Northern LGPS Stewardship Report Q1 2023

Labour Rights and Risks

Greater Manchester/Merseyside/West Yorkshire

NLGPS votes for Decent Work

The experience of working through the Covid-19 pandemic, where many lower-paid and lower-status occupations carried much higher risk, and the current high inflation squeeze have focused more investor attention on the importance of decent work.

The question of how investors can encourage good employment practices, and challenge poor ones, plays out differently in different markets. However, a common thread is the importance of respecting rights at work. Here the conventions of the International Labour Organisation (ILO) are critical. Whilst the conventions must be ratified by states, the rights that they entail are given life – or not – through the interaction between employers and employees.

ILO core conventions, including those relating to Freedom of Association and Collective Bargaining rights, are embedded in other international standards, like the Global Compact, OECD Guidelines for Multinational Enterprises and so on. Importantly for investors, respect for ILO conventions is also fairly frequently part of companies own workplace and/or human rights policies.

Investors also cite ILO conventions, including NLGPS. Our RI policy states: “Companies should offer secure, direct employment where possible, and should not interfere with the right of their workforce to seek representation through a trade union. We will consider whether the actions of investee businesses are in accordance with ILO Core Conventions both in relation to their directly employed workforce and in their supply chain.”

Given the challenges faced by many workers both during Covid and the current cost of living squeeze, in a number of cases workers have sought to exercise the rights that ILO conventions encode by seeking to unionise and participate in collective bargaining. This has provided an opportunity to see just how committed companies are to the rights that they claim to respect.

The US has seen this issue play out in the public domain. There have been a number of high-profile labour disputes in recent years and, more notably, some successful union organising campaigns. However, despite the US having the self-described “most pro-union President” in the words of Joe Biden, there have been multiple and ongoing accusations of anti-union messaging, captive audience sessions, intimidation and summary dismissals at some of America’s largest companies. These include Apple, Starbucks and Amazon.

Both Greater Manchester Pension Fund (GMPF) and Merseyside Pension Fund (MPF) have been co-filers of shareholder resolutions, at Apple and Starbucks respectively, that have requested that the companies commission independent reviews of their own policies as they relate to freedom of association and collective bargaining. Both companies have faced accusations of breaching workplace rights and charges by the National Labor Relations Board (NLRB). Both also cite ILO conventions in their policies.

At Apple, positive engagement with the company led to the coalition withdrawing the resolution. This came as Apple announced it would assess its “efforts to comply with its Human Rights Policy as it relates to workers’ freedom of association and collective bargaining rights in the United States”. A letter was sent setting out expectations from the review, and there will be a meeting mid-year to check on progress.

In contrast, Starbucks did not seek to engage with the filers of the proposal, which went to its AGM in March and received a majority vote of 52% in favour from shareholders out of hand.

New CEO Laxman Narasimhan has the opportunity to rebuild confidence by ensuring a genuinely independent review is undertaken.

<u>Owen Thorne, Responsible Investment Manager, Merseyside Pension Fund:</u>

The Starbucks vote "is a huge signal from shareholders to the company. Starbucks seems to be in a position where management is in conflict with its own workforce . . . I urge the board to use the vote as an opportunity to reset its approach."

<u>Find It, Fix It, Prevent It</u>

Another issue of critical importance is that of modern slavery. Representing NLGPS funds, PIRC is supporting the CCLA initiative 'Find It, Fix It, Prevent It' that aims to bring the investment management industry together to push for meaningful, effective corporate action against modern slavery.

With labour shortages and workers being recruited from new overseas locations, the risk of modern slavery in company supply chains has increased in recent years. That brings all manner of legal, reputational and operational risks, and it is imperative that companies not only ensure their direct business is free of modern slavery, but that their supply chains are as well.

The CCLA initiatives has outlined three 'project streams' for investors. The first is public policy engagement, promoting a meaningful regulatory framework to tackle modern slavery. The second is developing better data, working with ESG data providers, academics and NGOs to identify and develop sources to help investors understand the scale of the issue.

Finally, there is corporate engagement, entering into dialogue with priority companies to help them develop and implement better processes for finding, fixing and preventing modern slavery. PIRC has entered into engagements with a number of companies, notably supermarkets, to better ascertain their understanding and commitments to tackling modern slavery.

<u>GLIL Update:</u>

Ted Frith, the Chief Operating Officer at GLIL, commented in a Financial Times story about the consequences of Liz Truss's premiership and the fallout from the liability-driven investment (LDI) crisis affected pension scheme investments.

"Even if you don't have LDI, the effects have forced managers to review the liquidity in their pension funds and, in some cases, made them more reluctant to invest in illiquid assets such as infrastructure." This means there is less funding being made available for the type of infrastructure spending the government desires.

Effective Engagement

Freedom of Association and Workforce Issues

Freedom of Association and Collective Bargaining in the US

Overview: Starbucks Corporation, Apple Inc, and Amazon.com, Inc have all come under fire for alleged breaches of workplace rights. These American giants have, despite their immense profits, been accused of union busting and other tactics to disrupt organised labour. These primarily relate to the US, but given the global nature of their operations, including in the UK, these allegations have financial and practical implications across their worldwide businesses.

Issues arising: During Q1 PIRC continued its participation in an investor group engaging US-listed companies over Freedom of Association and Collective Bargaining rights. Both the Merseyside Pension Fund and Greater Manchester Pension Fund, with the support of PIRC, co-filed shareholder resolutions calling for investigations into freedom of association at both Starbucks and Apple. LAPFF has also heard from Amazon workers on various investor calls about their concerns relating to the company's practices on freedom of association.

Engagement: The investor group continues to engage with Apple over its review of the application of its human rights policy, which will include freedom of association and collective bargaining. The company has chosen the legal firm to undertake the review, and whilst it does have human rights experience, the filing group has asked Apple whether it has adequate labour rights related experience and expertise. Additionally, PIRC has engaged with both the UK and US unions to hear about their experiences within Apple. In February the GMB signed its first collective agreement with Apple, having won recognition at its store in Glasgow.

At Starbucks the shareholder resolution was voted on at the company's AGM in March and received a 52 percent vote in favour. It is believed to be the first time that a resolution of this type has achieved a majority.

Outcomes and follow ups: There have been positive developments at both Apple and Starbucks. In both cases the companies appear to have taken the message from investors seriously. It will be important that the reviews are undertaken in a way that meets the expectations of those that filed the resolutions, and the filing group continues to monitor this closely. Engagement with Amazon has been more difficult, and significant concerns remain.

Migrant Child Labour

Issues arising: During Q1 a New York Times investigative report alleged that a number of high-profile US companies may be profiting from the use of suppliers illegally employing underage migrant children as young as 13. The report found serious breaches and/or blind spots in company controls and processes. The allegations pose serious legal, regulatory, operational, and reputational risks to the named companies and their long-term shareholders.

Engagement: PIRC was invited by the New York City Comptroller's office to sign a joint letter to companies named in the New York Times story. This letter requested that each company's board of directors immediately clarify both the steps it was taking with respect to the named suppliers, and the steps it was taking to identify other domestic suppliers that may employ child labour. LAPFF also co-signed this letter.

The letter spelt out the expectation that companies should hold their suppliers accountable, through supplier contracts, oversight, and/or codes of conduct. It also asked that companies expeditiously address the situation with appropriate corrective action, up to and including terminating supplier relationships. It also outlined concerns that the illegal employment of underage migrant children may be more widespread than the instances cited in the New York Times Report. As such the letter urged each company to conduct a risk-based assessment to identify any domestic suppliers that may employ underage migrant children.

Outcomes and follow ups: The New York City Comptroller is co-ordinating responses which have been received from Amazon, Berkshire Hathaway, Ford, General Mills, Hyundai Motor Company, PepsiCo, Target, Unilever and Walmart to date. Once all responses have been received assessments will be taken to determine what further engagement is required.

Royal Mail Dispute (now International Distribution Services)

Overview: Royal Mail plc was privatised in 2013 and is now part of the International Distributions Services group. The company is a provider of postal and delivery services and is the UK's designated Universal Postal Service Provider.

Issues arising: Since August 2022, 115,000 Royal Mail workers across the business including in delivery, processing and admin roles have taken part in industrial action, for a pay-rise and against changes to terms, conditions and the wider service. This has seen severe service disruption across the North and the country at large, hitting profits, disrupting deliveries, and pitting workers against management.

Engagement: PIRC hosted a webinar with the leadership of the Communication Workers Union (CWU) during which the union described the background to dispute and the impact that a deterioration in terms and conditions in the postal service could have on the delivery sector more widely. It was subsequently revealed that JP Morgan Asset Management had divested from the company because of concerns about profitability and the leadership's ability to reach an agreement that was satisfactory to all parties.

Outcomes and follow ups: An agreement has been reached in the dispute which is now subject to vote by CWU members. In May it was revealed that the CEO was likely to depart. PIRC will consider recommending clients vote against the leadership of the company at the forthcoming AGM depending on the situation at the time.

Cranswick

Overview: Cranswick plc is a good production company.

Issues Arising: FAIRR released a report looking at labour issues in the meat processing industry, and also runs a benchmark of companies which compares them on a range of issues including working conditions. PIRC has contacted a number of companies to discuss their scores in the benchmark, and Cranswick is the first to agree to a meeting.

Engagement: Cranswick scored 54/100 in the working conditions component of the FAIRR benchmark, with the weakest element of its score relating to freedom of association (no data on collective bargaining coverage is provided). PIRC encouraged the company to improve its disclosure in this area as it would be useful for investors and improve the company's score in the benchmark. The company stated that it does not discourage unionisation – in practice, employee representation follows a model of worker committees.

The company's approach to workforce engagement, the disclosure of which is required under the UK Corporate Governance Code, has moved from the designated NED model to an advisory panel. All non-executives conduct employee engagement work during the year, including site visits throughout the country, which are expected to increase post-Covid. More information will be included in the next annual report.

Outcomes and follow ups: PIRC will review the next iteration of the company's reporting to assess whether it has improved followed the FAIRR scoring and engagement in relation to it.

<u>EV Manufacturers: Environmental and Social Impacts</u>

Overview: In 2022 PIRC was commissioned to assist the development of the Lead the Charge benchmark that rated the world's biggest auto manufacturers on the sustainability of their battery electric vehicle (BEV) supply chains. As part of this work, PIRC engaged with a series of car companies on the environmental impact of their BEV supply chains: Tesla, Renault, Volkswagen, BMW, and Stellantis. LAPFF also engaged with auto makers and industry bodies on supply chains and improving oversight.

Issues arising: A truly "clean car" requires more than the replacement of internal combustion engine vehicles with BEVs. Whilst this transition is necessary to significantly reduce tailpipe emissions, embodied emissions – arising from the supply chain and manufacturing process – will come to increasingly represent a higher proportion of lifecycle emissions.

A major hurdle facing the automotive industry's pathway to net zero being its use of steel and aluminium to manufacturer the vehicle, both traditionally produced using carbon intensive processes that are difficult to abate. As such, the extent to which autos are supporting the investment of steel suppliers in renewable energy sources is critical. This can be done through participation in multi-stakeholder initiatives to collaborate with other buyers to incentivise investment in and production of fossil free and environmentally responsible metals.

Battery production is a significant source of greenhouse gas emissions, occurring in a variety of ways, such as: the use of fossil-free battery minerals, the reduction of the percentage of high intensity minerals through changed battery technology, and the use of renewable energy in the cathode/anode and cell production. A robust approach to recycling and recovery of battery minerals is also an important consideration.

Engagement: Concerns were raised with Tesla regarding the lack of disclosure relating to Scope 3 emissions from purchased goods and services. It has not currently set a science-based target (SBT) for its supply chain. The company also scored poorly on addressing the environmental impact within its steel and aluminium supply chains. The company pointed to additional work being carried out to address the environmental impact within its battery mineral supply chain.

Renault also scored poorly on the Lead the Charge benchmark. PIRC encouraged the company to include long-term purchasing commitments for steel and aluminium smelted using wholly renewable energy. The company outlined that it was increasing dialogue with suppliers on the issue, but it was not yet mandatory for suppliers to set SBTs in order to meet the supplier code of conduct. The company also outlined that availability of, or lack thereof, supply of green steel remains an issue.

The emphasis with Volkswagen was on incentivising investment in fossilfree steel and aluminium. The company argued that green steel is not currently competitive, and that until the carbon market became more robust it would be unlikely the company would be able to use green steel. PIRC asked whether participating in multi-stakeholder initiatives to collaborate with other buyers to incentivise investment in and production of fossil-free and environmentally responsible steel at scale would help in making green steel viable for the company in the future. The company outlined it had no pans in the short term to join any such initiatives.

BMW has committed to a SBT for its upstream activity which would require significant mitigation of the impact its battery manufacturing process has on the environment. In addition, the company outlined it already requires cell supplier to use 100% renewable energy. The company is yet to set collection and/or recovery targets for high intensity battery metals, and is not a member of any multistakeholder initiatives for collaborative purchases of environmentally responsible resources.

With Stellantis, PIRC asked specifically about whether the company would consider including a commitment to respecting the United Nations Declaration on the Rights of Indigenous Peoples or publishing a standalone Indigenous rights policy. The company was keen to initiate further dialogue with an Indigenous rights expert to better understand best practice in this area.

LAPFF also engaged with Volvo on supply chain due diligence, and participated in a CA100+ collaborative engagement with General Motors about its plans to upscale BEV production. A meeting was also held with the Initiative for Responsible Mining Assurance (IRMA) to discuss its standard in greater depth. The body is often cited by auto manufacturers in relation to responsibly mineral sourcing for BEV battery materials; this meeting provided greater insight into the value of greater due diligence at mine sites and how this can be achieved, particularly through effective multi-stakeholder engagement.

Outcomes and follow ups: The manufacturers will be reassessed against the benchmark indicators during 2023 with the expectation that the approach to decarbonising the supply chain improves, particularly with a focus on evidence the company is working together with upstream suppliers to encourage them to invest in fossil-free and environmentally responsible steel and aluminium.

Just Transition

Overview: Origin Energy is an Australian energy company with diverse operations spanning across the energy supply chain, from gas exploration and production to power generation and energy retailing.

Issues arising: Last year Origin announced the closure of its Eraring coal station several years ahead of schedule. Negotiations with the Australian government meant it did not notify workers of the closure until the public announcement was made. The company has been criticised by unions and politicians for the nature of its announcement, given the impact on the workforce and community.

Engagement: Origin told PIRC that as soon as the announcement was made, it spoke directly to employee representatives and unions. In response to the closure, the company consulted individually with employees at the site to discuss their career options. Retirement packages were offered to employees close to or willing to retire. For those wanting to stay in the industry, Origin has looked at how relevant training or certification that can be offered. For those wishing to leave, funding was offered to help them explore options (without a cap).

The Eraring Power Station is planned to be converted into a battery site, with the current 300-strong workforce to be reduced to around 10. They also stressed that lower wages for workers at renewables sites compared to fossil fuel sites are common in the market, but that they would attempt to maintain similar salaries.

Outcomes and follow ups: This was an example of a generally poor approach to transition planning. Subsequently, PIRC has sought to engage with companies involved in solar energy to assess labour and human rights issues relating to the just transition, and this case study will prove beneficial as a comparison, providing lessons for energy companies across the world in how to manage the just transition.

<u>Water Stewardship</u>

Overview: As members of the Local Authority Pension Fund Forum (LAPFF) all three NLGPS funds have been represented through the Forum's work on water stewardship. It was a co-founder and currently co-chairs the Valuing Water Finance Initiative (VWFI). This quarter LAPFF engaged with McDonald's, Constellation Brands and Chipotle.

Issues arising: Particularly in the context of a changing climate, companies need to be aware of the impact their operations are having on water supplies in their areas of business. There has been increased investor awareness of both the impacts companies are having and their vulnerability to the effects of high water stress.

Engagement: In addition to company engagements, LAPFF also facilitated the first VWFI Task Force meeting of the year, placing it at the forefront of driving change for this year. Having been identified by the VWFI as a company with significant exposure to water-related risks, LAPFF pushed for McDonald's to publicly disclose the findings of a water risk assessment it undertook in 2020, but did not commit to doing so.

LAPFF asked Constellation Brands to set timebound targets to address impacts on water availability. It had previously committed to undertaking a water risk assessment, and has since used these findings to highlight a number of facilities operating in regions of high water stress. LAPFF encouraged the company to set further targets that would prevent it from negatively impacting water availability.

LAPFF's engagement with Chipotle dates back to 2019, with the company agreeing to undertake an ingredient level water risk assessment last year. That found large a proportion of suppliers operating in areas of high water stress, and it was considered imperative to use results to set timebound targets for water use.

Outcome and follow ups: It is important for investors to have information on material risks, as well as the timebound and quantifiable mitigation efforts companies are taking for key commodities and regions. There will be follow-up engagements, with the expectation that meaningful target will be set and followed through to mitigate any impacts. The VWFI benchmark should be used to work with companies to develop targets and focus them on high risk areas.

Tax Transparency

Overview: Amazon and ConocoPhillips are US companies that were targeted by shareholder resolutions on tax transparency ahead of their 2023 AGMs. The Greater Manchester Pension Fund was, as was the case last year, one of the co-filers for the tax transparency resolution at Amazon.

Issues arising: PIRC and Northern funds continue to engage with companies to push for the adoption of GRI Tax Standard 207, the gold-standard for tax reporting. Alongside requiring the disclosure of tax strategy and governance of tax arrangements, it also requires public country-by-country reporting (CbCR). The pressure on companies to adopt CbCR is increasing, with the government in Australia bringing in legislation mandating CbCR for multinationals operating in the country this July, and the OECD introducing a minimum 15% corporation tax rate to its members.

Engagement: At both Amazon and ConocoPhillips, the shareholder resolutions call for the adoption of GRI Tax Standard 207. Given the prominent role played by PIRC and Northern funds in the resolution at Amazon, correspondence was sent to offer the opportunity to discuss GRI 207 before its AGM. No response was received by the end of Q1.

Outcome and follow ups: PIRC has recommended support for all tax transparency proposals calling for the adoption of the GRI Tax Standard. This encompasses Amazon, ConocoPhillips, Chevron and ExxonMobil. Given the importance of tax transparency as an investor concern and its wider societal implications, NLGPS will continue to monitor compliance and developments in this field and consider further filing further resolutions.

Executive Pay

Overview: Hargreaves Lansdown plc is an investment service and asset management provider of investment services, financial planning and advice. NLGPS funds hold 1.145%.

Issues arising: Hargreaves Lansdown has proposed rebalancing its variable pay structures. This includes the introduction of a new performance share plan combined with a reduction in annual bonus maximum opportunity. Maximum opportunity under the variable incentive schemes would remain the same.

Engagement: PIRC outlined that it is not supportive of performance share plans. The plan would risk rewarding share price volatility as opposed to performance given HL's business model and exposure to macroeconomic trends. PIRC also questioned the company over the use of diversity and inclusion metrics within its variable incentive schemes. Diversity and inclusion is an important consideration for all companies but not considered appropriate in the context of executive remuneration.

Outcomes and follow ups: Diversity and inclusion should be an aspect that companies work on to improve workforce fairness and performance within their operations – not as something that executives should be rewarded on in its own right. PIRC will produce a voting recommendation regarding HL's remuneration policy at its 2023 AGM, taking the dialogue into account.

Voting Data

Advisory Remuneration: 42.4% For, 38% Oppose, 19.6% Abstain/Withhold

Binding Remuneration: 38.7% For, 46.2% Oppose, 15.1% Abstain/Withhold

Director Elections: 74.8% For, 20.7% Oppose, 4.5% Abstain/Withhold

Auditor Appointments: 25% For, 55.5% Oppose, 19.5% Abstain/Withhold