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NORTHERN LGPS STEWARDSHIP REPORT Q4 2024

FOCUS Q4: CLIMATE TARGETS

Assessing climate targets at European banks

Achieving net-zero emissions and mitigating the most severe consequences of climate change necessitates a fundamental transformation of the global economy. Banks, with their extensive resources and global influence, are widely recognised as essential to financing the energy transition. These financial institutions have a direct stake in effectively managing climate-related risks, as they face potential exposure to stranded assets as well as increasing pressure from investors and regulators in markets prioritising climate action. In addition, advancing the green economy and pursuing green finance goals present new opportunities for sustainable revenue generation.

However, many banks are falling short of their potential according to ShareAction's 2024 report, 'Mind the Strategy Gap', which analyses targets at 20 of the largest European banks. The report highlights that there is a significant disconnect between the two types of targets set by banks, decarbonisation targets and sustainable finance targets. While decarbonisation targets focus on reducing emissions within financing portfolios, sustainable finance targets aim to increase funding for green and transitional activities. Yet, these goals are often poorly linked, undermining their overall effectiveness. In many cases, sustainable finance targets are not explicitly tied to sector-specific investment needs, such as renewable energy infrastructure, leaving stakeholders uncertain about their real-world impact.

Decarbonisation and sustainable finance targets each play a unique role in a banks transition to net-zero. Decarbonisation targets outline what the bank plans to do, while sustainable

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finance targets explain how they plan to do it. Although these two types of targets serve different purposes, they should work in tandem, as sustainable financing drives decarbonisation. However, this does not appear to be the case.

Alarmingly, only 13% of sustainable finance targets assessed by ShareAction, are supported by a clear methodology, in stark contrast to the robust frameworks typically applied to decarbonisation goals. A lack of transparency about how targets are calculated or their relevance to overall financing activities makes it difficult to assess whether they will deliver the necessary shift from polluting industries to sustainable ones.

To drive real progress, banks should look to adopt a more joined-up approach. Decarbonisation and sustainable finance goals need to be aligned, with harmonised timelines and consistent sectoral coverage. Banks that integrate these targets effectively, combining portfolio-wide objectives with sector-specific decarbonisation strategies, set a strong example for how to make these goals actionable.

DECARBONIZATION TARGETS: are set to mitigate climate risks and reduce negative impacts. They include targets to reduce emissions in financing portfolios and financing for polluting activities.

SUSTAINABLE FINANCE TARGETS: are set to capture climate opportunities and deliver positive impact. They include targets to increase financing for activities that are already green and those that are transitioning towards a greener business model.

To maximise their impact, financial institutions will need to go further. Linking sustainable finance initiatives directly to decarbonisation efforts, improving disclosure practices, and prioritising investments in enabling infrastructure, such as energy grids, are essential steps. Adopting comprehensive sector policies to ensure environmental and human rights standards are met is equally important. By taking decisive action, banks can unlock financial opportunities, mitigate material risks, and lead the way in achieving a net-zero future.

During Q4, PIRC engaged with five of the largest European banks on behalf of Northern LGPS to assess their sustainable finance targets and their banking activities. In our engagement, PIRC examined the banks exclusion policies, transparency on their methodology and the real-world impact of their targets.

ENGAGEMENTS:

BANCO SANTANDER SA

Overview: Banco Santander, S.A., commonly known as Santander Group, is a leading Spanish multinational financial services company with dual headquarters in Madrid and Santander, Spain. Founded in 1857, it has risen to become the 19th largest bank in the world. The Santander Group operates across diverse financial sectors, providing a comprehensive range of services, including retail banking, corporate banking, investment banking, and asset management.

Issues: Santander has taken steps toward setting net-zero targets and promoting green finance, but significant gaps remain in its climate strategy. Key high-emission sectors like agriculture, cement, and chemicals are yet to have specific decarbonisation targets, and the absence of portfolio-wide absolute emissions reduction goals undermines its overall approach. The bank also falls short in addressing Scope 3 emissions and capital market activities in its financed emissions, limiting its ability to fully account for and manage its environmental risks and impact. Santander's fossil fuel policies, particularly for oil and gas, lack ambition with no exclusions for new projects or a clear phase-out plan. The bank does not require high-emission sector clients to disclose comprehensive Scope 1, 2, and 3 emissions or to present transition plans aligned with the 1.5°C target, leaving critical accountability gaps. All such gaps pose potential material climate-related financial risks to the company and investors.

Engagement: During PIRC's engagement call with Santander Group on green finance policies, the company outlined its net-zero strategy, which includes setting decarbonisation targets across key sectors guided by quarterly materiality assessments.

Santander has already mobilised €120 billion in green finance ahead of its 2025 target and aims to raise an additional €100 billion by 2030, focusing on initiatives that support client transitions through tailored products. The bank's strategy is shaped by its membership in the Net Zero Banking Alliance and its internal taxonomy (SFICS - Sustainable Finance & Investment Classification System).

PIRC highlighted the need for a portfolio-wide emissions target to ensure absolute reductions and requested called for more defined exclusions in the oil and gas sector. In response, Santander detailed its aim to reduce absolute emissions from its oil and gas portfolio by 29% by 2030 and its exclusion of project financing for new oil upstream greenfield projects. The bank also noted restrictions on financing projects north of the Arctic Circle and avoidance of involvement in tar

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sands, fracking, or coal bed methane extraction.

However, PIRC stressed the importance of adopting a comprehensive phase-out policy for fossil fuels. PIRC also stressed the importance of internal carbon pricing and the need for climate and green finance strategies to encompass all business areas including capital market activities in addition to direct lending. Santander's representatives acknowledged these expectations, stating they would consider them while balancing economic implications.

Outcome: The company was receptive to shareholder expectations that enhance its green finance strategies. However, the company responses revealed gaps in the breadth and depth of its climate and green finance strategy. The absence of a portfolio-wide emissions reduction target weakens its ability to ensure absolute emissions cuts across all sectors. Additionally, while the bank's oil and gas restrictions are a step forward, they remain narrowly focused on project-specific exclusions and lack a comprehensive phase-out plan comparable to some of its peers.

SWEDBANK AB

Overview: Swedbank, headquartered in Sundbyberg, Sweden, is a leading financial institution with a strong presence across Sweden, Estonia, Latvia, and Lithuania. The bank serves approximately 7.4 million private customers and 553,000 corporate clients. As of the end of 2023, the bank reported total assets of $283.55 billion and a market capitalisation of $22 billion.

Issues: In line with the Net Zero Banking Alliance framework, Swedbank has set interim decarbonisation targets for six of its most material sectors. However, unlike some peers, it has not set an absolute interim decarbonisation target across its overall portfolio. Given that most of the sector targets operate on an intensity basis, there is a concern that they will not be adequate to ensure the bank is on a Paris-aligned trajectory. There was also some concern over the robustness of the bank's oil and gas expansion exclusion policy, given that it only excluded companies with over 5% revenue from expansion. Since no revenue is generated from exploration or expansion activities, it was considered that the threshold would not exclude finance to companies involved in these activities in practice. There was also some concern over whether the bank had an adequate policy on lending to clients linked to deforestation, given that it has a material exposure to the agriculture and forestry sectors. Finally, while the bank has set a target to triple its sustainable finance to SEK 330 billion by 2027, like many other banks it has not disclosed a methodology for how it came to this figure relative to its transition plan requirements.

Engagement: On 5th December 2024, PIRC met with Swedbank to discuss the company's approach to climate change and green finance. In response to PIRC's concerns over the robustness of their oil and gas expansion exclusion, the company explained that it had very recently updated their policy to block financing to all clients involved in exploration and production, acknowledging that its previous policy with a 5% revenue threshold had been inadequate.

They also noted that power generation companies are required to set a 1.5°C-aligned transition plan. Regarding the lack of a high-level interim decarbonisation target, the company was open to the suggestion and was planning to set more targets in the future. However, they noted the need to consider the nature of the residual emissions not covered by their sector targets. Unlike other banks with a larger corporate portfolio, they noted that they were more focused on lending to the small-to-medium enterprise sector, which does not have complete data on its emissions.

On deforestation, despite their agriculture and forestry exposure, the company noted that it lacked large corporate clients with significant overseas value chains in this industry, meaning that its impact on deforestation was more limited. Nevertheless, they said that they were starting to set requirements on deforestation.

Finally, regarding the lack of a methodology for determining the volume of its sustainable finance target, the bank explained that it did not want to draw a one-to-one relationship between this target and its decarbonisation targets, rather it is intended as one contributing factor. They said that the targeted amount was determined through a 'bottom-up' approach with each business unit determining its own potential sustainable finance capacity.

Outcome: Swedbank's efforts towards making its oil and gas exclusion policy more robust is welcomed. As a priority, PIRC expects Swedbank to address the concerns over data quality to ensure that an interim absolute decarbonisation target can be set. It is crucial for Swedbank to set absolute targets in order to ensure that absolute emissions are reduce in line with the banks Paris commitments. On the methodology for the sustainable finance target, the bank would benefit from looking to peers such as Barclays who consider their potential share of the projected future sustainable finance available globally when calculating targets. While the bank may not be willing to draw a direct link between its sustainable finance and decarbonisation targets, disclosing such a methodology would reassure investors than targets are as ambitious as possible.

BBVA SA

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) is a multinational financial services company with headquarters in

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Bilbao and Madrid, Spain. It offers retail, wholesale and investment banking services and has significant assets in Spain, Mexico, Turkey and South America.

Issues: BBVA has 2030 decarbonisation targets for most of the priority sectors identified by the Net Zero Banking Alliance, including oil and gas, coal, and steel; and is in the process of setting targets for their remaining priority sectors. The other core element of its climate strategy is a target to mobilise €300 billion of sustainable finance by 2025; of which €205 billion has been achieved so far. This includes both investments for inclusive growth and for climate, but they note that 78% of the sustainable investments so far are climate-related. The company has not disclosed a clear methodology for determining the target figure, in terms of historical impact or a 1.5-aligned pathway.

BBVA has also not disclosed a taxonomy of which activities are in scope of their targets or the impact of their financing(for example on the renewable capacity installed). In terms of addressing their coal investments, the company has a target to exit coal by 2030 in OECD countries and 2040 in non-OECD countries. However, there were concerns that the company continues to have a significant minority of its coal investments in companies failing to manage their transition.

Engagement: On 20th November 2024, PIRC met with BBVA to discuss its approach to climate finance. The company emphasised that although climate finance is already a core focus, BBVA plans to further drive business growth through green ventures.

PIRC asked about the company's €300 billion climate finance target, and whether they would improve disclosure of the methodology and impact. The company highlighted that it had twice already increased this target and expressed openness to disclosing the methodology it used to determine the figure. The company argued that their impact would be best reflected by the achievement of their decarbonisation targets. They also cited the example of a hydrocarbon major which had drastically increased its focus on climate due to the bank's direct engagement over recent years. PIRC expressed that it would like to see the company disclose its internal taxonomy for green finance eligibility, and BBVA indicated they would take this into consideration for future reporting. On the company's investments into coal companies without a transition plan, the company said that it would do 'whatever it takes' to meet its target to leave coal by 2030 and 2040, and noted that they had already divested from some clients without transition plans. They argued that the long-term 5-10 year nature of some financing arrangements meant that it would take time to fully align their portfolio. On the question of setting a high-level intermediate absolute emissions target, the company explained that its focus was on setting targets for the remaining Net Zero Banking Alliance priority sectors, which would result in around 80% of the company's financed emissions being accounted for.

Outcome: PIRC welcomed the company's openness to improving its disclosure on its sustainable finance targets. To mitigate investor concerns about the company's fossil fuel investments, PIRC would like to see the company complement its Transition Risk Indicator tool for assessing client transition plans with a formal requirement that fossil fuel clients set a Paris-aligned transition plan. In addition, although the priority sectors for which the company has set interim targets cover the company's most material emissions, many of these targets are set on an intensity basis. To ensure that its overall emissions decline in line with a 1.5-aligned trajectory, the bank should look to peers such as Nordea in setting a high-level interim target for financed emissions on an absolute basis.

NORDEA BANK ABP

Overview: Nordea Bank Abp is a financial service group operating across Northern Europe headquartered in Helsinki, Finland. The company's four business areas are Personal Banking, Business Banking, Large Corporates and Institutions and Asset & Wealth Management. The bank is the result of the successive mergers and acquisitions of the Finnish, Swedish, Danish, and Norwegian banks of Merita Bank, Nordbanken, Unidanmark, and Christiania Bank og Kreditkasse that took place between 1997 and 2001.

Issues: Nordea is one of the few banks that have set absolute portfolio-wide interim targets as well as sectors-specific targets for high priority sectors. Despite this, there are concerns that the bank is continuing to make new investments in fossil fuel companies expanding production. It has a target for 90% of large corporate clients to have a transition plan, though it was not clear how strong an expectation this is in practice. It has also set a target of €200 billion in sustainable finance by 2025. While this is a welcome commitment, there are areas where it could be more robust and better linked to its broader decarbonisation strategy. Specifically, the bank could disclose its methodology for how it determined the €200 billion figure in relation to its decarbonisation targets; and the bank could better disaggregate the target by sector, in order for investors to understand the nature of the bank's impact.

Engagement: On 29th November 2024, PIRC met with Nordea to discuss its policies on climate finance. The bank emphasised its achievements, both in terms of its target setting and in reducing its exposure to oil and gas exposure by 75% since 2019.

PIRC asked the company to disaggregate its sustainable finance target

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Oil gas north sea installation

by sector, so that stakeholders can better understand how it fits in with the banks broader decarbonisation strategy. The bank expressed openness to this possibility, given that its targets were due for renewal in 2025.

On the target for 90% of corporate clients to have a transition plan by 2025, the company confirmed that this only required the client to set basic emission targets, without assessment of the targets' Paris-alignment. PIRC questioned whether this meant the bank was continuing to invest in oil and gas companies currently expanding production. The company argued that all oil and gas companies are technically expanding in order to continue producing hydrocarbons, and therefore it was not possible for them to exclude those expanding production. The company also cited challenges with energy security in the current geopolitical and macroeconomic context. PIRC expressed concerns that this would leave the company misaligned with the Paris Agreement.

Outcome: The company's openness to further disaggregate its sustainable finance targets is welcomed. However, concerns remain regarding its insufficient fossil fuel finance policy, which risks leaving the company with exposure to stranded assets and misaligned with the Paris Agreement. Notably, peers like Swedbank have successfully excluded oil and gas companies involved in production expansion, demonstrating that such exclusions are both practical and achievable, contrary to the company's claims.

MEDIOBANCA SPA

Overview: Mediobanca is an investment bank headquartered in Milan. It offers Wealth Management, Consumer Banking, Corporate & Investment Banking and Insurance services.

Issues: While the company does not have a large exposure to direct fossil fuel investments, it faces risks related to its investments in other highly emitting sectors such as chemicals and transportation. The company's climate finance targets are limited to a goal to increasing its ESG linked bonds to 40% of the total by 2026. Given the opacity of the criteria used to assess ESG, it is difficult for investors to assess the target's contribution to its overall climate transition plan. In addition, to reduce the material climate-related risks it faces, the company would benefit from setting targets that cover forms of financing, such as capital markets facilitation. The company stated its intention to enhance its climate and environmental due diligence process, but it was not clear how robust this will be.

Engagement: On 10th October 2024, PIRC met with Mediobanca prior to its AGM and discussed climate finance and proxy issues. The company emphasised that despite some peers leaving the Net Zero Banking Alliance (NZBA), they intend to continue their participation and has set targets to reduce financed emission intensity in NZBA priority sectors.

The company outlined that their philosophy was to help their clients on their transition pathway, rather than divest; adding that it is their desire to support a just transition and not 'leave anyone behind'. The company does however have a target to divest from coal by 2030. The company clarified that their remaining investments in coal were not project finance for specific coal projects, but corporate finance for companies with very small shares of their operations in coal.

PIRC asked the company about targets to increase green finance, noting that while their target on increasing ESG bonds was welcome, it would be preferred to have a target to increase climate-related investments specifically. The company noted that it did not have such a target, as it was largely led by demand, and there currently being a scarcity of green assets available. However, it was open to considering such a target at the end of its current target window in 2026.

PIRC also enquired about the nature of the company's plans to increase climate-related due diligence, and whether it was engaging with affected stakeholders as part of this due diligence. They said that their due diligence primarily consisted of gathering data from investee companies and use of third-party ratings and were only at early stages of beginning to engage with affected stakeholders as part of this process.

Outcome: The company's continued commitment to the NZBA and reducing its financed emissions is welcomed. The openness to setting climate finance targets was also welcomed but it should adopt greater urgency in setting such commitments: it is behind many peers in doing so. Delaying such a commitment until 2026 will put the company at a disadvantage while its peers seize the available climate financing opportunities.

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Workers at a Garment factory in Gazipur, Bangladesh

EMPLOYMENT INJURY SCHEME

In 2022, the Bangladesh Government, the ILO and the German Social Accident Insurance launched the Employment Injury Scheme Pilot (EIS). This initiative aims to protect workers and their families in Bangladesh's Ready-Made Garments (RMG) industry from the financial hardship caused by workplace accidents and occupational diseases.

Before the pilot scheme was implemented, Bangladesh lacked a system for compensation payments for work-related injuries. The pilot seeks to strengthen and equip Bangladesh's Central Fund, the national institution responsible for providing workers with benefits in cases of a work-related injury. These benefits, aligned with international standards, include income replacement, medical care and rehabilitation services.

The scheme currently relies on financial support from global brands operating supply chains in Bangladesh's RMG industry. These contributions, equivalent to approximately 0.019% of the total value of their orders in Bangladesh, help bridge the gap between the minimum benefit levels required by international law and those required under national law.

Issues relating to worker welfare have the potential to be financially material to investee companies. For some, reputational risk can be significant particularly where the company has a well-known brand, and consumers may react negatively where practice falls short of expectations. More generally with human rights due diligence by companies mandated in several jurisdictions, the legal responsibilities of business are being further clarified. PIRC believes expectations of companies in this area will only grow in future both, particularly in the ready-made-garment industry, on the part of consumers and on investors assessing performance on ESG factors across their portfolios. Therefore, the EIS initiative addresses the high material significant risks association with human rights violations in brand supply chains, highlighting the need for a strong and proactive response from investors.

Engagement: In May 2024, PIRC facilitated a webinar for investors, representatives from the ILO, and signatory brands, to provide an overview of the EIS scheme. The discussion focussed on how brands are responding to the scheme and how investors could support its continued implementation.

PIRC has sent letters to focus companies reiterating the goals of the pilot and setting out its expectations as it relates to the fundamental rights at work.

Outcomes: During Q4 of 2024 the scheme expanded its coverage to include commuting incidents, marking an important step forward. The pilot also recorded the highest number of cases paid out since its inception. To date, several major brands including Amazon,

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H&M, Carrefour, Primark, PUMA, Tesco, have committed to supporting the scheme. Notably, Marks & Spencer and HUGO BOSS recently became signatories to the pilot, following extensive engagement by the project team and PIRC. This development represents a positive and encouraging milestone for the initiative. The funding level has now reached 34% of the 50% threshold needed to sustain the scheme in the near term.

Looking ahead, PIRC plans to re-engage with two additional target companies, ASOS and Loblaw. We initially spoke with both companies in Q1, during which they expressed an interest in the scheme.

Greggs bakers shop, London

LIVING WAGE ENGAGEMENTS

Overview: PIRC has been engaging with 11 companies on the real Living Wage (RLW), as part of the Good Work Coalition. The RLW is the hourly rate necessary for workers to afford housing, food, and other basic needs. The new RLW rates for 2024/25 are £12 per hour in the UK (up from £10.90) and £13.15 per hour in London (up from £11.95).

Issues: Covid-19 shone a light on the vulnerability of those with low-paid and insecure work. Since late 2021, the prices for many essential goods in the United Kingdom began increasing faster than household incomes, resulting in a fall in real incomes. According to ShareAction, 20% of part-time workers and 10% of full-time workers are living in poverty in the UK. Low pay also has implications for companies and investors, with implications for staff turnover, employee engagement and productivity levels.

For investors, low pay and insecure work in the UK also poses a systemic risk. These issues undermine long-term business success and weaken the social and economic systems that support sustainable investor returns. Ensuring that all staff, including directly employed and contracted workers, are paid at least a RLW would significantly improve the living standards of hundreds of thousands of retail employees while safeguarding the long-term interests of investors.

Engagement: As part of the Good Work Coalition, in Q4 the investors met with M&S, Kingfisher, Ocado and Greggs, who provided insights into their pay strategies and the challenges they faced.

M&S is in the process of planning its 2025 pay review. The retailer will have to balance inflation, market trends and cost pressures including a £60million impact from National Insurance changes. While M&S base pay continues to align with the real Living Wage, the company are unable to guarantee pay parity for third-party contracted staff.

Kingfisher reiterated its preference for a holistic reward approach over Living Wage accreditation. Despite a £37 million impact from the National Insurance changes, the company aims to maintain competitive pay, citing improved recruitment and retention. Oversight of third-party contractor pay remains in place.

Ocado provided limited updates, confirming that there have been no significant changes in pay practices since the last meeting. The retailer will follow up on contracted cafeteria staff pay parity and agreed to a future meeting.

Greggs highlighted the measures it has put in place since the last meeting with the coalition, such as the assessment of paid breaks, and the establishment of a working group with BFAWU to explore the feasibility of regional pay weighting. While the group concluded not to proceed at this time, Greggs remains open to revisiting the RLW.

These engagements underscored the ongoing challenges and complexities of aligning pay practices with real Living Wage standards while addressing cost pressures and market dynamics.

Outcomes: Since initiating engagement with these companies in 2022, progress in securing their commitments to providing workers with the RLW has been limited.

As the next step, the coalition is considering various escalation strategies, including attending company AGMs to directly question the board on their reluctance to commit to fair pay and/or filing shareholder resolutions requesting third party assessments or pay structures. Shareholders have several tools at their disposal to demonstrate escalation and PIRC has already taken such action and escalated at NEXT Group plc on behalf of a Northern LGPS fund by co-filing a shareholder resolution calling for the payment of the Real Living Wage and improvements in pay practices.

DECENT WORK

AMAZON

Issues: PIRC has collaborated with a group of investors to engage with Amazon regarding its approach to freedom of association and collective bargaining rights since 2021. This engagement stems from ongoing allegations of anti-union activity. While Amazon publicly asserts its

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Amazon workers picket outside the gates of an Amazon Fulfillment Center

commitment to respecting the Core Conventions of the International Labour Organisation and the ILO Declaration on Fundamental Principles and Rights at Work", as well as workers' rights to join or form a union "without fear of reprisal, intimidation, or harassment", its actions in response to union organising efforts have not appeared aligned with these stated commitments.

Amazon workers at several Southern California facilities, along with others in Illinois and New York, have voted overwhelmingly to authorize strikes following the company's refusal to recognise their union or negotiate contracts. The Teamsters union, representing thousands of Amazon workers nationwide, has accused Amazon of subjecting employees to low pay, unsafe conditions, and union-busting tactics, including denying its status as the employer for many workers.

Union leaders highlight Amazon's refusal to negotiate despite a December 15 deadline, warning of potential large-scale labour actions that could disrupt operations during a critical period. Workers cite the need for fair pay, improved benefits, and safer conditions, with some noting the pivotal role their facilities play in Amazon's supply chain.

Furthermore, the company is settling a legal claim brought by a group of delivery drivers alleging the company denied them employment rights. The drivers, classified as self-employed through Amazon's "Delivery Service Partners" (DSPs), argued they were entitled to benefits such as holiday pay and minimum wage due to Amazon's control over their working conditions. Drivers reported being bound by strict app-imposed delivery schedules and incurring additional costs, such as extra fuel, with minimal earnings after expenses. While settlement details remain undisclosed, payouts—potentially in the tens of thousands per driver—are expected, barring future claims against Amazon.

Most recently, at a committee hearing in UK parliament on December 17th 2024, the HR Director at Amazon Logistics and the HR Director at Amazon UK and Ireland, appeared unable or unwilling to explain why their workers were striking. This occurred amidst escalating industrial action at the Coventry warehouse, where workers have repeatedly demanded better pay and conditions. The lack of clarity from the representatives has further suggested Amazon is out of touch with its workforce and unwilling to address fundamental concerns. The video of the committee meeting underscored the seeming disconnect between Amazon's management and its employees' grievances.

Outcomes: In Q4 PIRC assisted all three Northern LGPS funds in co-filing a resolution calling for a review of the company's approach to Freedom of Association and Collective Bargaining. The resolution is expected to go to vote at the company's AGM in May.

A striking feature of the US labour relations system is the unreasonably long time it can take between workers voting to unionise and successfully bargaining a first agreement. Whilst inevitably the process can be complicated it is apparent that some companies apply a similarly oppositional approach to bargaining as they do to union elections. Therefore, PIRC is collaborating with a group of likeminded investors to agree expectations of collective bargaining in order to be able to identify and challenge companies that are falling short.

STARBUCKS

During the last quarter of 2024, PIRC continued its engagement with US companies over Freedom of Association and Collective Bargaining rights. The engagement with Starbucks continues as, despite progress in bargaining between the company and Starbucks Workers United, no agreement had been reached by the end of 2024. The first Starbucks store that voted to unionise as part of the current wave of union activity did so in December 2021.

In November, PIRC joined a collaborative meeting with Starbucks CEO Brian Niccol during which the group expressed support for the company's constructive approach to working with the union. PIRC particularly emphasised the need for the company to uphold its policy commitments in all markets. Regrettably in December the bargaining process broke down over economic issues – largely pay. The union accuses the company of bargaining in bad faith and not making reasonable proposals and has filed an unfair labour practices charge. The company in turn argues the pay demand is unsustainable. As a result of the impasse, Starbucks workers across the US went on strike at the end of year. PIRC will be working with other Starbucks investors to encourage a return to bargaining and the signing of an agreement that is acceptable to management and workforce.

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HELLO FRESH:

Overview: HelloFresh SE is a global leader in the meal-kit industry, offering customers a convenient way to prepare home-cooked meals using pre-portioned ingredients. It began as a startup in Berlin, Germany and has grown into a business now operating in 18 countries.

Issues: HelloFresh has clashed with workers at its Nuneaton facility. The confrontation began in September 2024 after Muslim employees were allegedly denied prayer breaks. HelloFresh claims the issue was due to employees refusing to work. Following an internal investigation, 79 employees were dismissed in October for what HelloFresh describes as "serious breaches of employment terms". However, the Community Union, with whom HelloFresh do not have a collective bargaining agreement in place, argues the dismissals targeted workers who had been involved in the aforementioned dispute.

The Community Union organised a protest in Birmingham in response, claiming employees faced unfair treatment and lacked a safe environment to raise concerns. HelloFresh asserts it provides generous break policies and has tried to engage constructively with the union and its members. The situation intensified further on October 30th when HelloFresh announced the closure of the Nuneaton facility, placing nearly 900 jobs at risk.

Engagement: The Head of Investor Relations outlined the circumstances surrounding the dismissal of 79 employees, stating that the issue stemmed from an unsanctioned strike by a group of night-shift workers, which included HelloFresh and agency employees. According to HelloFresh, the strike was reportedly organised by an external union in response to alleged discrimination and denial of bathroom and prayer breaks, claims which HelloFresh disputes.

Dismissals and Labour Dispute

HelloFresh stated that it conducted a rigorous investigation involving CCTV review, employee interviews, and a union consultation. Following a formal appeals process, HelloFresh concluded that the dismissals were critical to maintaining a respectful workplace and stated that disruptions to operations warranted investigation and action. In total, 110 people were investigated, leading to 79 terminations, which the company believes will not materially affect their UK operations. HelloFresh's decision is supported by legal advice and extensive documentation.

Workers have filed to appeal their dismissals in court – PIRC asked to be updated on this.

Structural Adjustments and Streamlining Operations:

In response to decreased demand for meal kits since the pandemic, HelloFresh shared its plans to consolidate its global production footprint. This includes potential closures of underperforming sites, with a particular focus on more automated facilities to improve productivity. The goal is to reduce fixed costs while shifting production to high-efficiency centres. PIRC asked if there was any link between the dispute at the Nuneaton facility and the decision to close the site. The company insisted that the dismissals are in no way tied to mitigating costs in advance of the Nuneaton closure, noting that similar closures and repurposing efforts are underway in other regions including the US and Germany.

Workforce Engagement and Compliance

The meeting also addressed workforce engagement, with HelloFresh emphasising its mechanisms for employee feedback. They do not adhere to Germany's codetermination legislation as their business model being an SE gives them the option not to, but trust in their alternative methods such as a compliance hotline, quarterly surveys (now extended to distribution centre employees), and regular reporting on employee satisfaction and health and safety as part of ESG commitments.

HelloFresh stated that, while no union ballot has taken place in the UK, their approach focuses on employee engagement and meeting living wage expectations where possible. They are B Corp-certified and prioritize creating a positive workplace culture.

Strike Impact on Brand Equity

PIRC asked about any impact the recent negative media coverage has had on HelloFresh subscriptions. The company acknowledged the impact and noted the direct result being decreased social media marketing in the UK as a result. HelloFresh outlined that marketing efforts are being redirected to regions that meet their responsible investment thresholds, as the company aims to safeguard its brand reputation and operational efficiency amid these challenges.

Outcome: HelloFresh have since followed up, informing PIRC of the court's ruling in favour of the company. The ruling means that the court deemed that workers engaged in an unlawful strike. HelloFresh stated that the outcome affirms its handling of the matter, highlighting that the dismissals were conducted following a fair and thorough investigation which prioritised the safety and well-being of all employees. PIRC will continue to carefully follow the company and the closure of the Nuneaton site.

CLIMATE METRICS IN EXECUTIVE COMPENSATION

Background: Recent years have seen a surge in the adoption of climate-related metrics to determine the payout of executive bonuses. This shift has been largely driven by expectations from the responsible investment community, including the Climate Action 100+ investor group, as well as guidance from the Task Force on Climate-related Financial Disclosures. While this development reflects a welcome recognition of the critical link between climate action and long-term corporate success, the ability of such metrics to impact on executive behaviour remains unclear.

PIRC has recently carried out an analysis on the implementation of climate metrics at major European companies in the Climate Action 100+ group. It found very wide range of metrics used to measure climate action, including relative and absolute reduction metrics, operational metrics, and qualitative metrics. While significant trade-offs and

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industry-specific factors influence these decisions, few companies provide an adequate rationale for their metric selection. This leaves a concern that some companies may cherry-pick their metrics based on what may portray them positively.

As with financial metrics, the average payout was very high, at 77.5% of the maximum opportunity. Notably, only 13% of climate metrics paid out less than half their maximum value, and just 4% resulted in no payout at all, making them a more reliable payout than financial metrics. This generates concerns that the climate metrics fail to place much risk on the executive, limiting their incentivising effect.

Another issue is in the low average weighting of climate metrics, which risks framing climate action as a secondary objective, rather than a crucial component of long-term financial success. However, reducing the weighting of financial metrics would inhibit shareholder alignment and could lead to generous bonuses in the event of financial failure. A possible solution to this trade-off would be to make the financial and climate targets interdependent in the vesting of bonuses, through a modifier or gateway mechanism.

In light of these findings, PIRC has engaged with several companies which have already adopted climate metrics to discuss these issues and explore opportunities to improve implementation. PIRC prioritised those companies where a climate metric paid out at the maximum level, to discuss how the metrics can remain sensitive to performance going forward. In addition, a few companies were engaged on the issue as part of regular discussions on their remuneration policies.

ENGIE S.A.

Overview: Engie is a French multinational electric utility company. It is engaged in electricity generation and distribution, natural gas, nuclear power, renewable energy and the petroleum industry.

Issues: The climate metric used in Engie's annual bonus paid out at the maximum level in the two previous years. Given that the company does not fully disclose these targets, it is difficult for shareholders to determine if the targets are adequately challenging. The company also uses some more qualitative climate targets, which have consistently vested at high levels, yielding further concerns over the level of rigour in the performance plan.

Engagement: PIRC queried the company's inadequate disclosure of specific performance targets and use of qualitative targets. The company noted that they are considering improving target disclosure, the issue having been raised by shareholders previously. Similarly, in response to PIRC's concerns that qualitative targets may be less challenging as they are less likely to vest at a low level, the company suggested that it was considering increasing the weighting of quantitative CSR targets relative to qualitative targets.

Finally, PIRC asked the company if it had considered making financial and climate targets interdependent, either through a 'modifier' or 'gateway' mechanism. The company explained that this had not been previously suggested to them and was not a common practice in France but expressed openness to the idea.

Outcome: The company's openness to several of PIRC's suggestions on improving disclosure and making targets interdependent was welcomed.

DANONE S.A.

Overview: Danone S.A. is a multinational food and beverage company headquartered in Paris. Its largest product areas include dairy and plant-based products, bottled water and infant nutrition.

Issues: As with Engie, Danone's annual bonus climate metric vested at the maximum level in the most recent year, suggesting a potential need to make the target more challenging. Danone also did not fully disclose the vesting curves for its quantitative climate targets, making it difficult to investors to confirm if the objectives are adequately challenging. Finally, unlike many peers, the company does not have a clawback mechanism over its variable pay schemes, limiting executive accountability in the event of misconduct.

Engagement: PIRC asked the company about the rationale behind how it designed its climate metrics, given the wide range of metrics used elsewhere in the market. The company said that the remuneration committee re-evaluates the relevance of performance criteria each year, considering feedback from shareholder discussions.

PIRC asked the company how it will ensure that the metrics are challenging and place sufficient risk on executives going forward. The company argued that the metrics must be difficult but reachable, emphasising that the targets are in line with their Science Based Targets.

To improve shareholder confidence on the robustness of the metric, PIRC asked the company if it would disclose the full vesting curve detailing the levels of performance required for threshold, target and maximum levels for its climate metrics. The company noted that while they do disclose the vesting curve prospectively for the climate metric in the long-term incentive, however they would not commit to doing the same for the climate metric in their short-term incentive.

Finally, PIRC asked the company whether it would introduce a clawback mechanism over its variable pay schemes in order to enhance executive accountability. The company noted that they had reviewed the compensation policy of peers and were aware that clawback mechanisms had been introduced elsewhere in France, however they were not willing to commit to introducing one themselves.

Outcome: The company failed to provide adequate explanation on how the targets were sensitive to performance or would remain stretching in light of previous outperformance, nor would they commit to improving performance disclosure.

TESCO PLC

Overview: Tesco plc is a British multinational groceries and general merchandise retailer headquartered in Welwyn Garden City, England. It operates stores in the United Kingdom, Ireland, the Czech Republic, Hungary and Slovakia. The company also owns Tesco Bank, Tesco Mobile, One Stop, Booker and dunnhumby.

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Issues: Tesco reached out to shareholders to consult on its proposed changes to its remuneration policy. Firstly, the company was considering an increase in proportion of ESG-related strategic metrics in its long-term variable pay package, from 25% to 50%. While the performance hurdles the company's climate metric are relatively well disclosed, the company's rationale for increasing the vesting level was not as clear, raising concerns that they could act as a hedge against financial underperformance.

Secondly, they proposed reducing the deferral period for executives' annual bonuses into shares if the shareholding requirement is met. They justified this as an effort to offer a more attractive compensation package in a competitive environment. However, this comes in the context of the CEO's pay reaching £9.9 million in 2024, almost doubling the previous year's outturn. The resulting pay ratio of 430:1 was the third highest recorded in the FTSE 350, according to the High Pay Centre.

Engagement: On its use of ESG measures in pay, the company explained that it chose three strategic measures on the grounds that they believe that they have a significant impact on Tesco and that the company is able to make a significant difference to them. They also ensured they are measurable and auditable.

PIRC emphasised the predominantly high vesting level of climate metrics, and questioned whether the climate metric was truly sensitive to performance, given the impact of market-level effects. The company emphasised that this was a matter of serious consideration, for example having had discussed whether it was appropriate to include Scope 3 emissions in the target. They also noted that they had done some of their own research, finding that ESG targets did not typically have a higher vesting level than financial targets. However, in line with PIRC's findings, they found that climate metrics were less likely to vest at both the top and bottom extremes than financial metrics.

PIRC also suggested making financial and climate targets interdependent, to reflect the interdependence of these goals. On the reduction of deferral periods, the company emphasised the 'emerging theme' of competitiveness in pay, considering their shareholding requirements as an area where they were 'harsher' than peers. Conversely, PIRC emphasised the importance of shareholder alignment and its opposition to loosening governance standards in pursuing competitiveness.

Outcome: The company was cognisant of PIRC's concerns on sensitivity to performance in the use of climate metrics. However, in light of the company's already-generous pay levels, PIRC remains sceptical of the need to loosen shareholding requirements to be more competitive.

LLOYDS BANKING GROUP PLC

Overview: Lloyds Banking Group is a London-based bank with a significant presence across England and Wales. Its three core divisions are Retail, Commercial Banking and Insurance, Pensions and Investments.

Issues: In the long-term incentive plan introduced last year, Lloyds has opted for a more holistic, qualitative measure of sustainable financing, contrasting with the directly quantified metric it previously used in its annual bonus plan. While in theory they may be holistic in nature, PIRC's finding that qualitative metrics have typically vested at a higher level than other metrics suggests that they may be less rigorous in practice. Alongside this metric, the company uses an operational emissions metric, despite operational emissions being relatively immaterial compared to the bank's financed emissions.

Engagement: PIRC raised some concerns that the move towards using more holistic but qualitative climate metrics in its long-term incentive plan could mean the metrics place less risk on the executive. The company stressed that the metric was also directly linked to more quantitative targets, which could be disclosed ex-post. However, they emphasised the long-term nature of the target and the potential impact of external market factors, meaning that it was important to incorporate a more qualitative assessment.

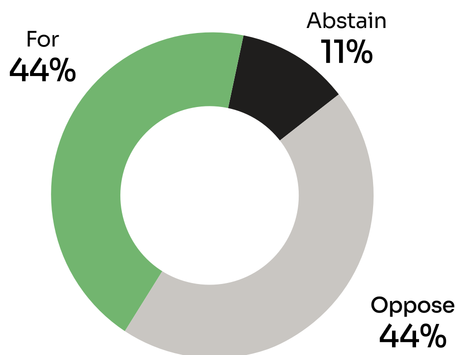
To demonstrate their balanced approach, they pointed out that in the most recent remuneration package, the remuneration committee applied downward discretion on the operational climate metric. This decision came after management acknowledged that market factors had made the target easier to achieve.

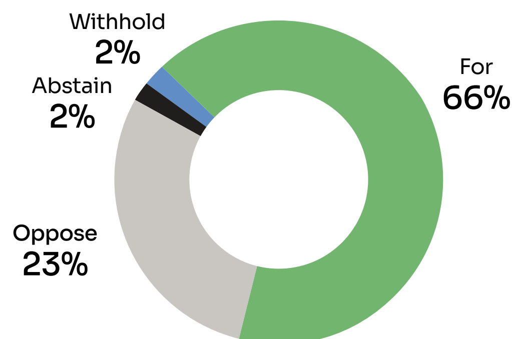
PIRC also asked if the company had considered making the financial and climate targets interdependent, in order to address tensions between climate alignment and shareholder alignment. The company said that it had considered this but believed that climate was already 'baked in' to their financial performance metrics. They also argued that this would force the company to use several ESG metrics as modifiers, reflecting the range of ESG goals they had, which could be too complex.

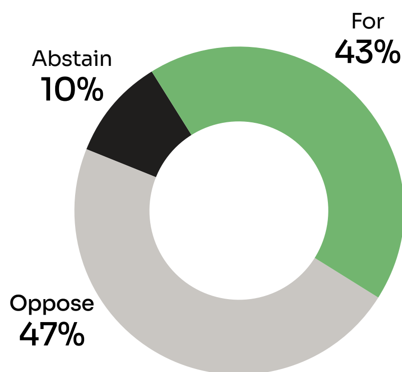
Finally, PIRC queried the company's methodology for selecting ESG topics to include in the pay package, given that they had incorporated the bank's relatively-immaterial operational emissions as a metric. The company explained that operational emissions was the first climate metric they had, having introduced it before its financed emissions target existed. They added that it had a relatively low weighting but would consider in the future whether to adjust the metrics further.

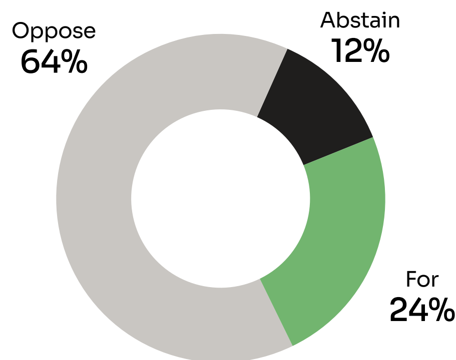
Outcome: PIRC welcomed the use of downward discretion, having previously stressed to the company the challenges with making ESG metrics sensitive to performance. There is evidence that the company has considered the challenges with making the climate metrics both holistic and sensitive to performance in designing its remuneration policy.

VOTING Q4









Q4 Engagements

Company	Domicile	Topic
AIR LIQUIDE SA	FRA	Climate Change
BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA)	ESP	Climate Change
BANCO SANTANDER SA	ESP	Climate Change
BARCLAYS PLC	GBR	Climate Change
BASF SE	DEU	Climate Change
BHP GROUP LIMITED	AUS	Climate Change
BP PLC	GBR	Climate Change
CAPITA PLC	GBR	Tax
DANONE	FRA	Remuneration
ENGIE SA.	FRA	Remuneration
FEDEX CORPORATION	USA	Social Risk
FERRARI NV	NED	Governance (General)
GREGGS PLC	GBR	Diversity Equity and Inclusion
KIER GROUP PLC	GBR	Social Risk
LLOYDS BANKING GROUP PLC	GBR	Remuneration
MEDIOBANCA SPA	ITA	Climate Change
NORDEA BANK ABP	FIN	Climate Change
OCADO GROUP PLC	GBR	Diversity Equity and Inclusion
SHELL PLC	GBR	Climate Change
SSP GROUP PLC	GBR	Diversity Equity and Inclusion
STARBUCKS CORPORATION	USA	Employment Standards
SWEDBANK AB	SWE	Climate Change
TESCO PLC	GBR	Remuneration
YARA INTERNATIONAL ASA	NOR	Climate Change