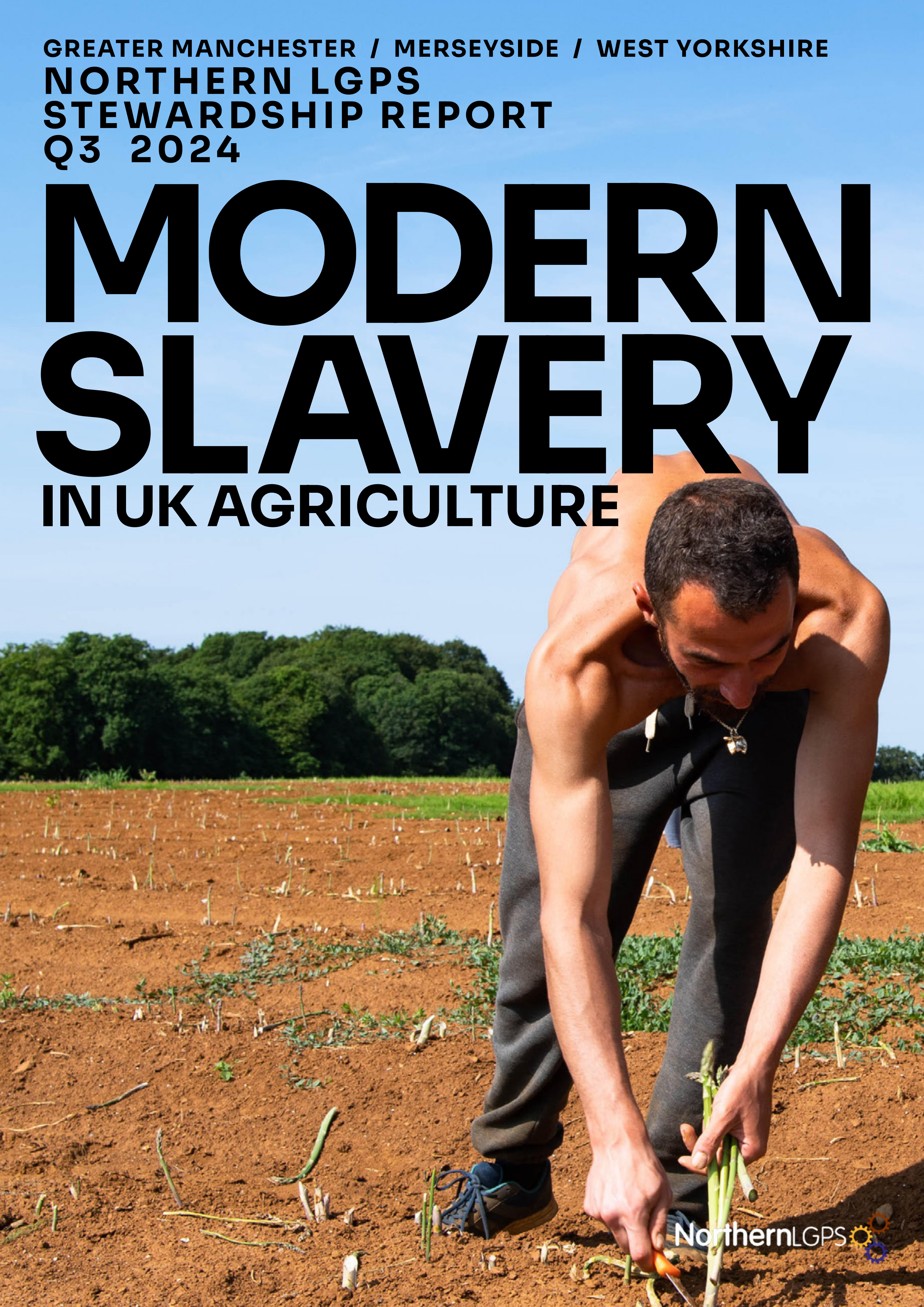
GREATER MANCHESTER / MERSEYSIDE / WEST YORKSHIRE

NORTHERN LGPS
STEWARDSHIP REPORT
Q3 2024

MODERN SLAVERY
IN UK AGRICULTURE



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Eastern European farm workers picking cauliflower in Cornwall UK

Modern Slavery in the Seasonal Worker Scheme

Overview: Since its inception, the UK's Seasonal Worker Scheme (SWS) has continuously come under scrutiny for alleged human rights violations and the exploitation of migrant workers. Human and labour rights issues pose a material risk to investment value and can be a reputational risk to investors. These risks are particularly pronounced in sectors with complex labour supply chains that can mask serious human rights violations, such as those dependent on high levels of migrant labour. Early intervention through structured engagement aligns with Northern LGPS' responsible investment guidelines and can help companies strengthen their labour practices while protecting long-term shareholder value.

The SWS was launched in 2019 to address labour shortages that arise from seasonal demand in the UK's agriculture industry. The scheme offers a six-month visa that attracts migrant workers from over 60 countries to travel to the UK to pick and pack crops. When the scheme was piloted, it had a quota of 2,500 places per year, the scheme has since rapidly expanded to over 45,000 places - a clear indicator of the demand there is for foreign workers. A recent government commissioned review into labour shortages in the agriculture sector found that the dependence on foreign workers stems from 'unappealing working conditions'.[1]

Prior to the United Kingdom leaving the European Union, the UK was highly dependent on overseas workers from the EU for the harvesting of seasonal fruit and vegetables. However, the end of free movement from EU countries and the introduction of a visa requirement drastically reduced the available labour pool, forcing a rapid shift to recruiting from non-EU countries with less established migration routes to the UK.

This was further complicated by Russia's invasion of Ukraine in 2022. When the pilot was launched, the majority of workers originated from Eastern Europe and Russia. The disruption of this established route forced scheme operators to recruit workers from less familiar regions, such as central Asia, Nepal and Indonesia. This shift to less established routes has reportedly led to a surge in violations, as operators were unable to implement robust due diligence mechanisms and properly assess recruitment agencies. Workers from these new source countries were also more vulnerable to exploitation due to language barriers, unfamiliarity with UK labour laws and high recruitment fees.

The scheme has now been extended to 2029, which has intensified concerns about the ethical treatment of workers. However, the extended timeframe should allow for an implementation of long-term solutions and monitoring mechanisms that will improve the scheme.

1 Independent Review into Labour Shortages in the Food Supply Chain

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Criticisms of the Seasonal Worker Scheme

The SWS has faced criticism from human rights organisations, workers' rights advocates and investor groups. Key concerns include reports of exploitation and poor working conditions, exploitative recruitment practices and concerns about working hours. The extent of the systemic risks and abuse are unclear as workers do not always have access to an adequate complaints mechanism. However, interviews conducted by human rights organisations with migrant workers help paint a more comprehensive picture of the issues. These firsthand accounts have revealed issues such as underpayment, unachievable picking targets, humiliation, unsafe accommodation and a lack of access to medical care.

Workers are restricted to job placements arranged by the scheme operator that sponsored their visa and can only work at farms where their scheme operator places them. While scheme operators can transfer workers to other farms to work more hours, many workers still report receiving less hours than expected. On the other hand, some workers have reported working in excess of 70 hours a week.

Stakeholders have also reported that the government's processes have made it difficult for operators to plan for the recruitment drive. Scheme operators are often not given enough notice on the number of visas available as part of the scheme. Retailers believe that this has led to increased worker exploitation as scheme operators are unable to adequately vet recruiters.

Seasonal Worker Scheme Taskforce

In response to increasing criticisms of the scheme and a call to action from investors, the Seasonal Worker Scheme Taskforce was created in 2023. The taskforce is made up of a coalition of retailers, growers, industry bodies and recruiters whose main goal is to 'work collaboratively to develop and implement tangible actions to help safeguard and ensure access to workers' rights in the seasonal worker scheme'. By fostering cooperation between different parts of the supply chain, the taskforce aims to address key issues such as improving transparency in recruitment processes, developing industry-wide standards for worker accommodation and working conditions as well as establishing more effective grievance mechanisms.

The creation of the taskforce is generally viewed as a significant step in addressing the challenges of the SWS. However, PIRC raised concerns with UK retailers about the taskforces potential to inadvertently reduce individual company efforts and create a 'free rider' problem. In response, retailers assured PIRC that this issue is mitigated by the taskforce's publicly available terms of reference which hold members to account.

While these initiatives represent progress, the extent of the taskforce's effectiveness to drive meaningful change is yet to be determined. PIRC will continue to monitor the taskforce's activities to ensure it fulfils its intended purpose of improving conditions for workers and thereby reduce the material human rights risks facing investee companies.

Issues & Materiality

Many major UK retailers, including the supermarkets PIRC engaged, face significant reputational, legal, and financial risks related to the Seasonal Worker Scheme (SWS) and broader modern slavery concerns within their supply chains. As prominent beneficiaries

Accomodation for migrant fruit farm workers

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Seasonal workers pick Chardonnay grapes during harvest at Hambledon Vineyard and winery, Hampshire

of the SWS, supermarkets are especially vulnerable to negative publicity and have already suffered significant brand damage from worker exploitation cases exposed through media investigations and NGO campaigns. UK retailers have faced intense public backlash and reputational harm after being linked to farms where workers have reported exploitation, forcing them to publicly defend their sourcing practices and improve their supplier monitoring systems[2]. These risks extend beyond reputation, under the Modern Slavery Act, companies have a legal obligation to prevent slavery in their supply chains and could face liability if found to be benefiting from exploitation. Supermarkets have made efforts to address these risks, but several critical issues highlight gaps in their approaches to responsible sourcing, transparency, and worker protections.

One major issue is that ethical sourcing guidelines at some of the supermarkets tend to be limited to first-tier suppliers rather than further upstream where the risk of labour exploitation are higher, especially in distant regions of sectors with less regulatory oversight. This gap in coverage leaves significant portions of their supply chains vulnerable to unchecked labour abuses, such as debt bondage and poor working conditions, particularly among seasonal and migrant workers.

Moreover, these risks are being exacerbated by tight timelines – the delayed announcement of visa allocations which forces a shift toward labour sourcing from higher risk countries, and a lack of in-country oversight. The rigid visa structure and inconsistent accountability between operators, recruiters and farmers further complicate worker protection.

Despite acknowledging these risks and committing to improved sourcing practices, some supermarkets fell short in providing transparent reporting on their efforts. Some companies had not disclosed detailed outcomes related to remedies for workers impacted by labour violations, raising concerns about the effectiveness of their internal monitoring mechanisms. Reliance on self-assessment forms and snapshot audits further compounds this issue. These practices may overlook ongoing or systemic problems, such as those linked to the SWS, particularly when audits are announced in advance.

Worker exploitation related to recruitment costs is an additional concern in the SWS. Under the Employer Pays Principle (EPP), agricultural employers should cover all recruitment-related costs, including travel, accommodation, and visa fees, to prevent issues like debt bondage. While some UK retailers, such as Tesco, have endorsed the EPP and expect their suppliers to follow suit, full implementation within the SWS is challenging. Many scheme operators and farms have resisted due to the financial burden. Organisations like the Business and Human Rights Resource Centre argue that retailers, not farms, should bear these costs.

While reported cases of worker abuse under the SWS are relatively few, the severe consequences for human life attract significant attention. The high materiality and substantial risks associated with human rights violations in supply chains warrant a robust response from investors.

Recognising these risks, PIRC is extremely active in engaging other investors and UK retailers on this topic. In 2023, PIRC was one of ten investors to sign on to an investor letter drafted by the CCLA with recommendations for retailers. This resulted in a roundtable with CCLA, Food Network Ethical Trade, UK retailers and the government, with some of the asks being met later in 2024. This ongoing engagement, now in its second year, reflects the understanding that supermarkets must take a more active role in eliminating risks from their supply chains.

Engagement: During Q3, PIRC engaged with UK retailers Sainsbury's, Ocado, Marks & Spencer's and Tesco on the topic of modern slavery risks in the Seasonal Worker Scheme (SWS). In these engagements, our main objective was to ensure that retailers recognise the severity of the risks and were taking adequate accountability of their supply chain. PIRC also wanted to better understand the retailers' reactions to the open letter sent to them following the government's announcement to commit to an Employer Pays Principle (EPP) feasibility study.

During PIRC's engagement with Sainsbury's, the company acknowledged the systemic issues, including gaps in its grievance reporting, which it aims to improve. Sainsbury's outlined it is actively engaging with DEFRA to strengthen protection and reiterated that human rights are a top priority, with regular

2 UK: Migrant fruit pickers charged thousands in illegal fees to work on farms supplying M&S, Tesco & Waitrose, investigation shows - Business & Human Rights Resource Centre

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updates provided to the company's directors on this matter.

With regards to Ocado, PIRC stressed the need for Ocado to expand the scope of its responsible sourcing guidelines to cover its entire supply chain. PIRC also encouraged the company to make its audit reports publicly available to enhance transparency. Additionally, PIRC highlighted the importance of conducting company-level due diligence to prevent overreliance on the taskforce in mitigating modern slavery risks. In response, the company stated that it plans to publish case studies of non-compliance and actions taken in its future modern slavery statements.

The engagement with M&S brought to light the positive progress that the scheme has made stating that the since the Taskforce's inception there has been increased stability. Key taskforce initiatives include the development of a comprehensive Grower Toolkit, the successful rollout of grower roadshows, and the Responsible Recruitment Progress Assessment (RRPA), which is enhancing recruitment practices. M&S however noted a need for increased government involvement in addressing visa and travel cost which remains an ongoing focus for the taskforce, namely a feasibility study on Ethical Recruitment and EPP funded by supermarkets, DEFRA and other stakeholders.

The meeting with Tesco took the topic of the EPP further. The supermarket was an early adopter of EPP and are conscious that despite their endorsement of it throughout their public policies, and the expectation for their suppliers to be aligned with the practice, the SWS highlights where industry is not there and how applying the principle blindly could potentially undermine the viability of key suppliers. However, the company believes that the principle must be embedded in a way in which EPP responsibility is equally shared across the scheme.

On the issue of whether Tesco agreed with the ask for the retailers to foot a greater share of remediation costs, the company acknowledged that the profit derived from the sale of relevant fruit and vegetables was weighted in favour of the supermarkets but argue that the legal accountability should lie with those responsible for the flaws in the recruitment process, rather than solely on retailers. According to Tesco, this would encourage the government and scheme operators to enhance their due diligence and improve practices. This could be through recruiting from safer countries and improving the government's timelines around labour planning and announcements of visa allocations.

Outcomes: The retailers engaged have been able to drive positive outcomes through the taskforce. This includes guaranteeing workers a minimum of 32 hours of work, organising grower roadshows on best practice, and developing the 'Good Work' application which informs migrant workers of their rights in the UK.

Looking forward, PIRC's expectation is for supermarkets to take more independent action on managing human rights risks in their respective supply chains, including remediation efforts in relation to the SWS. Regarding the EPP feasibility study, there is shared understanding between all the stakeholders that embedding the EPP and reducing migrant worker exploitation go hand in hand. In future engagements, PIRC hopes to gain a clearer understanding of how the supermarkets will incorporate the findings of the study into the business plan in a way that balances the economic needs of business sustainably with the welfare of workers.

Jersey, Romanian, Polish & Portuguese nationals are working alongside eachother planting potatoes

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Significant Shareholder Dissent

Introduction

Since the conclusion of the AGM season, PIRC has collected and analysed a broad array of voting results. During 2024, a significant number of management proposals faced significant shareholder dissent. The UK Corporate Governance Code classifies significant shareholder dissent as 20% or more of votes cast against a management's position towards a resolution. PIRC's research found that approximately 8% of remuneration proposals and 2% of director elections received 20% dissent in 2024. The UK Corporate Governance Code recommends that companies engage with shareholders in the event of significant dissent.

Alongside concerns about remuneration proposals, our analysis of voting results revealed that opposition to director elections was often aimed at the re-election of nomination committee chairs. Dissent on executive pay typically stemmed from concerns about quantum, structure and the disclosure of pay packages. Opposition to nomination committee chairs often reflected issues with board structure, independence and diversity. These areas are vital to effective corporate governance and link to broader systemic issues like pay inequality and diversity, equity and inclusion.

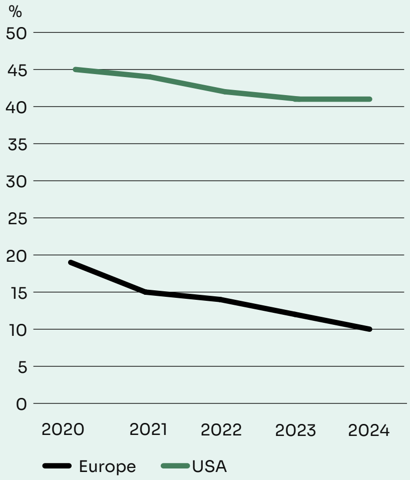
For this round of engagements, companies facing over 25% dissent in either area were identified as engagement priorities by PIRC. The purpose of the engagement was to better understand the key drivers of dissent and the measures taken to address shareholder concern.

Board Composition

Background: The structure and degree of independence from management on a company's board are crucial in ensuring that all shareholders' interests are adequately represented. A well-structured, independent board is vital to ensuring that management is subject to appropriate accountability and oversight. PIRC has long-held robust policy positions on these issues.

Fig.1

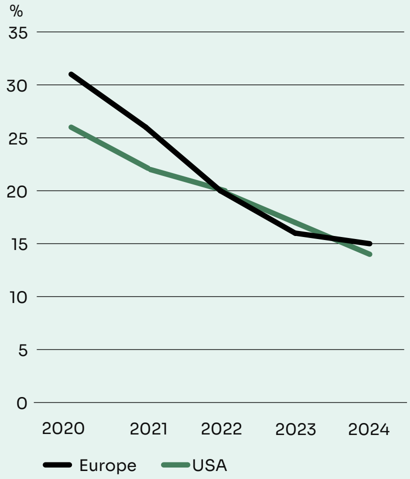
Percentage of boards with a combined Chair and CEO position



Source: PIRC company database

Fig.2

Percentage of boards with <33% female representation, by market



Source: PIRC company database

Beyond the UK, practice on these issues can vary dramatically, due to different corporate governance regimes and corporate cultures. Notably, the United States lacks a codified corporate governance code and corporate governance practices are typically more laissez-faire. For example, in the US it is more common for directors to serve for over a decade, despite concerns from most UK shareholders that a longer tenure can affect a director's independence from management. It is also more common practice for US companies to have a combined Chair and CEO position on the board than it is in Europe. In PIRC's view, a combined role concentrates too much power in the hands of one individual, limiting accountability. As figure 1 shows, the proportion of companies operating under a combined role in the US context is significantly higher than in the EU. Although it does show the impact that shareholder pressure, including through voting, has had in changing company practice in a relatively short period – even if there remains some way to go.

Additionally, board diversity (gender & ethnicity) can be crucial to the effectiveness of a Board. Diverse boards can mitigate the risk of groupthink by introducing more diverse perspectives and are more likely to understand the needs of diverse stakeholders. Conversely, unrepresentative boards miss out on valuable talent and can negatively impact corporate reputation. While there has been progress on board diversity in recent years, there remains a significant minority of companies with unrepresentative boards in both Europe and the US and which fail to meet the expectations of market standards and responsible investors.

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ADIDAS AG

Overview: Adidas AG is a German company which designs, develops, produces and markets a range of athletic and sports lifestyle products.

Issues: At Adidas' 2024 AGM, Thomas Rabe, who serves as both Board Chair and Nomination Committee Chair, was opposed for re-election by 31% of all votes cast. A significant factor in this was his excessive time commitments, as he also serves as Chair and CEO of another listed company. The board also falls short on gender representation, with only 25% of the supervisory board being female.

Engagement: The company suggested that Thomas Rabe's time commitments were the primary cause of shareholder dissent. The company acknowledged this but argued that Rabe played a pivotal role in helping Adidas navigate major supply chain disruptions during and after the Covid-19 pandemic.

PIRC emphasised that its own 'Oppose' vote was also driven by the board's lack of diversity, a responsibility of the Nomination Committee. In response, Adidas highlighted that its board appointments consider various factors, including gender, cultural origin, nationality, and educational background. The company noted that it is on track to achieve a 50% gender balance in management positions by 2033, with this target now embedded in the Long-Term Incentive Plan (LTIP) at a 10% weighting. However, Adidas did not commit to specific targets to improve diversity at the board level beyond the legal requirements. The company also stated that it employs external search firms to create longlists of candidates and utilises a competency matrix, along with disclosing CVs for each board member, to ensure transparency and strategic selection.

Outcome: PIRC will monitor the level of gender diversity on Adidas' board which will be taken into consideration ahead of the company's 2025 AGM. In addition, the Chair's time commitments remain excessive for such a crucial position at the company and will be reviewed when making future vote recommendations on his re-election.

CME GROUP INC

Overview: CME Group is an operator of derivative exchanges headquartered in Chicago. It offers a range of global benchmark products over several asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate.

Issues: At its 2024 AGM, the re-election of CME Group's Nominating and Governance Committee Chair Phyliss Lockett was opposed by 35.7% of votes cast, owing to shareholder concerns with the board's structure and composition.

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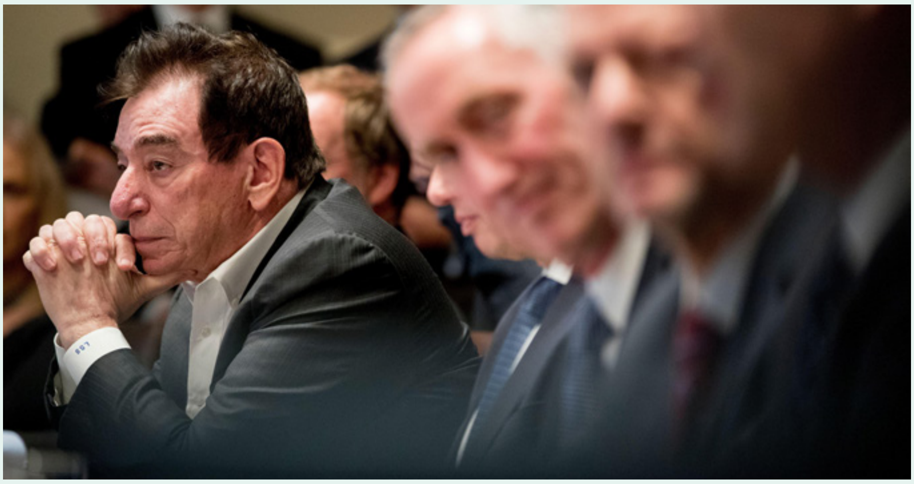
The company's 23-member board includes six Class B directors who are elected by exchange members as opposed to shareholders, limiting management's accountability to holders of the company's stock. Furthermore, ten of the board's directors are not considered independent by PIRC owing to excessive tenure, with several having served for over 20 years. The company does not share this definition of independence and instead seeks a 'balance' of tenures on the board. In failing to adequately refresh its board, the company has also made slow progress in increasing female representation on the board, with only 26% of directors being female. The company acknowledges board diversity as a 'priority' but lacks a time-bound commitment to increase this level.

Engagement: The company outlined that the primary driver for dissent was the dual-class board, which is an outcome of the company's evolution from a non-profit entity to a listed company. It said that it was looking for an opportunity to phase out the Class B directors, but the requirement to seek Class B approval for the move posed a significant obstacle. The company also said that it is considering reducing the size of its board, acknowledging that the current board size risks limiting board effectiveness.

On gender diversity, CME Group highlighted the recent appointment of a female Chair of the Nomination Committee. However, the company lacks a clear strategy for enhancing board diversity and would not commit to setting a quota or target for gender diversity. It added that while there is pressure from UK investors regarding board tenure and diversity targets, it is not a significant concern for other shareholders. The company also lacks a strategy to reduce the average tenure of directors to ensure greater independence.

Outcome: The company faces challenges in reforming inappropriate dual class share structure, an issue beyond its immediate control. Differences in corporate governance expectations among a diverse shareholder base is also an obstacle to meeting PIRC's expectations on core governance issues. PIRC will review both female representation and independence before making vote recommendations at next year's AGM.



Regeneron CEO Dr. Leonard Schleifer

REGENERON PHARMACEUTICALS INC

Overview Regeneron Pharmaceuticals, Inc. is an integrated biopharmaceutical company that discovers, invents, develops, manufactures and commercialises medicines for the treatment of serious medical conditions.

Issues: At Regeneron's 2024 AGM, the Chair of the Corporate Governance and Compliance Committee was opposed by 27.8% of votes cast. One significant governance issue is the company's dual-class share structure, a legacy feature from its 1991 IPO. Class A shares receive 10 votes each and are mostly held by the CEO and Chief Scientific Officer (CSO), insulating management from shareholder accountability. In addition, the CEO also serves as Board Chair, further concentrating power in one individual. Furthermore, over half of the board directors have a tenure of over nine years, undermining their independence from management.

Engagement: During PIRC's engagement with Regeneron, the company explained that the shareholder dissent was in large part a result of the founder-led dual-class share structure. The company emphasised the continued value of its founders' contributions, adding that any changes to the structure would require approval from Class A shareholders. However, they stated that there has been a gradual decrease in the influence of Class A shares, with no new Class A shares issued and no plans to issue more in the future.

PIRC also queried the company's combined CEO and Chair position. Regeneron argued that the presence of a 'strong' lead independent director (LID) addresses this issue, with a strong LID charter allocating the director appropriate rights and responsibilities. PIRC highlighted that the long tenure of the LID risked reducing the ability to provide independent judgement.

PIRC asked how the company was addressing concerns that a long average director tenure would inhibit their independent judgement. The company framed its long average board tenure as reflective of the 'long-term focus' of the business. The company argued that a balance between long-serving and newer directors is beneficial, as longer-tenured members provide deep insights into the company's operations. They also argued that the recent retirement of three long-serving directors marked significant board refreshment.

Outcome: Regeneron emphasised the long-term focus of its governance structure but failed to commit to any immediate changes regarding the dual class share structure or the combined CEO and Chair roles. While Regeneron recognised shareholder concerns, particularly around board independence and tenure, they maintained that changes to governance practices, such as declassifying the board, would require further shareholder approval. PIRC will review the board's structure and independence when making vote recommendations on director elections at the upcoming AGM.

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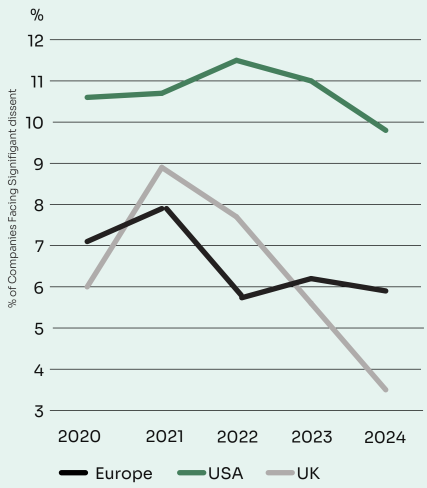
EXECUTIVE PAY

Background: Shareholder dissent to executive remuneration practices decreased across US, UK and EU markets during 2024 (see figure 3). The number of S&P 500 companies facing over 20% dissent declined from 11% to 9.8%. In the EU, shareholder opposition remained relatively steady, notwithstanding a notable decline in certain markets (see figure 4). The UK market has realised the sharpest decline in levels dissent on pay over recent years. In 2022, 15% of FTSE350 pay proposals received over 20% opposition, down to 4.7% in 2024.

Fig.3

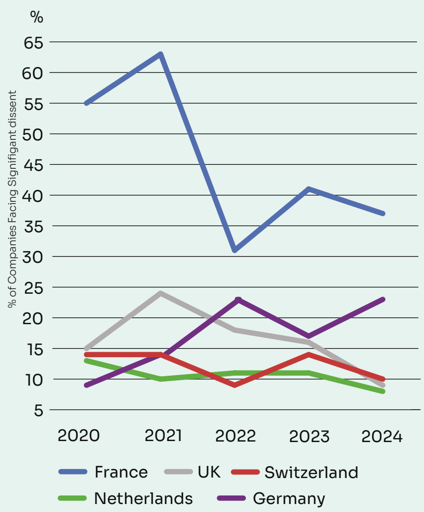
Executive Pay Dissent: US, UK & Europe



Source: PIRC Analysis

Fig.4

FTSE EuroFirst: Remuneration Dissent Across Major Markets



Source: PIRC Analysis

3M COMPANY

Overview: 3M Company is a diversified multinational corporation known for its wide range of products including consumer goods, healthcare, electronics, and industrial sectors. Key product categories include adhesives, abrasives, personal protective equipment (PPE), medical supplies, and household products such as Post-it Notes and Scotch tape.

Issues: 3M's executive compensation policy has come under intense scrutiny following significant shareholder dissent, with 54.3% of shareholders voting against the advisory vote on executive pay at the company's 2024 AGM. As only one of the four S&P 500 companies whose 'Say-on-Pay' proposals to be rejected by shareholders,[3] the voting result reflects dissatisfaction with the misalignment between executive compensation and the broader shareholder experience.

A notable concern lies in 3M's use of adjusted metrics which do not adhere to Generally Accepted Accounting Principles (GAAP), excluding major costs like litigation expenses from its performance metrics. This approach allowed 3M to report a much higher adjusted earnings per share in 2024, despite incurring a pre-tax loss of over $12 per share due to legal settlements.[4] Additionally, the excessive sign-on package provided to Bryan Hanson, including a $2.7 million hiring bonus and $13 million in restricted stock units (RSUs) that vest over time without any performance conditions, further highlights the weak link between pay and performance.

Engagement: On the use of non-GAAP metrics, the company argued that excluding legal liabilities from executive compensation metrics was necessary to avoid disincentivising executives from making settlements. However, the company is currently exploring changes, including introducing a Total Shareholder Return (TSR) modifier to ensure better sensitivity to performance and shareholder alignment.

Regarding CEO pay, 3M clarified that realised CEO compensation was 49% lower than the target, highlighting efforts to ensure pay is reflective of actual performance. On excessive buyouts, 3M acknowledged challenges with designing them, particularly given the competitive talent market as well as unique challenges of creating a spin-off business which needs extensive experience in the sector. PIRC stressed the importance of creating a talent pipeline to prevent excessive sign-on packages that do not align with shareholder interest.

Outcome: PIRC welcomes the potential introduction of a Total Shareholder Return (TSR) modifier to enhance the link between executive compensation and shareholder experience. However, there remain significant issues 3M's approach, in particular the excessive reliance on retention-based buy-out awards and use of adjusted metrics. PIRC will review any improvements the company makes before making a vote recommendation at the upcoming AGM.

CARREFOUR SA

Overview: Carrefour, founded in 1959, is a French multinational retail giant. Operating in Europe, Latin America, Asia, and the Middle East, it runs hypermarkets, supermarkets, convenience stores, and online platforms.

Issues: The company received 28.8% opposition to the ex-post approval for the remuneration package awarded to Alexandre Bompard, the Chairman and CEO of Carrefour, for the 2023 financial year. The shareholder dissent was driven by a number of factors including the lack of transparency relating to performance conditions attached to both the short and long-term incentive plans. A key issue lies in the design of these plans, which allows for maximum payout thresholds to be met despite underperformance against key metrics.

3 6 O'Donoghue, B., Vu, M., Gatti, S. and Glass Lewis (2024). Proxy Season Global Briefing: Executive Pay. The Harvard Law School Forum on Corporate Governance. Available at: https://corpgov.law.harvard.edu/2024/09/03/proxy-season-global-briefing-executive-pay/

4 3M Company (2024). 3M Delivers Strong Fourth-Quarter Results; Improves Operational Performance and Exceeds Earnings and Cash Flow Expectations. Available at: https://investors.3m.com/news-events/press-releases/detail/1821/3m-delivers-strong-fourth-quarter-results-improves.

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Additionally, the specific performance targets are not disclosed ex ante due to concerns relating to confidentiality. This lack of disclosure makes it difficult for shareholders to assess whether the targets are sufficiently challenging and aligned with the company's performance.

Engagement: During PIRC's engagement, the company acknowledged the overlap of performance metrics between the annual bonus and the Long-Term Incentive Plan (LTIP). The company also noted a reduction in shareholder dissent compared to the previous year, attributing this to its engagement with the top 40 shareholders and the resulting adjustments made in response to their feedback. The company outlined it had increased the weighting of financial metrics in response to shareholder engagement as well as eliminating the previous compensation mechanism which allowed for outperformance in one area to offset underperformance in another.

In response to questions about disclosure of the corporate social responsibility (CSR) metrics used in the LTIP, the company stated that it would consider more granular disclosure. PIRC raised concerns regarding the sensitivity of these metrics to company performance, given their potential to be influenced by macroeconomic factors. The company acknowledged the issue and explained that sustainability is integrated across its operations.

Outcome: The company has addressed many of shareholders' concerns on pay, but there remain some issues relating to the quality of its disclosure on performance metrics. This will be reviewed before vote recommendations are made on upcoming pay resolutions.

LINDT & SPRÜNGLI AG

Overview: Lindt & Sprüngli AG is a Swiss multinational chocolate and confectionery company founded in 1845. It is one of the world's leading producers of premium chocolate, with a significant presence in Europe, North America, and other global markets.

Issues: Lindt received more than 30% opposition to its remuneration report at its 2024 AGM. This dissent was driven by lack of transparency as it relates to performance metrics attached to variable incentive plans. Concerns were also flagged regarding the relatively short period shares awarded as part of the share-based awards were held post-vesting. Although the company has streamlined its scorecard to measure Group Management's performance for the cash bonus, the lack of detailed disclosures on target levels and achievement rates hampers shareholders' ability to assess the alignment between executive compensation and key financial goals. The absence of performance conditions for the Options Plan is also a major concern, as options can be granted based on discretionary criteria as opposed to preestablished metrics. Finally, the absence of holding periods for share options and deferral periods for the annual bonus poses concerns around alignment of incentives with long-term shareholder value.

Engagement: Lindt acknowledged shareholders' expectations around enhanced transparency and stated that they plan to improve disclosure on the achievement levels of short-term performance targets for 2025, although they remain hesitant to disclose the actual targets due to commercial sensitives. PIRC also urged the company to consider implementing holding periods on share options and deferral mechanisms for the annual bonus to enhance shareholder alignment, Lindt argued that this was unnecessary, citing that a third of the share options already vest over a period of three to five years.

Lindt stated that it benchmarks its remuneration against 15 peers, aiming for the median, but PIRC cautioned that over-reliance on peer benchmarking would contribute to a market-wide trend of escalating pay levels. In response Lindt noted that their pay levels have generally decreased over time, aside from increases when appointing new executives.

Outcome: Lindt's willingness to address shareholders' expectations for greater transparency is a positive step forward, as the company plans to improve its disclosure on the achievement levels of short-term performance targets. However, the hesitation to disclose actual performance targets due to confidentiality concerns may still leave shareholders without sufficient oversight of how executive pay aligns with company performance.

AIR POLLUTION

Overview: Air pollution refers to the contamination of the natural composition of the atmosphere by any chemical, physical or biological agent. It kills approximately 7 million people a year[5], making it a leading cause of death. In 2018 alone, air pollution from fossil fuels was estimated to cause USD$2.9 trillion in global economic losses—about 3.3% of global GDP—through factors such as premature deaths, chronic diseases, asthma, preterm births, and missed work or school days[6]. Human activities like combustion, spraying, and surface abrasion release particles and chemicals that degrade air quality.

Air pollution is a financially material issue for companies and investors. Companies can face social risks due to regulatory scrutiny and increased compliance costs. This risk is especially pronounced in ethnic minority communities and the Global South, where companies are more likely to pollute and threaten their social license to operate, exacerbating health inequities. Weak regulatory standards in developing countries further compound the problem, making mere legal compliance insufficient for mitigating air pollution risks[7].

The European Union's upcoming Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) are set

5 World Health Organization (2019). Air pollution. [online] World Health Organization. Available at: https://www.who.int/health-topics/air-pollution#tab=tab_2.

6 Myllyvirta, L. (2020). Quantifying the Economic Costs of Air Pollution from Fossil Fuels Key messages. [online] Available at: https://energyandcleanair.org/wp/wp-content/uploads/2020/02/Cost-of-fossil-fuels-briefing.pdf.

7 UN Environment. (2021). One in three countries in the world lack any legally mandated standards for outdoor air quality. [online] Available at: https://www.unep.org/news-and-stories/press-release/one-three-countries-world-lack-any-legally-mandated-standards.

EFFECTIVE ENGAGEMENT Q3

to enforce stricter environmental and social accountability, including air quality management. The CSRD will require companies to disclose their air emissions, increasing scrutiny from investors and stakeholders, while the CSDDD will require enhanced due diligence relating to air emissions across supply chains. Businesses should be proactive in addressing these regulatory changes, which are likely to spread to other markets.

Poor air quality can have a direct and severe impact on a company's own workforce, negatively impacting productivity. In addition, group litigation from employees impacted by air pollution is becoming an increasingly material issue8. These impacts may not be apparent until health impacts arise years into the future, making it even more important for companies to take proactive action on air quality.

Engagement: As part of ShareAction's Community Health investor working group, PIRC has met with several companies in the construction, construction materials, logistics and mining sectors. The sectors were chosen based on shareholdings and relative materiality. The engagements held with companies last quarter were the first time PIRC has engaged with them on this theme and aimed to provide the issuers with a clear case for addressing air quality by outlining its financial materiality, while gathering information on the opportunities and challenges the companies face. The working group also set out its core objectives for engagement. These include companies acknowledging and disclosing air emissions, implementing governance structures, setting targets, and disclosing air pollutants across the entire value chain.

In Q3, PIRC met with construction materials companies Holcim and CRH; construction companies Ferrovial and Balfour Beatty; and mining company Freeport McMoran to discuss air quality. This follows previous meetings with logistics providers CH Robinson and DHL; construction material producer Breedon Group; and miner Anglo American on the same issue in Q2. Additional introductory meetings are scheduled for Q3.

A prerequisite for companies disclosing and acting upon emissions is recognising the materiality of the issue. Holcim is the only company that identifies air pollution as a highly material issue, which the company explained was a result of a thorough stakeholder engagement process. Ferrovial and Freeport McMoran do not yet recognise air pollution as a priority, with the latter planning to revisit this in future assessments. CRH said it operates in highly regulated markets and thus views air pollution as less material. It also indicated that this was the first time investors had engaged with them on the issue. Balfour Beatty integrates air pollution mitigation into its broader sustainability strategy, without treating it as a separate pillar.

Air pollution from coal fired power

On target setting, Holcim has set specific reduction targets for particulate matter (PM), nitrogen oxides (NOx), and sulphur oxides (Sox), having already achieved two of three goals ahead of schedule. The company confirmed that it is open to updating these targets. Ferrovial explained that it is considering medium- and long-term targets but explained that it faces challenges in setting short-term goals due to operational variability. CRH has a rolling three-year target but does not aim for long-term reductions, arguing that it is at the limits of technical feasibility. Balfour Beatty and Freeport McMoran have not set specific targets for air pollution but incorporate it within broader sustainability efforts.

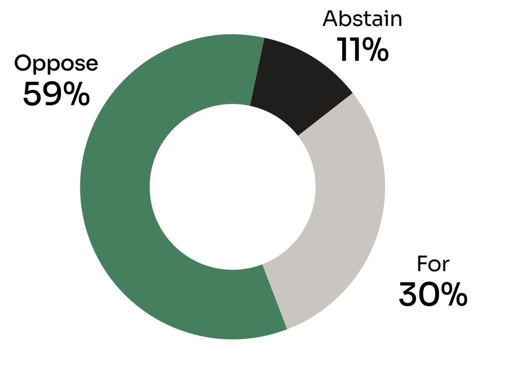
A key focus of PIRC's engagement was on the governance of joint ventures, given that these can sometimes be a sustainability 'blind spot' when responsibility is delegated to a third party or not clearly attributed to any single party. Holcim explained that its disclosures exclude joint ventures, and there is no current commitment to include them. Ferrovial's joint venture in India faces weaker regulatory frameworks, though the company said it was pushing for better sustainability practices. CRH defended its joint ventures' practices, including waste burning, as industry standard. On the other hand, Balfour Beatty said that its joint venture, Gammon, operates in Asia and is more advanced in air pollution management, with two-way knowledge sharing between the partners. Overall, findings in this area indicated the significant progress to be made in extending disclosure, target setting and governance to joint ventures. Many companies already disclose GHG emissions of joint ventures, indicating the feasibility of disclosing air emissions of joint ventures on the same basis.

Outcome: Findings indicate that progress on air pollution lags that on GHG emissions, and this is driven largely by a perceived low materiality of the issue. PIRC has, and will continue to, make the case that air quality should be considered a priority sustainability issue in these sectors. Most companies expressed willingness to further engage on issues of air quality and were broadly receptive to the steps towards improve air quality disclosure. The construction and logistics industries have shown promise for improvement, despite neither yet recognising the full materiality of air pollution. For the construction industry, there is a strong business case surrounding potential regulatory changes, worker health and technological innovations. For the logistics companies, it is considered that their growing emerging market investments make the issue highly material for them. The industry's status as relative laggards on the issue also mean there are more opportunities for improvement.

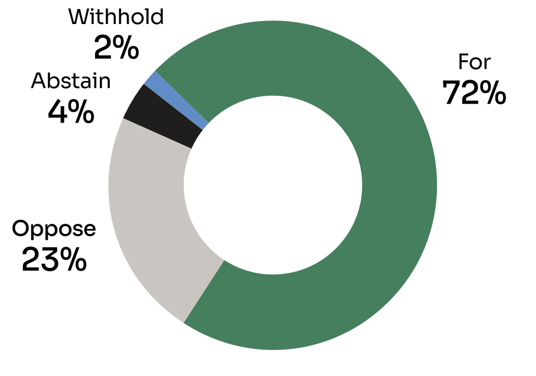
8 Al Jazeera. (n.d.). Catholic Church in South Africa begins class action against mining firms. [online] Available at: https://www.aljazeera.com/news/2023/8/16/catholic-church-in-south-africa-begins-class-action-against-mining-firms.

VOTING Q3

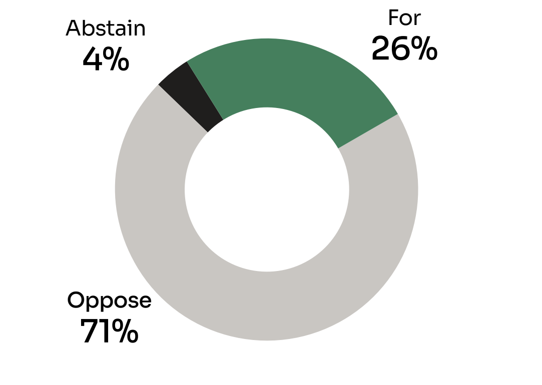
Votes on remuneration advisory, Q3 2024



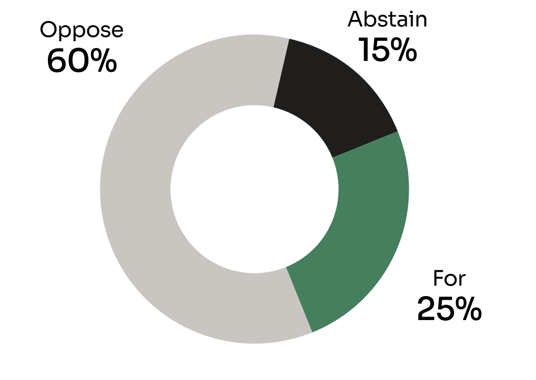
Director elections, Q3 2024



Votes on remuneration binding, Q3 2024



Auditor appointments, Q3 2024



Q3 Engagements

Company	Domicile	Topic
3M COMPANY	USA	Remuneration
ADIDAS AG	DEU	Board Composition
BALFOUR BEATTY PLC	GBR	Social Risk
BARRY CALLEBAUT AG	CHE	Environmental Risk
BRITVIC PLC	GBR	Environmental Risk
CARREFOUR SA	FRA	Remuneration
CME GROUP INC.	USA	Board Composition
CRH PLC	IRL	Social Risk
FERROVIAL S.A.	ESP	Social Risk
FREEPORT-MCMORAN INC.	USA	Social Risk
HILTON FOOD GROUP PLC	GBR	Diversity Equity and Inclusion
HISCOX LTD	BMU	Diversity Equity and Inclusion
HOLCIM LTD	CHE	Social Risk
KELLANOVA	USA	Social Risk
LINDT & SPRUNGLI AG	CHE	Remuneration
LONDON STOCK EXCHANGE GROUP PLC	GBR	Diversity Equity and Inclusion
MARKS & SPENCER GROUP PLC	GBR	Human Rights
NEXT PLC	GBR	Employment Standards
OCADO GROUP PLC	GBR	Human Rights
REGENERON PHARMACEUTICALS INC	USA	Board Composition
ROYAL BANK OF CANADA	CAN	Diversity Equity and Inclusion
RYANAIR HOLDINGS PLC	IRL	Remuneration
SOUTH32 LTD	AUS	Climate
TESCO PLC	GBR	Human Rights