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# CALLING OUT...

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**GREATER MANCHESTER /  
MERSEYSIDE / WEST YORKSHIRE  
STEWARDSHIP REPORT  
Q4 2019**

## RESPONSIBLE OWNERSHIP

...AROUND  
THE WORLDNLGPS BACKS  
RESOLUTIONS  
WORLDWIDE

The UK might be leaving the European Union, meaning our political and economic separation from the rest of the continent, but investors remain very much committed to including European and other international companies in their portfolios.

Global companies are a significant element of NLGPS holdings. That means we have a responsibility to engage as shareholders across borders, and to achieve this we have decided to support resolutions at a number of overseas companies, which will go to their 2020 annual meetings.

Across NLGPS member funds, we will support resolutions at several global companies covering issues from lobbying, to labour standards, to workers on boards and climate change. We will continue to increase up our participation at AGMs across the globe and ensure that our voice is heard on the key issues affecting our beneficiaries, irrespective of where a multinational may be based.

The US boasts the world's largest companies by market capitalisation, and it is their position on climate, labour standards and corporate governance that will have a particularly significant influence on the fortunes of citizens across the globe. It is no surprise then that much of our focus is on US-based companies, including Walt Disney, Alphabet and Delta Airlines.

### Lobbying

The majority of resolutions we have backed are centred on lobbying and the way in which companies engage with policymakers either directly or via trade bodies. For shareholders, it is important that multinationals are transparent about their lobbying activity, both costs incurred and policy positions adopted.

It is also possible for a company to publish laudable aims and targets on lowering carbon emissions and tackling climate change, while simultaneously

be part of an industry body that lobbies government for policies in direct contradiction to the company's own commitments. This contradiction was evident in relation to the shareholder resolution faced by BHP in 2019 (see later story).

It can be challenging for investors to find out to which trade bodies companies support, and the lobbying activities in which they have engaged directly. It may be the case, for instance, that companies seek to use their membership of trade bodies to push those organisations toward more progressive policies. Therefore we will seek to use our influence to encourage more transparency and accountability.

### Worker representation

In 2019, NLGPS supported a resolution calling on Google's parent company Alphabet to appoint a worker representative as director to the executive board.

Employees in the US's Silicon Valley



## RESPONSIBLE OWNERSHIP

have been increasingly vociferous over what they see as management's poor handling of numerous serious issues ranging from sexual harassment to plans to sell artificial intelligence to the US defence department. As part of the NLGPS' responsible investment (RI) policy, we committed to doing more to protect workers' rights. As part of that, we want to encourage companies to align employee and corporate interests by having a worker director on their board. Therefore we are supporting resolutions on this topic in 2020.

### Labour standards

Returning again to the emphasis in our RI policy on worker rights, we continued to support engagement with Amazon, the global online retail giant.

Workers in Amazon's warehouses allege incidents of sexual harassment, unsafe conditions and accuse management of failing to take concerns seriously. Earlier this year we participated in an investor meeting that heard from workforce representatives from Amazon sites in the UK. The GMB Union says such working environments could create difficulties for the employer in the form of legal challenges and regulations. Workers in the US and other countries have also expressed concerns about their conditions.

We are therefore part of a group of investors encouraging the company to adopt a policy that would affirm the right of workers to form and join trade unions and bargain collectively. We await Amazon's response with interest.

### Climate change

Marking a first for a European bank, Barclays will face a shareholder resolution in 2020 challenging its provision of financial services to companies involved in the production of fossil fuels.

Co-filed by Merseyside Pension fund in partnership with other major UK pension funds including LGPS Central, the resolution calls on Barclays to set targets for the withdrawal of financing for to businesses in the energy sector that are not aligned with the 2015 Paris Agreement on climate change. The vote will take place at the bank's 2020 AGM.

Earlier in 2019 the Rainforest Alliance Network published research that found Barclays provided \$24.8bn in financing to fossil fuels in 2018, making it the sixth largest financier of non-renewable energy over the past four years.

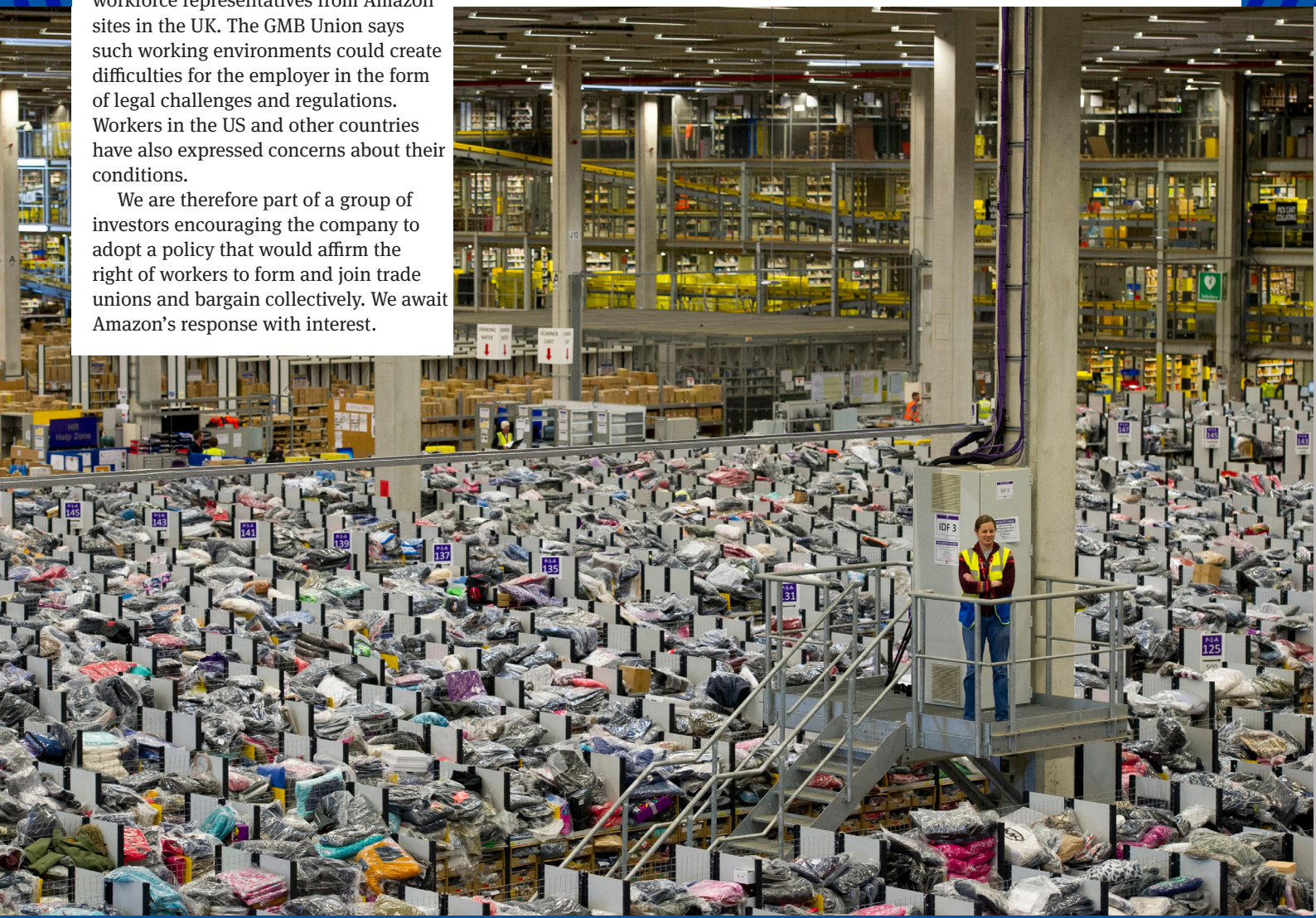
This resolution is in line with the Bank of England's climate stress tests that will force banks to demonstrate their

exposure to the threat of world temperatures climbing by 4 degrees Celsius. BoE wants to ensure that the UK's financial system can cope with the 'physical and transition' risks associated with climate change, which are – of course – also relevant to shareholders.

### Looking forward

As a global investor, NLGPS understands the importance of implementing our responsible investment policy internationally as well as domestically. Taking positive action on climate change, labour standards and corporate governance cannot be bound by borders; these are issues that must be tackled effectively across the world. We see the use of shareholder resolutions as an effective tool for achieving this.

NLGPS will continue to engage with companies – and work with fellow institutions to support their endeavours – across the globe to ensure the best possible corporate practices today and in the future.







NLGPS will continue to engage with companies on climate change both in terms of their own policies and those of the lobbying groups of which they are members, and we hope to see more positive action in 2020.

## ENGAGEMENT

### On the road to a just transition

Building on efforts throughout 2019, NLGPS continues to work with the Just Transition initiative targeting a seamless, fair and inclusive move to a low carbon economy.

Tom Harrington, assistant director of investments the Greater Manchester Pension Fund, spoke at an event held in London in October that unveiled the Investor Roadmap for a Just Transition.

The roadmap lays out five priority areas for general investor action that it has tailored for the UK (see box), since moving to a low carbon economy will affect have disproportionate impacts on certain areas of the country.

NLGPS has incorporated the Just Transition initiative into its responsible investment policy and as such we are committed to 'supporting 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 were pleased to note that our RI policy was referenced in the Roadmap. We look forward to working with Just Transition and its partners to implement the Roadmap next year.



Tom Harrington, assistant director of investments the Greater Manchester Pension Fund

### Five priority areas for UK Investor action

#### Action Area 1 Investment strategy

Investors need to place the just transition into the heart of their strategy and signal its importance along the investment chain. The just transition needs to be incorporated, for example, in the ways that investors deliver their obligations under the Stewardship Code.

#### Action Area 2 Corporate engagement

Investors should incorporate just transition goals and aspirations into their engagement with the companies they own. In the UK, the power generation sector is a first priority for engagement, to facilitate the planned phase-out of coal-fired power generation and the expansion of renewable energy. A second priority could be construction and real estate to upgrade the UK's building stock in a strategic and inclusive fashion. We estimate that 60 per cent of construction jobs could be affected by the transition, requiring considerable reskilling. This engagement could also extend to the banking sector to ensure that lending to real estate is aligned with the just transition.

#### Action Area 3 Capital allocation

Investors can shift their allocation of capital towards assets that are aligned with the just transition. One priority is to build a thriving 'sustainable bond' market in the UK, covering the environmental and social pillars of the just transition, including local issuance by leading companies, communities, public authorities

(for example, via crowdfunding), and national-level issuance (for example, through a sovereign bond). Another priority is to build on the growing interest in impact investment to develop new investment products, including infrastructure, enterprise and property as well as community-owned assets, that seek to support a just transition.

#### Action Area 4 Policy advocacy and partnership

Investors should call for UK government to introduce a strategic framework for the just transition that recognises the importance of decentralisation and devolved decision-making along with the need to engage all stakeholders in its design. A forward-looking plan to strengthen the UK's skills for the net-zero transition is essential and a core interest for universal investors, given the importance of human capital for wealth generation. Investors should use their voice to call for governments in the UK to introduce a strategic framework for the just transition.

#### Action Area 5 Learning and review

Investors should build capacity to deliver experimentation at scale for the just transition with effective monitoring, evaluation and sharing of outcomes. Investors should incorporate the just transition in their own reporting: this can be done by building on the framework developed by the Task Force for Climate-related Financial Disclosures.



## ENGAGEMENT



### Much more at stake

Earlier this year the tragic Brumadinho tailings dam collapse in Brazil killed nearly 300 people and caused widespread environmental devastation, and reminded served to remind shareholders there is more to engagement than simply talking to company boards.

Following the disaster, engagement undertaken by NLGPS' responsible investment adviser, PIRC, found significant differences in the accounts from Vale, the mining company, and those of communities affected by the disaster.

It was clear to PIRC that for engagement to be effective, investors must look wider than the executive boardroom and consider all other stakeholders, most notably communities and employees. Failure to do so exposes investors to potential operational, reputational, financial and legal risks from the activities of companies in which they invest.

Engaging with stakeholders can not only mitigate these risks but also creates something of a virtuous circle in that investors have a clearer picture of their investments, understand the drivers or risk and return and are able to support more beneficial corporate behaviours.

NLGPS will work further with PIRC to develop our own stakeholder engagement to better inform our responsible investment activity.

### Five stakeholder engagement tools

1. Incorporation of community input in questions posed during company engagement meetings
2. Acting on community input in voting shares or in filing shareholder resolutions
3. Engaging collaboratively with other investors to create leverage in influencing corporate conduct
4. Devising better-informed assessment tools to evaluate company performance
5. Using community input to take decisions on whether to divest from companies

### Computer says no to employee representation

Disappointing consistency was shown by shareholders at the Microsoft AGM when they voted against a resolution to include employee representatives on the board.

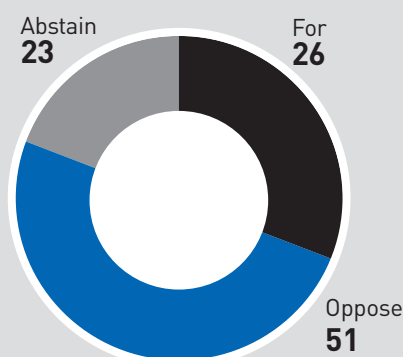
As noted in the last quarterly the NLGPS voted in favour of the resolution but it attracted just 5% of votes at the December AGM. The Microsoft result followed similar outcomes on resolutions at the AGMs of Alphabet and Fedex in Q2.

The Microsoft board claimed including an employee representative could force the company to lower its selection criteria, which might suggest a rather low opinion of its own employees.

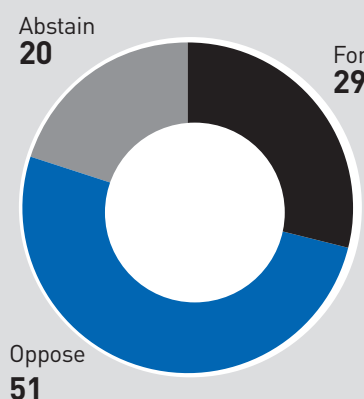
NLGPS continues to engage with companies to find the best means of ensuring worker views are heard in the boardroom. We also expect to see further resolutions proposing employee directors in 2020.

## Q4 VOTING & ENGAGEMENT REVIEW

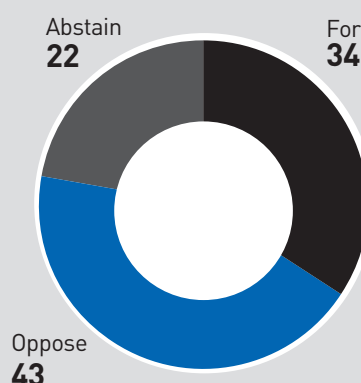
**Votes on remuneration policy, Q4 2019**



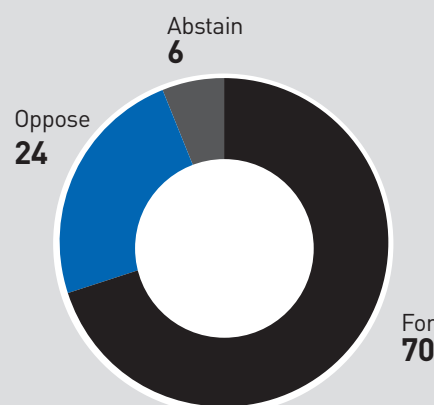
**Votes on remuneration reports, Q4 2019**



**Auditor appointments, Q4 2019**



**Director elections, Q4 2019**



### Some high votes were recorded against directors in Q4 because of concerns about independence, and there were several on executive pay too.

NLGPS voted at 339 meetings this quarter and supported numerous shareholder resolutions that – as we reported earlier in this report – saw us extend our influence overseas. Our responsible investment adviser PIRC engaged with 91 companies in relation to meetings in the quarter, in addition to its wider shareholder engagement.

#### Director elections

In Q4 NLGPS voted in favour in the majority of director elections. We voted for in 70% of cases, opposing in 24% of elections, while we abstained for 6% of the votes.

Of the more interesting cases, we opposed six directors proposed

by US-domiciled **News Corporation**. We were in the minority of shareholders in our opposition in every case, and on each occasion, we identified the lack of independence as the reason to oppose. By way of example, we were against the appointment of James Murdoch as non-executive since he is the son of Rupert Murdoch, the Executive Chair of the Company, who is also the controlling shareholder. In addition, he has served on the Board for over nine years. We also opposed the appointment of Peter Barnes as lead independent director since his nine-year tenure at News Corp means he too lacks independence in our view.

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

There was also a demonstrable lack of independence from **JD Wetherspoon** in its proposals for two non-executive directors. Just 12% of shareholders voted against the re-election of Sir Richard Beckett and Debra van Gene should be re-elected as directors since – in our view – they lack independence due to lengthy tenure. Eighty-seven percent were in favour and just under 15% abstained.

Joining Wetherspoon and News Corp in proposing non-executives we believe lack independence was **MJ Gleeson**. The company proposed re-electing Christopher Mill, but we opposed on the basis that he is also the founder of the

fund that is managed by the company's largest shareholder, Harwood Capital LLP. Mills has an attendance record of less than 90% for both Board and Committee meetings and he received a significant number of oppose votes of 14.42% at the 2018 AGM which has not been adequately addressed. Mills re-election was passed with 82% of votes in favour and 18% against.

NLGPS also opposed the re-election of Sir David McMurtry and John Deer as **Renishaw's** executive chair and executive vice chair respectively. More than three-quarters of shareholders were in favour of the re-election while 22% opposed in both cases. Less than 1% abstained. Our opposition was based on the fact Deer and his wife own 16.8% of the issued share capital thanks to a long-standing voting agreement with McMurtry. Further it is a good practice for the Chair of the Board to be independent from the Company's management team, and an executive position is at odds with this.

The same story played out in our opposition to the election of John Tutte as executive chair of **Redrow**. As with Renishaw, we believe that the chair position is incompatible with holding an executive role. Thirty-one per cent of shareholders joined us in voting against the resolution, while 68% were in favour. Just under 1% abstained.

#### Executive pay

Rarely out of the headlines, the issue of executive pay remains important to NLGPS. We voted to oppose 51% of resolutions on remuneration policy, voted for 26% and abstained in 23% of votes. In terms of remuneration reports, we voted in favour of 29%, opposed 51% and abstained 20% of the time.

Among our abstentions were **Kier Group** and **Redrow**. Kier's remuneration report met many of our expectations of disclosure, while the highest paid director is in the median of the peer comparator group. However, among our

## Q3 VOTING & ENGAGEMENT REVIEW

concerns were the inclusion of health and safety targets in annual bonuses, when ensuring the health and safety of colleagues should be a bare minimum. The report did not pass following an opposition vote of 53% versus 46% in favour. Just over 1% abstained.

We also abstained on Redrow, which had already faced our opposition on the election of John Tutte as executive chair. Tutte's ratio of his pay compared to average employee pay stood at 24:1. The report was passed with 69% of the vote, 30% opposed and less than 1% abstained.

Excessive pay was among the reasons to oppose changes to remuneration policy at several meetings. Among those was **Bovis Homes** which did not disclose

quantified targets or performance criteria for its variable remuneration component, which could lead to overpayment against underperformance. The policy was passed with 65% in favour and 35% against.

Concerns about excess also prompted our opposition to **Ferguson's** remuneration policy. The total potential awards under all incentive schemes could amount to 500% of base salary for UK executive and 700% of base salary for US executive. The policy passed with 70% of the vote.

Changes to the **Whitbread** remuneration policy also look excessively generous. The company proposes changing the long-term incentive plan to a restricted share plan. The total

potential awards under all incentive schemes are considered excessive at 325% of salary. Seventy percent of shareholders approved the policy while 30% opposed.

More excess this time from the **City of London Investment Group's** remuneration policy that proposed bonus caps of 250% of salary. In addition, awards under the incentive schemes do not have performance conditions and targets, contrary to best practice. Just 16% of shareholder votes were in opposition compared with 84% in favour.

### Shareholder resolutions

Demonstrating our commitment to promoting a global presence, NLGPS supported several resolutions in Australia, with a very real focus on climate change and – in accordance with our responsible investment policy – worker rights.

We voted in favour of introducing an independent chair rule at technology company **Parker Hannifin**, **Sysco Corporation**, **Norton LifeLock**, and **Oracle**. We also supported motions for the separation of CEO and chairman roles at **Cisco Systems**.

Meanwhile at **Qantas** and **Coles** we supported resolutions designed to protect human rights. Finally, at **Cintas** we supported a resolution encouraging transparency on political donations.