NORTHERN LGPS QUARTERLY STEWARDSHIP REPORT | APRIL - JUNE 2023

Red States vs RI:

After a long period of growth, especially within the last five years, Responsible Investment is facing substantial pushback for the first time as a combination of factors converge. In the US, political pressure has fundamentally challenged the assumption that adoption of ESG criteria is a surefire way for asset managers to win business. Meanwhile growing regulatory scrutiny of so-called greenwashing has made investors more wary of overclaiming regarding their products and policies. Finally, corporates too seem to be rolling back from some of their ESG commitments.

Whilst none of this undermines the fundamental case for NLGPS to take account of ESG issues in investment decisions and stewardship activity, it is already changing the landscape within which we work. Therefore, in this edition of our stewardship report we look at some of the emerging challenges.

The political challenge

A significant factor in the current climate is the political argument over responsible investment underway in the US. Politicians such as Florida Governor Ron DeSantis have decried 'woke capitalism', and a number of Republican-controlled state authorities have issued regulations against ESG investing. In practical terms, this means that some state funds may be unable to appoint or retain asset managers that are seen as embodying ESG concerns. These policies have been adopted despite the concerns of fund staff in some cases.

The nature of action taken to block ESG initiatives varies. For example, Texas has published a 'Divestment statutes list' which includes companies and investors deemed to 'Boycott Energy Companies' (see box). The reasons for inclusion on the list include membership of Climate Action 100 and the Net Zero Banking Alliance and/or Net Zero Asset Managers Initiative.

Texas hitlist

BLACKROCK
BNP PARIBAS
CREDIT SUISSE
DANSKE BANK
HSBC HOLDINGS
JUPITER FUND MANAGEMENT
NORDEA BANK
SCHRODERS
SVENSKA HANDELSBANKEN
SWEDBANK
UBS GROUP

Meanwhile the American Legislative Exchange Council (ALEC), a business lobby group, drafted a model State Government Employee Retirement Protection Act for use by states. ALEC claims the model legislation is designed to "strengthen fiduciary rules to protect pensioners from politically driven investment strategies".

ALEC's model Act prevents consideration of "non-pecuniary, environmental, social, political, ideological, or other goals or objectives" which mirrors the general nature of the political aspect of the anti-ESG movement. The argument that opponents make is that ESG commitments represent quasi-political activity that both lacks a mandate and is inconsistent with funds' fiduciary duty. Hence the claim by DeSantis and others that asset managers are pushing a 'woke' agenda on corporations.

Most of the anti-ESG rhetoric comes from Republican-controlled states and funds. In contrast, Democrat politicians have argued that barring funds from considering ESG issues restricts their investment freedom and may mean they cannot take account of material factors. Much, then, would seem to depend on the question of materiality.

However, it is notable that the pushback on ESG has tended to focus on a limited number of issues under that acronym, in particular climate change and diversity, equity and inclusion initiatives. In the latter case this coincides with recent decisions by the Supreme Court against affirmation action initiatives by universities. Therefore, in some ways the anti-ESG backlash can be seen as an extension of the Culture War.

Whilst the tenor of the debate in the US is more extreme, similar arguments were common in the UK and within the LGPS until relatively recently, and the state funds that are the battleground for the anti-ESG movement are similar to local authority pension funds too. To date we have not seen any signs in the UK of similar pushback against taking ESG issues into account in investment decisions. That said, it is possible that growing criticism of Net Zero initiatives from some politicians may find expression in the pension systems at some point, and the LGPS has already been targeted as part of the anti-BDS movement. Notably, the Texas divestments statute list also contains companies that are claimed to boycott Israel, including Norwegian pension provider KLP.

Additional pressure on ESG

The political attack on ESG coincides with other pressures on investors and corporates. Whilst some politicians accuse asset managers of inappropriately prioritising non-financial factors, regulators and campaign groups around the world are critical of managers for over-selling their commitments, a practice that has become known as greenwashing. The standout case involves German asset manager DWS, which is in the process of settling claims that it overestimated proportion of its assets that were invested in alignment with ESG criteria. It has reportedly set aside EU21m to reach a detail, primarily with US authorities.

There is some evidence of corporate backsliding too. Some companies have adjusted targets in their climate strategies, for instance. Meanwhile there has been a stream of exits from the Net Zero Insurance Alliance, part of The Glasgow Financial Alliance for Net Zero. In addition to the political pressure in the US it appears that the potential for legal action is at least one driver of departures from the initiative. Questions related to antitrust regulations have also been raised.

<u>Companies leaving the Net Zero Insurance Alliance</u>

Allianz
AXA
Grupo Catalana Occidente
Hannover Re
Lloyds of London
Mapfre
MS&AD Insurance Group
Munich Re
QBE

SCOR
SOMPO
Tokio Marine
Zurich

*based on media reports

One lesson to draw from this is that the era of high-profile voluntary initiatives with expansive targets may be drawing to a close, and companies may be more circumspect in the commitments that they make in future. Whilst dispiriting, this may help investors cut through the marketing clutter that exemplifies some corporate reporting.

How investors are responding

It is clear that these overlapping pressures are affecting the activities of some investors. Vanguard is the most striking example in the asset management industry, having dropped out of the Net Zero Asset Managers Initiative. Already it has received criticism from within the Responsible Investment community, but it is not clear that this positioning has yet negatively affected the company in terms of business lost, or not won. It is likely that other asset managers have observed this and it may affect their own assessment of how to position themselves.

We have already seen a drop in votes for shareholder proposals on ESG issues during 2023. According to analysis by the Sustainable Investments Institute, support for environmental proposals at US companies in 2023 up to 1 June averaged 21.3% compared to 33.8% in 2022. Support for ESG proposals at US companies overall (over 600 in the period to start June) stood at 21.5% compared to 29.3% in 2022. Whilst some managers have claimed this is due to the overly prescriptive nature of the proposals in reality even refiled proposals have seen a drop in support. The only bright spot is that explicitly anti-ESG proposals have fallen completely flat, with some even failing to achieve enough support in order to be refiled next year.

The move by a number of asset managers to enable asset clients to direct their own voting may partly be a reaction to these pressures. Pushed by clients with very different views on the merits of including ESG factors in their investment decisions, passive managers in particular may find it easier to allow clients to vote for themselves.

Committed to Responsible Investment

Taken in combination these developments do pose challenges for asset owners like NLGPS. For the time being some asset managers may be less willing than previously to support particular engagements. Similarly, issuers in some sectors may become more resistant to investor pressure to change. It will not be surprising if, after years of growth when the ESG acronym became ever more popular, to see references to it quietly downplayed or dropped altogether.

Additionally, to some degree asset owners should welcome a degree of challenge. There has been a tendency to overclaim successes and to put the ESG label on products that look very similar, in terms of portfolio constituents and weightings, to their more traditional counterparts. Much of the argumentation in favour of applying ESG analysis has focused on 'win-win' outcomes, or 'doing well by doing good' even as the effects of high inflation have made the reality of trade-offs much more obvious.

Fundamentally, however, we continue to believe that it is important for ESG factors to form part of investor decisions, and, in common with some US public funds, consider seeking to bar consideration of such factors to be misguided. Regardless of what label the asset management industry chooses to use, it seems unlikely that many investors will conclude, for instance, the impact of climate change was not financially material after all. Even if they change the way they respond to it. For our part, NLGPS will continue to work both individually and through LAPFF and other initiatives to continue to develop Responsible Investment during this challenging time.

Tax transparency push continues

NLGPS member funds have been prominent in raising the issue of tax transparency with various companies over the past two years, co-filing a shareholder resolution at Microsoft, and lead filing at Cisco ahead of their AGMs in 2022. The investor coalition has recently re-filed both proposals for this year's meetings.

As representatives of beneficiaries who both help deliver and rely on public services, we deeply understand the need for companies to meet their responsibilities in relation to tax. The reduction in the tax base – known as base erosion – can have a massive, detrimental impact on local services, with health, education, transport and policing all denied much needed resources.

The case for tax transparency, and the financial materiality of the issue, has been made repeatedly to companies: increasing government and international regulation is closing down loopholes, with minimum corporation tax rates and GRI-aligned legislation aiming to shine a light on companies' finances. Last year, well over 20 percent of shareholders voted for the resolutions at Microsoft and Cisco. The challenge is to build upon this support and register an even greater show of dissent, showing that last year's support for tax transparency was not a flash in the pan. The Amazon vote this year received a similar tally to 2022, despite other ESG resolutions seeing support fall. PIRC and NLGPS funds will be increasing activity as December's meetings approach.

GLIL Update:

Euan Miller, Managing Director of the West Yorkshire Pension Fund, has joined the GLIL Infrastructure Executive Committee. GLIL brings together pension funds and like-minded investors seeking to invest in core infrastructure opportunities, predominantly in the UK. It stated that Miller was brought in, alongside other appointees, "to enhance its depth of expertise and members network".

Meanwhile a survey commissioned by GLIL found that nearly two-thirds of British pension scheme leaders intend to increase their investment in infrastructure over the next year, moving the UK closer to a net zero 2050 outcome. 62 percent of the 300 polled schemes outlined their intentions to boost such spending, but 47 percent said they would increase spending further if 'levelling up' were successfully delivered by the government.

Ted Frith, GLIL's Chief Operating Officer:

"Infrastructure helps pension schemes to make a valuable contribution to society as well as provide stable returns for their members, at a time where investment activity is under more scrutiny than ever before. Pension scheme members have access to reliable, inflation-linked returns, and a stake in projects that are supporting the transition to a more sustainable, lower carbon economy. These benefits are borne out in the findings of our survey.

However, it's also clear that more needs to be done to increase the supply of infrastructure investment opportunities with the appropriate risk versus reward profile for pension schemes."

Effective engagement

Engagement theme: Tax Transparency

Companies: Cisco Systems Inc, Microsoft Inc, Qualcomm Inc

Issues arising: NLGPS funds are part of an investor coalition campaigning for tax transparency at companies in risk-prone sectors, and have been prominent in filing shareholder resolutions. During Q2 PIRC continued a programme of engagements with companies, pushing for the adoption of public country-by-country reporting (PCbCR) through the adoption of GRI Tax Standard 207 in order to provide investors with insight into the tax arrangements of their holdings. This is necessary given the inherent risks of tax avoidance, which may crystallise rapidly in the event of public policy changes.

Engagements: PIRC met with *Qualcomm* regarding tax reporting plans for the new PCbCR laws in Australia, Romania, and other EU countries for the next financial year. The company was open and stated it would be complying with all laws. It was reluctant to commit to the additional GRI 207 Tax Reporting Standard in advance of any legal requirement to do so in case disclosure rules changed and they had to make changes. Proactively publishing a year in advance was something that would mean more human resources and cross collaboration between Tax and ESG teams and it was something the company to put time into planning first before publishing. Qualcomm said that it does not have many operations outside the United States, with almost 85 percent of intellectual property domiciled in and sales originating from the US. It is committed to tax transparent reporting and the dialogue was informative.

PIRC also met with *Cisco* and *Microsoft* to seek the companies' views on PCbCR and other regulatory developments. PIRC restated support for the adoption of the GRI Tax Standard. Notably, there was resistance to the adoption of the voluntary framework.

Outcome and follow ups: All companies PIRC engaged over tax during the quarter acknowledged that PCbCR would be introduced in some form, but all were also resistant to adopting it before being legally required. Therefore, engagement in support of adoption of the GRI Tax Standard will continue.

At both Cisco and Microsoft clients of PIRC and other investors have refiled shareholder proposals seeking the adoption of the GRI Tax Standard. These resolutions will go to the companies' AGMs in Q4. PIRC is also considering filing similar proposals elsewhere.

Engagement theme: Climate

Companies: Shell and BP.

Issues arising: Both companies have backtracked on their previous climate commitments, raising serious questions about the long-term planning. Shell's Transition Plan and Annual report contains multiple disclaimers about its transition plans, raising doubts about the viability of such plans. BP announced that it was reducing its emissions reduction target by 2030 from 40 percent to 25 percent.

Engagement: The Local Authority Pension Fund Forum, to which NLGPS funds belong, met with the new Chair of Shell, Sir Andrew Mackenzie. After a difficult start to the meeting, the tone and content of the engagement improved, with an open conversation about the challenges of decarbonisation.

LAPFF had a cordial meeting with the new BP CEO and gained some explanations of BP's thinking.

Outcome and follow ups: Further contact and engagement with the companies is ongoing. LAPFF noted at Shell's AGM that Sir Andrew indicated the company would be presenting a new Climate Transition Plan before the 2024 AGM, something that LAPFF will be engaging on further.

Engagement theme: Human Rights

Companies: Rio Tinto, Anglo American, BHP, Vale

Issues arising: LAPFF has been outspoken about Rio Tinto's destruction of Juukan Gorge, and has been engaging consistently with communities around the world affected by the miner's activities. LAPFF also sought to obtain Anglo American's views on the LAPFF Mining and Human Rights report. Given that BHP did not grant a meeting during LAPFF's visit to Brazil, it was pleasing that the company responded to LAPFF's requests for engagement. With Vale, an ongoing area of concern has been the time taken for affected community members to be resettled.

Engagement: LAPFF met with the new Chair, Dominic Barton, for a one-on-one engagement to ensure the company is being overseen by effective leadership. The meeting was cordial, and Mr Barton was receptive to LAPFF's thoughts and observations. LAPFF also met with the Head of Resolution Copper, the joint venture between Rio Tinto and BHP, to hear her views on the project's developments and perceptions of community concerns.

Anglo American engaged significantly with LAPFF in relation to the Brazil report. Part of the engagement included a meeting with operational staff familiar with community concerns in relation to the Minas Rio mine and tailings dam. The company's insights and contributions were extremely useful, and LAPFF was able to include many of them in its report. LAPFF asked whether the board would commit to visiting community members affected by Anglo American's operations at its AGM, to which the Chair, Stuart Chambers, stated that the board would make this commitment.

BHP provided helpful comments on LAPFF's Brazil report, and offered a meeting to discuss the UK litigation pertaining to its activities regarding the Samarco tailings dam collapse.

LAPFF gained assurances from Vale regarding the resettlement progress, and whilst the process is still slow, the company indicated that progress is being made. LAPFF heard how the company was continuing to seek to learn from what happened to improve its practices, and that changes were occurring, in part due to engagement with LAPFF.

Outcome and follow ups: In addition to continued community concerns about Rio Tinto's engagement with them on social and environmental matters, LAPFF continues to question the company's approach to impact assessments. These need to be more methodologically rigorous, independent, and more reflective of concerns raised by affected stakeholders critical of the company's operations. LAPFF was surprised by the Anglo American Chair's request that AGM participants ask their questions in English, given the effort and expense made by community members in travelling to the UK to attend the meeting. LAPFF will continue to try to engage meaningfully with BHP, including in relation to its role in the reparations for the Marian communities in Brazil affected by the Samarco tailings dam collapse. LAPFF will continue to follow the progress of the resettlement projects and engage on issues highlighted in LAPFF's report, including dam safety and water quality.

Company: CLP Holdings Limited is an investment holding company, with subsidiaries engaged in the generation and supply of electricity in the Asia-Pacific region.

Issues arising: Last year, the Principles for Responsible Investment (PRI) launched a stewardship initiative Advance, which aims to enhance business practices around human rights, setting out three expectations of companies: full implementation of the UN Guiding Principles on Business and Human Rights; alignment of political engagement with the responsibility to respect human rights; and deepening progress on the most severe human rights issues across supply and value chains. The initial focus of the initiative has been the metals, mining and renewables sectors, owing to the high-risk profile and rising importance amidst the global transition to clean energy, and subsequent increase in demand for transition minerals. CLP Holdings was included on this basis.

Engagement: PIRC met with CLP Holdings to discuss how the company manages human rights and social risks throughout its value chain. While the company has made a number of commitments to respect human rights, it scored poorly on the World Benchmarking Alliance's Social Transformation Baseline Assessment, including a score of zero on assessing human rights risks and impacts, as well as integrating and acting on human rights risks and impacts. As a result, PIRC asked the company if it would consider undertaking a comprehensive human rights risk assessment, and commit to disclosing areas identified as having an increased risk. CLP was responsive to the requests, and asked for peer examples of best practice around disclosure, to which PIRC obliged.

Outcome and follow ups: The primary objective of the initiative is to advance human rights and positive outcomes for people through investor stewardship. In order to meaningfully assess CLP's human rights impact, improved disclosure is necessary – particularly regarding areas within its value chain at heightened risk of abuse. The PRI will publish annual progress reports to provide updates on the progress of the initiative. This year it will publish the Advance assessment framework methodology, which will be used to assess the performance of the focus companies against the company expectations outlined above. In addition, PIRC will monitor company disclosures with regards a human rights impact assessment.

Engagement theme: Freedom of association and collective bargaining in the US

Companies: Apple Inc, eBay Inc, Starbucks Corporation

Issues arising: The investor group engaging with Starbucks Corporation and Apple Inc over Freedom of Association and Collective Bargaining rights, including NLGPS funds and PIRC, has continued its work throughout 2023. Both companies have committed to undertake reviews of the application of their existing policies, which is welcome. Attention has now turned to the nature and substance of these reviews, whilst a letter was also sent to eBay on workplace rights.

Engagement: In June, the filing group met with the new CEO of *Starbucks* and other senior staff to discuss the nature of the company's proposed review. The meeting was broadly positive, although the CEO talked in very general terms about the importance of treating the workforce properly, with other Starbucks representatives spoke on union-related concerns. The members of the filing group set out their expectations of the review and concerns regarding prior practice. These have been restated in a follow-up letter to the company sent after the meeting took place.

A letter was also sent to *eBay* highlighting activity at recently acquired subsidiary TCGPlayer that appears in conflict with eBay's human rights policy. This explicitly refers to the United Nations' *Guiding Principles on Business and Human Rights* and the International Labor Organization's *Fundamental Conventions*, and states that "eBay also respects workers' rights to unionize and commits to bargain in good faith with any relevant associations or labor unions." TCGPlayer is alleged by workers to have breached workplace rights and failed to bargain in good faith. The letter to the company sought both a meeting and a commitment from the company to ensure that commitments in its human rights policy are upheld across the business.

Regarding *Apple*, the filing group is working to ensure that the review of its policy implementation is effective. The group has itself continued to engage with unions seeking to organise within Apple.

Outcomes and follow ups: The filing group has set out expectations of the review underway at Starbucks and will do likewise at Apple during the summer. It is important that the reviews are undertaken in a way that meets the expectations of those that filed the resolutions, and of the workers affected by the two companies' activities. More generally, it has been established that a wider group of investors is now willing to support initiatives to support freedom of association and collective bargaining rights. Contact has been made with unions globally to co-ordinate more work in this area.

Engagement theme: Living Wage / Living Hours

Companies: ITV, Moneysupermarket.com Group, Next, Ocado Group Ltd

Issues Arising: As a long-standing member of the Good Work Coalition run by Share Action, PIRC primarily focused on the adoption of the Living Wage and of Living Hours this quarter. The Living Hours standard requires that employers provide: decent notice periods for shifts, of at least 4 weeks' notice, with guaranteed payment if shifts are cancelled within this notice period; the right to a contract that reflects accurate hours worked; and guaranteed minimum of 16 hours a week (unless the worker requests otherwise).

Engagement: In addition to issues around agricultural supply chain risks, PIRC also engaged with *Ocado* on the company's pay practices for its third party contracted staff and its position on Living Wage accreditation. Ocado outlined that incentives were a crucial part of its pay package and were popular among the workers. PIRC asked about the methods that the company used to gauge workforce support for incentive schemes. The company said that it found employees to generally prefer to be rewarded for the work that they do and noted that in the past, there had been negative feedback after an incentive programme was removed for its delivery drivers. The company also said that its measurement of the feedback on employee incentives had been qualitative rather than quantitative. PIRC also asked about how the company avoided the excessive separation of pay practices between its separate business arms. The company responded that the people managers work closely with the designated non-executive director for employee engagement, who in turn chairs a forum of employees and can act as a messenger.

As part of the Good Work Coalition, PIRC met with *ITV* to discuss potentially becoming a Living Hours accredited employer. Company representatives explained the employment model, which involves both a significant number of contingent workers and a variety of modes of employment within that category. It is approaching the question of Living Hours positively, whilst recognising that employment in the television industry is very different to other sectors. The company will continue to engage with the Living Wage Foundation.

PIRC also met with *Moneysupermarket.com Group* to discuss the company becoming a Living Hours accredited employer. The company already provides all of its direct employees with Living Hours, reiterating its willingness to become accredited. The next focus therefore was on their third-party suppliers and ensuring the lowest paid third-party employees would also be guaranteed living hours. Although slightly more complex, the company stated that it is keen to implement this and is working on the logistics for it; there is an upcoming meeting set up with the Living Wage Foundation to discuss the technicalities further.

Outcome and follow ups: In all cases listed above there are no immediate issues arising from the engagements. Rather, the group will continue to encourage those companies engaged with to consider the proposed standard. PIRC is continuing to meet with a range of UK-listed companies as part of the Good Work Coalition and will report on those engagements in future updates.

Engagement theme: labour standards in meat processing

Company: JBS SA operates as a processor of a range of meats. The company has its headquarters in Brazil and exports its products worldwide.

Issues Arising: PIRC has previously collaborated with the FAIRR Initiative on the meat processing sector, resulting from a prior focus on worker safety during the Covid-19 pandemic. FAIRR has recently 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.

Engagement: PIRC met with JBS to discuss thematic areas highlighted in FAIRR Initiative reporting and its approach to worker conditions, risk assessment and reportage in areas such as worker representation, sick pay measures and just transition – discussions primarily focused on the US due to the company's decentralised format.

Employee structure is broken down into salaried, hourly workers, management support, and contractors. In terms of employee engagement, JBS has an annual survey to understand what is going well and what can be improved upon. The new addition of parental leave to employee benefits was a direct result of this survey. Regarding third party employments – JBS USA has no centralised count of the number of third-party employers associated with the business, nor a record of employers who are not associated with the intrinsic operations of the business. The company has publicly disclosed a turnover rate for its Brazil operations but not for its US operations. When asked if this was something it would consider changing for its upcoming reporting cycle, JBS noted that the matter had not been discussed.

In 2022, the annualised turnover rate for hourly workers was 60 percent, which reduced to 50 percent in 2023; the Supervisory turnover rate reduced from 66 percent in 2022 to 63 percent this year. The company acknowledged that the unattractive nature of the work at JBS has an impact on turnover and that the retention rates are very focused on turnover in the same roles, within the employee's first 90 days in the role. PIRC asked whether the constant turnover and challenging labour market would influence a move to increased automation of roles. JBS noted that although automation is a desired lever in the long term, it will never be a complete solution as the nature of the business will always remain labour intensive and reliant on human capital.

In terms of safety, JBS USA is trending in the right direction. Every year, the company audits specific physical and ergonomic hazards, with this year's focus being electrical hazards. The firm has dedicated teams who are auditing and remediating these hazards. So far, 33,000 physical hazards have been remediated.

JBS made assurances that all leaves of absence are recognised under federal law; that bargained employees were also administered through their systems; that there is a short-term disability benefit during FMLA and long-term disability benefit that workers are able to pay into; and that parental leave of 2 weeks is offered. Furthermore, the pandemic propelled JBS to establish an 'Infectious Disease Preparedness Plan' (IDPP) in conjunction with epidemiologists and physicians. In order to eliminate factors that would force people to come into work, the IDPP has modified JBS' pay policies, allowed for vulnerable workers to remain home and continue to receive pay and prepared for school closures/parental leave.

Regarding collective bargaining and union participation, a large majority of JBS USA workers are union members (Beef workers: 100%, Poultry: 35-40%). However, the firm does not operate under state unions or national contracts. There is one contract for each facility, with around 50 different unions, which runs on a 2-5 year cycle. Non-union workers are subject to company policy. JBS Brazil is highly unionised.

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. If reporting does not improve PIRC will consider recommending a vote against the company's annual report. PIRC will also review disclosure on the company's workforce engagement model.

Engagement theme: Child Labour

Company: McDonald's Corporation

Issues arising: There have been a number of reports of child labour in the operations of companies within the US. PIRC has been part of an investor coalition that has called on companies to address this issue urgently. This year the Department of Labor (DOL) fined three McDonald's franchisees operating 62 restaurants across Kentucky, Indiana, Maryland, and Ohio $212,000 for employing 305 children, including violations of the legal limits on hours, violations related to age requirements for dangerous tasks, and wage and hour violations including unpaid overtime and a lack of pay. The DOL found that two 10-year-olds sometimes worked as late as 2am and were unpaid; one 10-year-old was allowed to operate a deep fryer. In December 2022, a McDonald's franchisee in Erie, PA was fined $92,1107 for violating child labour hours and safety regulations involving minor-aged workers, including nine minors operating deep fryers. A 15-year-old minor suffered hot oil burns while using a deep fryer at a McDonald's franchise restaurant in Morristown Tennessee.

A dramatic rise in child labour has been accompanied by heightened media coverage, tougher enforcement, and potential reputational damage for companies violating child labour laws. The DOL has seen a 69 percent increase in children being employed illegally by companies since 2018, with more than 3,800 children impacted during the agency's 2022 fiscal year.

Engagement: PIRC was a signatory to a letter McDonalds which was co-ordinated by SOC Investment Group. This called on the company to: adopt a zero-tolerance policy in its Global Brand Standards regarding the use of child labour in franchised restaurants; specify oversight of human rights, including child labour, in the charter of the Public Policy and Strategy Committee which is named in McDonald's Human Rights Policy as having oversight of the issue; and conduct an independent third-party human rights risk assessment of McDonald's business, including restaurants owned and operated by franchisees, with the results released publicly by 31 December, 2023, and with ongoing monitoring and annual updates.

Outcomes and follow ups: Since the letter was sent, a BBC investigation into working practices within the UK alleged a toxic culture of sexual assault, harassment, racism and bullying. This report was based on allegations by more than 100 current and recent UK staff at outlets of the fast-food chain McDonald's. PIRC will continue to engage with the company to address its problematic working practices.

Engagement theme: Significant votes against remuneration

Company: On the Beach

Issues arising: PIRC routinely engages with companies where there has been significant shareholder opposition expressed in AGM voting results, and where there are concerns about good practice. There was a focus this quarter on companies that had been the subject of significant opposition, with executive remuneration being the principal subject.

Engagement: PIRC met with On the Beach to discuss its remuneration policy in view of the high vote against it. PIRC outlined concerns regarding the introduction of the Long-Term Incentive Plan (LTIP), which was not linked to individual performance. The company explained that it had introduced a retention-based LTIP over its own concerns regarding sustained volatility afflicting the travel industry and its effect on setting meaningful targets. The company also outlined the benefit of reducing complexity in its remuneration policy. PIRC expressed broad support for measures to reduce the quantum and volatility of executive pay. However, there are concerns around the company's use of ESG metrics in the annual bonus, due to a lack of sensitivity to executive performance in practice.

Outcomes and follow ups: As is the case with many of our engagements on executive remuneration, we found On the Beach far out of step with responsible investment expectations. Scepticism regarding the effectiveness of variable reward, the ability of ESG targets to capture meaningful activity, and the ability of executives to understand the scheme in which they participate in is not uncommon. Nonetheless, companies do not expect to change their approaches. Therefore, PIRC will continue to make clear to boards its concerns around both the fundamental structure and level of executive pay, recommending that clients oppose resolutions on remuneration where necessary.