JUST TRANSITION

GREATER MANCHESTER / MERSEYSIDE / WEST YORKSHIRE

NORTHERN LGPS STEWARDSHIP REPORT Q3 2023

NorthernLGPS

FOCUS Q3

A 700 Kw hydro power plant being constructed on the slopes of Ben More, Isle of Mull, Scotland, UK

Just Transition: Nothing about us without us

The global transition away from a carbon-intensive economy is underway. As the urgency to address climate change intensifies, the economic landscape is shifting too in hopes of meeting climate goals, such as Net Zero by 2050. In countries around the world the energy mix is shifting. For example, in 2022, offshore wind generated 41 % of energy for UK homes and 14 % of total UK energy according to The Crown Estate report.

Consequentially, those dependant on the hydrocarbon sector face challenges. Workers in traditional, carbon-dependent industries find themselves at a crossroads; existing jobs may have a limited future, but alternative roles may not have similar terms and conditions.

Simultaneously, businesses and investors face their own risks. For carbon intensive companies transition plans are under intense scrutiny, along with associated activity, such as their own lobbying and membership of industry bodies that lobby on their behalf. Decisions on capital expenditure are now read both in terms of business and real-world impact. Investors in turn are assessed on the basis of their portfolio holdings, and the stewardship activity that they undertake.

The concept of a Just Transition recognises that integrating social considerations into climate strategies is in the best interest of all stakeholders. It concerns issues including social dialogue, community relations, labour rights and policy coherence. Inevitably there can be tensions between different interests and a narrative of 'win-win' outcomes may obscure the reality on the ground. This is unlikely to be to the benefit of those with less bargaining power.

Recent history in the UK shows that big economic transitions can lead to significant negative impacts for workers and communities who bear the burden of these shocks. In order to avoid the mistakes of the past and mitigate risks of the transition for all stakeholders most effectively, the Just Transition seeks to ensure that the interests of workers

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and communities are forefront in the decarbonisation discussion. A slogan, usually associated with the disability rights movement, that is sometimes used to describe the Just Transition is 'Nothing about us without us'.

In practical terms a Just Transition finds application at local, regional, national and international level. When thinking about companies, demands include that workers be offered a chance to upskill and transition into new roles where possible, or be offered support if changing career. An ongoing challenge here that we have seen in engagements is the ability to maintain both employment levels and good terms and conditions for workers on the move from fossil fuel to renewable energy jobs.

While some companies like Orsted have been able to demonstrate good progress, this is not necessarily repeatable. There are many examples where renewables jobs pay less and the number of workers required is lower. One company that PIRC engaged on behalf of NLGPS reported that whilst its coal-fired power plant required 300 workers, it would only employ around 10 once this had transitioned to a battery site.

As this example suggests, currently some business models fail to provide a voice for employees. The Impact Management Platform (IMP) research also shows the linkages between social conditions and economic and financial outcomes. In engagement work undertaken by PIRC companies have been encouraged to both ensure worker voice in their governance and to work constructively with workers' representatives.

A larger and related challenge is that for many workers it may not be possible to find new roles with their current employer. In addition to facing a potentially lower income, workers may also be required to move to gain employment. That in turn can have an impact on the communities where workers currently live. Again, the UK's experience during a previous era of deindustrialisation was that decline in employment and community decline went hand in hand.

The new floating solar farm being grid connected on Godley Reservoir in Hyde, Manchester

This points to the need for public policy at both regional and national level. A landmark Just Transition agreement between employers and unions in Spain related to coal mining provided for early retirement for miners aged over 48, retraining for green jobs, and environmental restoration. Whilst more economically liberal administrations such as the current UK government might eschew this type of approach it does illustrate the close collaboration between businesses, policymakers, and workers that is required for programmes that are serious about a Just Transition.

Investors themselves are increasing their expectations of companies and have a growing range of resources to underpin their work. Regulators and organisations worldwide are introducing benchmarks and guidelines to ensure Just Transition strategies are incorporated within company climate plans. These include the World Benchmarking Alliance (WBA)'s guidelines published this October outlining how and why businesses, policymakers, and workers should collaborate to identify and implement Just Transition strategies, and European parliament's report this summer "on job creation – the Just Transition and impact investments". WBA engagements on the Just Transition commenced this year. Climate Action 100+ has also developed indicators and we have also seen the first Just Transition oriented shareholder proposals start to appear.

As we state in our Responsible Investment policy: "The Northern LGPS actively supports the objectives of a Just Transition to a low-carbon economy, and will actively engage with the social aspects of responding to climate change. We consider this fits well with our objective of seeking to ensure a regional dimension to our RI activities."

Through our own engagement work and our membership of LAPFF this will continue to be an important part of our responsible investment activity.

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AMERICAN EXPRESS COMPANY

Overview: American Express Company was founded in 1850 as a joint stock association and incorporated in 1965 as a New York corporation. American Express Company is a global payments, network and travel company. The corporation has four operating segments: Global Network & Merchant Services, U.S. Card Services, International Card & Global Commercial Services and Corporate & Other. The products and services of the company include global card network services; charge card and credit cards for consumers and businesses; consumer and small business lending products; American Express travellers cheques and gift cards; merchant acquiring and transaction processing; business expense management products and services; consumer travel services, and business travel and travel management services, among others.

Issues arising: A shareholder resolution on Excessive Termination Pay received 35% support at the company's AGM. This was the first resolution of this kind filed at the company. American Express is one of the largest companies in the USA. Alongside this vote, the advisory resolution on Executive Compensation received a vote against of 46.52%, whereas previous years saw low opposition. During the year a 'special retention reward' was issued to the CEO in 2022.

Engagement: On 16th August 2023, PIRC met with American Express to discuss remuneration. PIRC asked the company about its views on shareholder dissent to its remuneration. The company explained that the feedback indicated that concern on the Say-on-Pay vote was over the retention-based special award ($14.5m) which had been issued to the CEO. PIRC asked about the reasons for this award and whether retention concerns would be better addressed by a focus on succession planning. The company emphasised the CEO's performance during and after the pandemic seeing it necessary to reward these efforts. Retention was a factor for awarding because the CEO is of retirement age and that it was important to retain the CEO for continuity in delivering their strategy. The breakdown of pay if 5% fixed and 95% variable, the company did not have an intention to make a change to this set up, seeing risk as a necessary motivator.

Outcomes and next steps: 2022 has been the first year in seeing targeted shareholder resolutions on Excessive Shareholder Pay. Similar resolutions have been filed at AbbVie, FedEx, BNMY. Therefore, PIRC expects more engagements of this nature in future.

EFFECTIVE ENGAGEMENT Q3

CELLNEX TELECOM SA

Overview: Cellnex are a mobile phone tower operator, for which Cellnex collects rent for their use, this represents 90% of Income coming from mobile phone operators. They are the largest in Europe, operating 136,000 towers in 12 countries based in Barcelona, Spain.

Issues arising: There was a shareholder vote of 40.79% against approving the remuneration report at the company's AGM on 1st June. The risk element of pay has increased by 10% over past two years, now at 74% whilst the fixed dropped to 26%. The company is increasing the board size to 13 members from 11, in doing this they will be increasing the annual maximum amount for all directors. The linking of variable renumeration to organic growth is considered vague, as there was no indication of what or how organic growth will be achieved, only that inorganic (mergers and acquisitions) will be stopped. PIRC considered the maintenance of 100% of the LTIP linked to equity instruments with a three-year vesting period to be short of the optimal 5-year period. The Childrens Investment Fund is large shareholder at the company (9.38%).

Engagement: On 7th September 2023, PIRC met with Cellnex to discuss the shareholder dissent to the most recent remuneration policy. The company suggested that shareholder dissent was primarily due to complexity and the high proportion of variable pay. On variable pay, it explained that it was difficult to satisfy all its investors, with its US shareholder base more supportive of variable pay than European shareholders were; however, that the LTIP was designed such that maximum vesting would require a major overperformance. They explained that complexity was partly a result of shareholders having varied priorities and the company has had to bring in a wide range of performance indicators, including ESG indicators, as a result. PIRC also asked about employee engagement mechanisms, with the company saying that it was unlikely to introduce board-level employee representation in the future. Finally, PIRC explained that it appreciated the company's detailed disaggregation of employee turnover (10%) and asked about reasons for the comparatively higher turnover rate in the UK (25%). The company cited the UK having a tighter labour market as well as its 2020 acquisition of Arquiva's UK telecommunications arm as factors in the higher turnover rate.

Outcomes and next steps: With the introduction of an ESG metric of 20% linkage to pay, PIRC will look to see if the nature of this metric has been clarified in future reporting. PIRC will take the company's responses into account when considering voting recommendations at the next AGM.

Customers and workers outside the Apple store on Fifth Avenue in New York

APPLE INC

Overview: Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications.

Issues: Since 2022 PIRC has been part of a group of investors engaging with Apple over its approach to freedom of association and collective bargaining rights. GMPF had co-filed a shareholder proposal asking the company to undertake a review of the application of its policies in this area, with specific reference to ILO core conventions. The proposal was withdrawn on reaching agreement with the company, since which time focus has shifted to the nature and progress of the review.

Engagement: On 19 July PIRC and a group of investors met with representatives Apple and the legal firm it has appointed to undertake a review of its human rights policy as it applies to freedom of association and collective bargaining rights. The group asked about the scope of the review and set out expectations such as the need to access company materials, engage with workers directly, consider the role of advisers with a history of union avoidance work, and be clear about the meaning of non-interference in fundamental rights at work.

Representatives of the legal firm stated that they took onboard the suggestions of the group and these would be taken into consideration during the process of the review.

Outcomes and next steps: The members of the investor group were somewhat frustrated by the nature of the meeting, which did not provide a clear sense of how the review was progressing. The review is due to be completed by the year end, at which point the members of the group will consider whether it has met expectations.

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STARBUCKS CORPORATION

Overview: Starbucks Corporation was founded in 1971 as a coffee bean retailer. The company has acquired and built coffee houses all over the world. The Corporation engages in the purchase, roasting, and sale of whole bean coffees worldwide. In addition to drip brewed coffee and espresso beverages, the company shops also serve tea and bottled beverages, pastries, and ready-to-eat sandwiches. Some stores are inside other retail locations such as supermarkets, banks, and bookstores.

Issues: In common with Apple, since 2022 PIRC has been part of a group of investors engaging with Starbucks over its approach to freedom of association and collective bargaining rights. This is in response to alleged anti-union activity in the face of a highly successful organising campaign by Starbucks employees. To date over 360 Starbucks stores have voted for union representation, but at present not a single store has a collective agreement in place.

MPF co-filed a shareholder proposal asking the company to undertake a review of the application of its policies in this area, with specific reference to ILO core conventions. The proposal achieved a majority vote in favour at the 2023 AGM. The company has initiated a review of the type sought by the proposal, and this is now the focus of the engagement.

Shell Refinery Wesseling

Engagement: On 28 August a letter was sent to the company expressing concern about the progress of review of policy on fundamental rights at work and lack of communication with the investor group. The letter set out the group's expectations of the review. The company responded stating that it would arrange a meeting in the Autumn.

On 28 September PIRC was part of a collaborative meeting with independent directors, including the chair, and other Starbucks representatives to ask about the ongoing assessment of freedom of association and collective bargaining rights. The group asked for the assessor to be made public, for information on how workers input was being solicited and how the findings of the assessment would be disclosed. The company suggested that the assessor's name was not being disclosed to prevent undue lobbying. The assessor was able to talk to anyone in the organisation. The company also said the review would be genuinely independent, focus on practice as well as policy and would involve remediation.

Outcomes and next steps: The members of the investor group felt there were mixed messages from the meeting. Some answers, such as the failure to identify the assessor, were disappointing. However, the board members present appeared since in their commitment to a meaningful review. A further engagement with the company on the outcomes of the review is expected before the year end, at which point the members of the group will consider whether it has met expectations.

SHELL

Objective: Further to Shell's rowing back from its already unsatisfactory Energy Transition Plan, the company is now a point of special focus, given both its size and importance as an investment, as well as the scale of its emissions. LAPFF continues to aim to have the company understand its role in the energy transition and take action accordingly.

Achieved: LAPFF has met with the chair of Shell with some meeting of minds on some issues. Comments from the new leadership at the Shell Annual General meeting, that Shell does not have enough visibility on some putative sources of future revenue and growth to attach

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numbers to, does accord with LAPFF's critique in voting alerts since 2020.

In Progress: Given Shell's historically poor investment performance (over 20 years barely better than a bond return), which is indicative of poor investment decision making, alongside no appreciable record or prospect of investment, further effort will be put into understanding the numbers and the business model as well as direct engagement.

NATIONAL GRID

Objective: LAPFF has continued its engagement with National Grid through the CA100+ forum. One of LAPFF's main concerns is to ensure that the company's transition plan allows for a sufficiently speedy transition for the users of its grid.

Achieved: LAPFF's view is that the company is missing some opportunities to decarbonise more quickly, so LAPFF issued a voting alert for National Grid ahead of the company AGM in July. LAPFF cited three main concerns in the voting alert: the company's confusing approach to the use of gas, delays in connecting clean energy projects to the grid, and disclosure on the energy transition. Consequently, LAPFF recommended opposition to the company report and accounts and to the resolution on political donations.

In Progress: LAPFF will continue to engage National Grid on its transition plan, including on the specific points mentioned above.

SSE

Objective: LAPFF has a longstanding engagement with SSE and has found the company to be open and responsive to engagement. Because it is progressive on a number of issues, including a fair and Just Transition, LAPFF seeks to maintain this relationship and push the company to entrench its leadership role in areas such as Just Transition and living wage.

Achieved: LAPFF Executive member, John Anzani, attended SSE's AGM again this year and asked a two-pronged question about SSE's approach to a Just Transition. First, he asked whether the SSE is looking to review its Just Transition principles in the near future. Second, he asked about capital allocation and whether money being spent on carbon capture and storage (CCS) could be better spent elsewhere.

In Progress: LAPFF has requested a follow-up meeting to discuss SSE's responses in greater detail.

Burberry has made good progress in identifying water risk in recent years

BURBERRY

Objective: LAPFF is co-chair of the Valuing Water Finance Initiative (VWFI), a global investor-led effort, facilitated by the NGO Ceres, to engage companies with a significant water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.

Achieved: Along with other members of the VWFI, LAPFF met with Burberry Plc during the quarter to discuss the company's approach to water stewardship. A headline aim of the VWFI is to work with companies so as not to negatively impact water availability or water quality in areas across their value chain. Water scarcity poses a material risk throughout Burberry's cotton and leather supply chains whilst disposal of wastewater at manufacturing sites and dye houses risks polluting local watersheds. The company outlined its process for assessing risk at a commodity, regional and individual facility level. The outcome of the assessment resulted in the facilities with the highest risk being designated a hot spot. The company has subsequently set a target for zero hot spots within its supply chain by 2030. Burberry has made good progress in identifying water risk in recent years.

In Progress: The VWFI will release a detailed assessment and benchmark of all focus companies by the end of October 2023, including Burberry. LAPFF will assess the benchmark to identify potential shortcomings in the company's approach to manging water risk and follow up accordingly. The VWFI benchmark will provide a means through which performance on this issue can be tracked over time.

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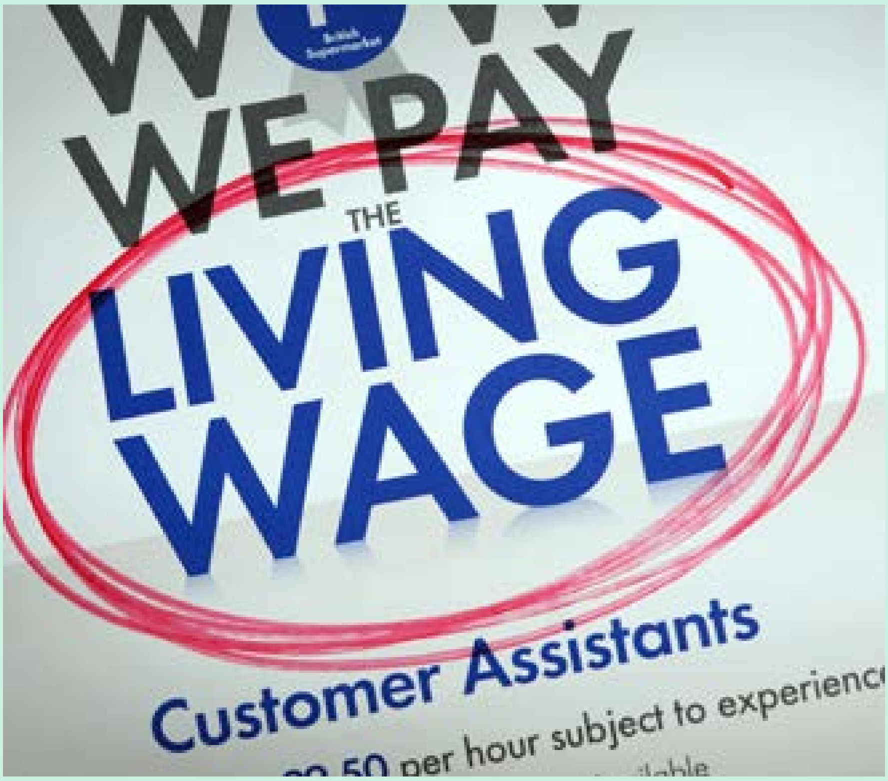
BALFOUR BEATY

Overview: Balfour Beatty plc is an international infrastructure group with operations in construction services, support services and infrastructure investments.

Issues Arising: PIRC is involved in the Find it, Fix it, Prevent (FFP) collaborative engagement initiative. Facilitated by CCLA, the initiative focusses on contributing to the development of a robust regulatory environment with regards to modern slavery, engaging and supporting companies in the development of their modern slavery statements as well as working to develop better data on the issue. Modern slavery is a global issue and takes many forms, making it notoriously difficult to identify. This in turn makes preventative actions difficult to prescribe. Certain sectors are more vulnerable than others, with agriculture, construction and care work being three sectors with a high-risk of occurence in the UK.

Engagement: As part of the FFP initiative PIRC, along with other investors, met with construction firm Balfour Beatty to discuss their approach to managing the risks of modern slavery within the value chain. PIRC asked the company if it assessed modern slavery risk on a country-by-country basis. The company has operations in North America, Hong Kong and the United Kingdom and recognised that the risks varied per region, but that it did not publicly disclose workforce related risks on a regional basis. The company was also asked whether the mechanisms it has in place to root out modern slavery were robust enough given no instances of modern slavery were reported by the company during the most recent reporting period. Investors emphasised to the company that finding and reporting cases of modern slavery acts to highlight the processes it has in place are effective.

Follow-up: Balfour Beatty considered investor feedback with regards including the disclosures within the company's modern slavery statement. The next iteration of the company statement will be reviewed in due course.



GOOD WORK COALITION

During Q3 PIRC has been actively engaging on our behalf with companies as part of the ShareAction co-ordinated Good Work Coalition, focusing on two crucial issues: Living Wage and Living Hours.

The Living Wage Foundation (LWF) launched its campaign in 2011 with a core belief that no one working full-time should earn less than what's required for a decent standard of living. The Living Wage is calculated as the minimum hourly rate necessary to afford essential needs, such as food and housing. As of now, there are over 13,000 UK Living Wage accredited employers. The campaign has been expanded to include Living Hours, an employer commitment to providing workers with secure and predictable hours, especially for directly employed and third-party staff who may be at risk of in-work poverty.

During the third quarter, PIRC engaged with companies including Moneysupermarket.com, WPP, Severn Trent, Kingfisher, Burberry, Halma, and Bunzl. Some companies expressed eagerness to explore possibilities with the Living Wage Foundation, while others hesitated to commit to the standard due to concerns about additional workload and resource implications.

One viewed Living Hours accreditation as a logical step, aligned with their mission to ensure households have sufficient income for a decent living. Although, those in already in compliance with Living Hours, believed that accreditation would set a responsible employment benchmark for the broader sector to follow. A further company is actively pursuing Living Hours Standard accreditation with the Living Wage Foundation. They have brought many roles that meet the Living Hours standard in-house but continue to collaborate with third-party suppliers for specific projects. They are committed to encouraging their third-party suppliers to adopt the standard and plans to extend Living Hours benefits to all their employees, while also urging their suppliers to do the same, potentially benefiting a larger number of workers.

Contrastingly, two companies expressed reservations about obtaining Living Wage and Living Hours accreditation. One stated that they valued the flexibility of independently determining their pay rates, while another believed they could establish their own policies in line with LWF standards without the 'burden' of accreditation. Some stated that operational structure presented challenges for them seeking accreditation.

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Procter & Gamble (above) was recently reported to have removed policy commitments not to buy wood pulp from degraded forests

BIODIVERSITY

Objective: Alongside writing to financial institutions regarding their role in supporting positive developments on biodiversity and climate change, LAPFF has sought to understand approaches to biodiversity at companies in other industries. For example, Procter & Gamble was recently reported to have removed policy commitments not to buy wood pulp from degraded forests. This action comes three years after a majority of investors supported a non-binding shareholder resolution at the company's AGM requesting that Proctor & Gamble assess how it could improve efforts to eliminate deforestation and forest degradation in its supply chains. LAPFF also aimed to find out more about Nestlé's approach to regenerative agriculture.

Engagement: LAPFF has written to Procter & Gamble regarding this engagement. LAPFF also wrote to Nestlé, who hosted the Forum at its chair's roundtable in March 2023. The request seeks to discuss the company's plans for regenerative agriculture and how it contributes to the company's pathway to halve its greenhouse gas emissions by 2030 and reach Net-Zero by 2050.

Outcomes and follow up: Deforestation is becoming an increasingly important topic for LAPFF members and wider investors, particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. TNFD will have implications for a wide range of market participants. LAPFF will be monitoring how relevant companies incorporate the TNFD recommendations and will seek to engage those lagging behind on biodiversity and deforestation.

ELECTRIC VEHICLES AND HUMAN RIGHTS

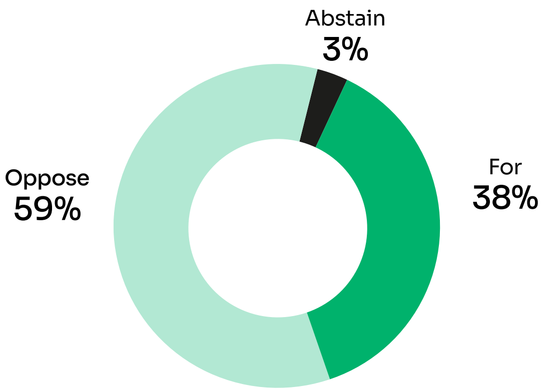
Objective: Continuing its engagement with electric vehicle manufacturers to better understand how they are addressing the risks associated with minerals for batteries for their vehicles, LAPFF wrote to a number of companies seeking further engagement with those it has already engaged on this issue and to meet others for the first time.

Engagement: LAPFF met with Volkswagen (VW) and Volvo Group (trucks and HGVs) this quarter, both for the first time. LAPFF had a detailed discussion with Volkswagen, which published its third iteration of its raw materials report this year. The discussion covered the company's overall human rights programme and more focussed attention on individual minerals. LAPFF also broached questions about the scrutiny VW faced for one of its joint ventures linked to auto manufacturer supply chains allegedly associated with Uyghur forced labour in Xinjiang. VW has publicly announced that it will be undertaking a social audit of this factory, although it has faced scrutiny from various NGOs and labour groups that social audits in China are ineffective based on political pressures. Volvo provided a high-level overview of its human rights programme, which in terms of reporting, appears to be lacking compared to some of its peers, particularly on risk management of human rights in critical mineral and material supply chains. Despite this lack of transparency in reporting, Volvo provided a promising conversation on its aspirations to improve various parts of its human rights work.

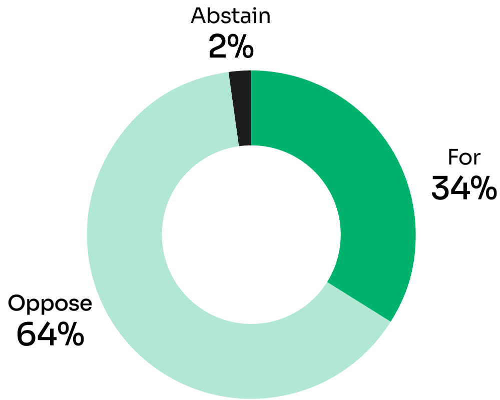
Outcomes and follow up: More and more legislative instruments pertaining to corporate sustainability are being enacted around the world, such as the EU Battery Regulation which came into effect in August 2023. These new regulations impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU. Responsibility and due diligence requirements are also extended to supply chains for materials like cobalt, lithium and nickel. The EU's Corporate Sustainability Due Diligence Directive, whilst still in development, will require companies to conduct due diligence on, and take responsibility for, human rights abuses and environmental harm throughout their global value chains. Therefore, LAPFF will continue to monitor and engage on how companies are set to meet these requirements, including for minerals and materials being used in the production of electric vehicles, where human rights abuses continue to be a major source of concern.

VOTING
Q3

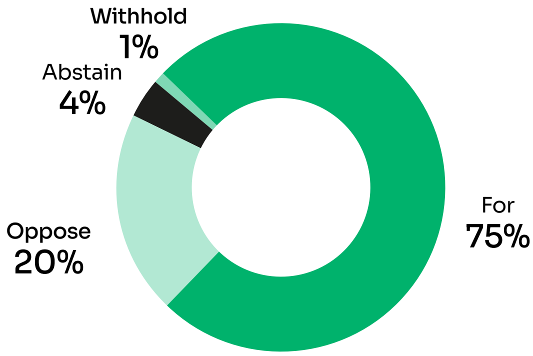
Votes on remuneration advisory, Q3 2023



Votes on remuneration binding, Q3 2023



Director elections, Q3 2023



Auditor appointments, Q3 2023