update, potentially extending as far as 2027 according to the company's commitment.

Ultimately, Greater Manchester Pension Fund chose to escalate its engagement with Yara, after the company failed to outline any further details on its timeline for target setting. Specifically, the fund joined a broad group of investors in filing an AGM resolution calling for the company to set science-based scope 3 targets over the short-, medium- and long-term, covering its entire value chain.

The Yara resolution, however, faced a significant hurdle as the Norwegian Government controls 36.21% of the shares, with the Norwegian Government Pension Fund holding an additional 7.15%. During Q2 PIRC joined a call with representatives of the Norwegian government to discuss the resolution. The Norwegian government stated it would engage with Yara on the issue of decarbonising in advance of the 2024 AGM.

Outcome: The resolution was put to vote at Yara's AGM on 28th May and garnered support from 8% of the total votes cast, with the Norwegian Government unfortunately choosing to vote against the resolution. This number translates to 17% if state-owned votes are excluded, with a notable 25% of non-state votes diverging from the Board's recommendation to oppose the resolution. While the resolution did not pass, it represents significant dissent among the company's independent shareholders. Following this result, PIRC again wrote to Yara's CEO, requesting to meet ahead of the company's publication of its transition plan in 2025. PIRC has also asked to meet the Norwegian Government again to discuss how more active stewardship could help the company become a climate leader.

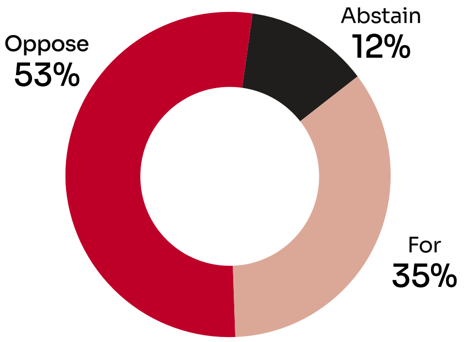
16 Gabrielli, P., Rosa, L., Gazzani, M., Meys, R., Bardow, A., Mazzotti, M. and Sansavini, G. (2023). Net-zero Emissions Chemical Industry in a World of Limited Resources. One Earth, 6(6), pp.682–704. doi:https://doi.org/10.1016/j.oneear.2023.05.006.

17 Schelling, K. (2021). 'Green' Hydrogen to Outcompete 'Blue' Everywhere by 2030. BloombergNEF. Available at: https://about.bnef.com/blog/green-hydrogen-to-outcompete-blue-everywhere-by-2030/.

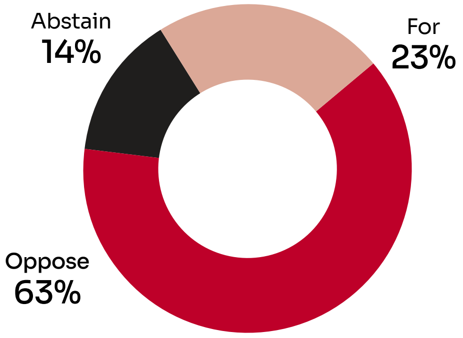
18 Yara International (2023). Building Resilience and a Nature-positive Food Future. Available at: https://www.yara.com/siteassets/investors/057-reports-and-presentations/annual-reports/2023/yara-integrated-report-2023.pdf.

VOTING Q2

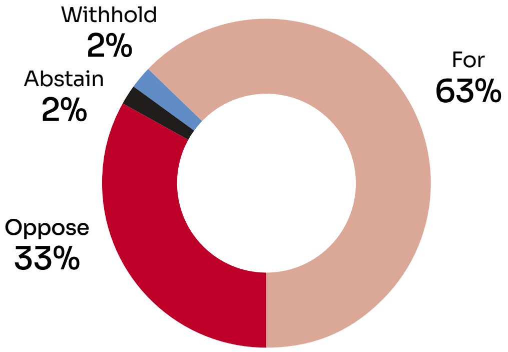
Votes on remuneration advisory, Q2 2024



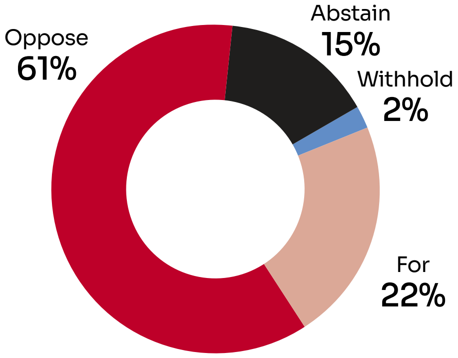
Votes on remuneration binding, Q2 2024



Director elections, Q2 2024



Auditor appointments, Q2 2024



Q2 Engagements

Company	Domicile	Topic
ABB LTD	CHE	Environmental Risk
ABRDN PLC	GBR	Employment Standards
ADMIRAL GROUP PLC	GBR	Diversity Equity and Inclusion
ANGLO AMERICAN PLC	GBR	Social Risk
BAKKAVOR GROUP PLC	GBR	Diversity Equity and Inclusion
BRITISH AMERICAN TOBACCO PLC	GBR	Diversity Equity and Inclusion
C.H. ROBINSON WORLDWIDE INC.	USA	Social Risk
CLP HOLDINGS	HKG	Human Rights
CRANSWICK PLC	GBR	Environmental Risk
DHL GROUP	DEU	Social Risk
DOLLAR GENERAL CORPORATION	USA	Employment Standards
EXPERIAN PLC	IRL	Diversity Equity and Inclusion
GREGGS PLC	GBR	Employment Standards
HILTON FOOD GROUP PLC	GBR	Environmental Risk
HSBC HOLDINGS PLC	GBR	Diversity Equity and Inclusion
J SAINSBURY PLC	GBR	Human Rights
JPMORGAN US SMALLER CO IT PLC	GBR	Governance (General)
KINGFISHER PLC	GBR	Employment Standards
MARKS & SPENCER GROUP PLC	GBR	Employment Standards
MARSTON'S PLC	GBR	Environmental Risk
NATWEST GROUP PLC	GBR	Diversity Equity and Inclusion
NEXT PLC	GBR	Environmental Risk
OCADO GROUP PLC	GBR	Employment Standards
PEPSICO INC.	USA	Social Risk
PHOENIX GROUP HOLDINGS	GBR	Diversity Equity and Inclusion
SHELL PLC	GBR	Climate Change
ST JAMES'S PLACE PLC	GBR	Diversity Equity and Inclusion
STANDARD CHARTERED BANK	GBR	Diversity Equity and Inclusion
THE KRAFT HEINZ COMPANY	USA	Social Risk
TRAVIS PERKINS PLC	GBR	Environmental Risk