NORTHERN LGPS QUARTERLY STEWARDSHIP REPORT | OCTOBER - DECEMBER 2021

The Collective Asset Pool for Greater Manchester Merseyside and West Yorkshire Pension Funds

**Tackling issues that matter to us**

If 2021 was a slow awakening from the Covid slump, then 2022 promises to be even busier for the Northern LGPS. From climate to conflict zones, and tax to transparency, as a pool we expect to be increasing activity across the range of ESG issues in the year ahead.

In December, Greater Manchester Pension Fund, in collaboration with the OIP Investment Trust, announced that it was filing a resolution at Amazon, asking the global retail giant to sign up to the GRI Tax Standard and disclose its tax figures in all the jurisdictions in which it operates. There is a protracted wrangle underway between the filers and the company, but the resolution represents more than a single investor voice of concern in relation to corporate tax transparency.

The resolution is part of an engagement programme on corporate tax undertaken by our responsible investment (RI) adviser PIRC in partnership with the Centre for International Corporate Tax Accountability and Research. It will facilitate active and ongoing engagements with companies, particularly those with a history of tax avoidance, those operating in sectors prone to evasive tactics, as well as industries reliant on government contracts, and thus reliant on the continued and fair receipt of tax revenue.

As we state in our RI policy: "We consider certain corporate tax arrangements, whilst potentially beneficial to shareholders in the short term, can be a source of regulatory, financial and reputational risk to companies and their investors. Aggressive corporate tax avoidance may have a negative effect on public finances and by extension on public service provision. Therefore we seek to monitor the behaviour of investee companies in respect of tax planning and challenge where necessary."

NLGPS has also joined the Healthy Market Initiative co-ordinated by ShareAction, which focuses advocacy for greater health through the food choices that companies offer. With a North-South health divide that was all too plain to see during the Covid-19 pandemic, the need to work towards a healthier population is as pertinent as ever. Being part of the initiative will allow NLGPS to collaborate with other like-minded organisations and investors, lobby and advocate companies, with the objective of ensuring the public has access to more balanced diets. This is particularly important to NLGPS given the links between socio-economic status and health.

As we report later, there has already been extensive engagement as part of the initiative, and we expect more to come in 2022. At least one shareholder resolution is already in train.

And we will be continuing engagement on topics such as climate change, decent work and human rights both in our own right and through our involvement in the Local Authority Pension Fund Forum (LAPFF). In this issue we've increased the amount of space given over to engagement reports.

**GLIL Update**

At the end of 2021, GLIL published its yearly infrastructure review, outlining the highlights of the year. They included an additional £500 million of investment, the announcement of a UK

Infrastructure Bank and the endorsement of Nest pensions. It details the growing portfolio, management during Covid-19, and the importance of infrastructure to futureproofing the UK as it transitions to net zero. You can find the full report here: https://bit.ly/3sySMrr

## EFFECTIVE ENGAGEMENT

### HEALTH AND NUTRITION

The health and nutrition strategies adopted by food companies determines how effectively obesity and other diet-related diseases can be tackled, for both retailers and manufacturers. Over the last two years, connections have consistently been made between health and COVID-19 mortality rates. A study in the Lancet found that those with a BMI of over 30, making up 24.3% of the population, accounted for 49.2% of ICU admissions. The devastating impact of COVID-19 should in itself be sufficient to drive the food and beverage sector to improve the nutritional value of the products they manufacture and sell.

Forthcoming regulation seeking to encourage healthy dietary outcomes for consumers represents increased risk to companies lagging behind on this issue. In the autumn of 2022, the UK Government is introducing legislation restricting the marketing of High Fat, Sugar and Salt (HFSS) food and drink products. There are also opportunities for companies to take advantage of the modelled shifts in consumer demand for healthier food.

There is a huge degree of health inequality, with a 2-year life expectancy gap between Northern and Southern regions of England. Obesity rates are higher in the North, whilst mortality rates have been 15% higher than in the south over 50 years. Wirral in Merseyside and Wigan in Greater Manchester recorded the first and fourth highest levels of obesity in the UK in 2020 respectively. It is clear that health is a pressing concern nationwide, but particularly in the North. That makes these engagements all the more important for NLGPS.

During Q4 PIRC was involved with a number of collaborative engagements with the objective of driving improved company performance on this issue.

**THE COCA-COLA COMPANY**

Overview: The Coca-Cola Company is the largest manufacturer, distributor and marketer of non-alcoholic beverage concentrates and syrups in the world. It has six strategic business units: North America, Africa, East, South Asia and Pacific Rim, European Union, Latin America and North Asia, Eurasia and Middle East. Beverage products have been sold in the United States since 1886 and are now sold in more than 200 countries. Coca Cola also has a bottling plant in Wakefield, West Yorkshire, making the economic health of the company important to residents, in addition to physical health.

Issues Arising: It is estimated that obesity already affects two in three adults and one in three children in the UK alone. Obesity and the associated underlying health conditions carry a significantly higher risk when determining the severity of COVID-19. In order to mitigate the financial risks associated with increasing regulation, beverage companies whose portfolios contain inherently high proportions of unhealthy products should transition revenues to be less reliant on beverages high in sugar.

Engagement: ShareAction is coordinating an initiative which aims to ensure that healthy food and drink options are affordable, available and accessible for all; with the ultimate objective of reducing childhood obesity. The initiative aimed to encourage The Coca-Cola

Company to set targets to increase the healthiness of its sales as well as to encourage to use a government-endorsed nutrient profiling model.

Outcome and follow-up: In response to questions regarding whether the company would be willing to set a headline target to improve the sales of the products it sells classified as healthy the company outlined that dietary habits vary significantly between countries in which it operates and so a headline target would lack credibility. However, the company did highlight it was ready to engage with governments for locally relevant strategies.

**UNILEVER**

Overview: Unilever PLC is a British multinational consumer goods company, and has an advanced manufacturing centre in Port Sunlight in Wirral. The company has an extensive range of food products including condiments, ice cream, tea, coffee, and breakfast cereal.

Issue Arising: Nutrient profiling models are a scientific means of classifying or ranking foods by their nutritional composition in order to promote health. The dominant model in the UK is the HFSS, first developed by the Food Standards Agency in 2005. Currently, the lack of global standardised modelling has resulted in a lack of consistent reporting. Consequently, it is difficult for investors to accurately assess exposure to companies facing regulatory pressures. For example, Unilever applies its own classification model when categorising the nutritional value of its products.

Engagement: During Q4 the Greater Manchester Pension Fund co-filed a resolution at Unilever requesting that the company disclose a long-term strategy for health and nutrition. The resolution, coordinating by ShareAction as part of the Healthy Markets Initiative, explicitly requests alignment of the company's own nutritional profiling mechanism with national standardised models, such as the UK government's HFSS standard. This issue was discussed during an engagement call with the company prior to the resolution being filed.

Outcomes and Follow-up: Further engagements with Unilever have been scheduled for early 2022.

**TESCO**

Overview: Tesco is a British multinational retailer with its headquarters in England and numerous stores in the North. It operates various store formats that offer products, such as fresh produce, in-store bakery, ready-meals, sandwiches as well as its wholesale business, Booker.

Issue Arising: Up until March 2021, Tesco had yet to set a target to increase the proportion of healthy products it sold. In response ShareAction coordinated the filing of a resolution for the 2021 AGM requesting that the company disclose the share of total food and non-alcoholic drink annual sales by volume made up of healthier products and publish a target to significantly increase that share by 2030. The company subsequently agreed to develop targets based on increasing the healthiness of customers shopping baskets.

Engagement: During Q4, the Healthy Markets investor coalition met with Tesco to get an update on its long-term strategy relating to health and nutrition and progress on their 65%

non-HFSS sales target. The company expects to be able to report against the target later in the year. During the engagement the company expressed support of forthcoming marketing and advertising restrictions on less healthy food and drink products outlining that they would help create a level playing field.

Outcomes and Follow-up: Ultimately, Tesco committed to improve the healthiness of the average shopping basket by increasing the proportion of healthy products to 65% of volume sold by 2025.

## TAX

Going into 2022 PIRC increased its activity on tax with the launch of the Initiative on Responsible Corporate Tax with the Centre for International Tax Accountability and Research (CICTAR).

The initiative will facilitate active, collaborative engagements with multinationals on tax transparency and responsible tax. It will focus on sectors with a history of aggressive tax avoidance (particularly tech and pharma), as well as sectors with significant exposure to government contracts (including healthcare, care sector, infrastructure, and labour provision) and which are therefore dependent on healthy tax revenue for growth.

The programme has started with a significant intervention. A shareholder resolution was filed by the Greater Manchester Pension Fund (GMPF) and the OIP Trust, supported by PIRC, at Amazon, calling on the company to disclose its tax details in accordance with the GRI Tax Standard. It is an important focus for shareholder engagement: a giant multinational with a reputation for tax avoidance. If companies break the social contract, then everyone suffers. Without the revenue to fund public services, towns and cities can suffer. Therefore it is vital that companies, particularly the largest ones, pay their fair share.

### AMAZON.COM, INC.

Overview: Amazon.com, Inc. is a technology company which focuses on e-commerce, cloud computing, digital streaming, and artificial intelligence. Amazon has operated a fulfilment centre in Altrincham, Greater Manchester, since 2016, employing over 1,000 full-time staff.

Issues Arising: In 2020, Amazon was singled out by President Biden as having paid no federal corporate income tax in the US. Amazon paid just £492 million to the British taxman in 2020, or 0.37% of turnover, despite extensive UK operations including two logistics hubs and a corporate office in Greater Manchester. The 2019 Fair Tax Mark report named Amazon as having the worst tax conduct of the six companies analysed, with an average cash paid tax rate of 12.7%. By comparison, for 7 out of the 8 years analysed, the headline tax rate was 35%.

Engagement: PIRC assisted GMPF and OIP Trust to file a shareholder resolution at the company requesting that it implement the GRI Tax Standard. The company has refused to meet with the filers and has informed the US Securities and Exchange Commission (SEC) that it intends to contest the resolution. The resolution follows three years of attempted engagement by investors as part of the PRI's collaborative engagement with companies in the healthcare and tech sectors on responsible taxation.

Outcome and follow ups: PIRC will be engaging with the company and the SEC regarding the inclusion of the resolution in the company's proxy materials. It is PIRC's view that the company does not have to wait for a determination by the SEC and should put the resolution to a vote of investors.

**FRESENIUS SE**

Overview: Fresenius is a global healthcare group offering products and services for dialysis, hospitals, and outpatient treatment. With previously mentioned poor health outcomes in the north, engagement with health providers for the NHS is of particular importance.

Issues Arising: In 2020, the Centre for Corporate Tax and Accountability Research (CICTAR) published a report on Fresenius's tax practices, alleging that the company is involved in aggressive tax avoidance. The company has denied these allegations.

Engagement: During December 2021, PIRC met with Fresenius to discuss the company's response to the CICTAR report and the implementation of the GRI Tax Standard. The Group has said that they intend to report against the first three indicators of the GRI Tax Standard in their next round of reporting, but they will not provide reporting on a country by-country basis (GRI 207.4) at this stage.

The company noted the potential for significant reputational risks following on from the release of the CICTAR report, and that this kick-started internal discussions regarding the implementation of the GRI.

The group outlined their tax governance structure, noting that each division has its own separate tax structure, with a direct line to the CFO, with the management board having overall oversight of tax strategy and risks for the group. PIRC expects that this structure will be outlined further in the next round of reporting.

Outcome and follow ups: PIRC will analyse the company's next round of reporting to determine its compliance with the GRI Tax Standard. PIRC considers country-by-country reporting a critical element of the GRI Tax Standard, not something that can simply be ignored for expediency, and will continue to engage the company to regarding its implementation.

**ORPEA**

Overview: Orpea provides health care services to elderly people through the operation of nursing homes, accommodation establishments, and clinics. The company is headquartered in France and has a European presence.

Issues Arising: As with Fresenius, Orpea has significant exposure to government contracts, including care, and is therefore dependent on healthy government revenue and sustainable taxation.

In March 2021, France's economic crime office, l'Office central de lutte contre la corruption et les infractions financières et fiscales (OCLCIFF), searched the Orpea head offices and questioned senior executives regarding a 2008 sale to Orpea of a care home in Bouches-du-Rhône. The sale was allegedly made via 'offshore intermediaries' to evade sales tax liabilities. Orpea maintains that the enquiry relates solely to the tax liabilities of the selling party, and that Orpea should not be considered as directly implicated in the proceedings.

Engagement: In December 2021, PIRC met with Orpea to discuss the company's tax strategy. The discussion focused on the Luxembourg subsidiaries and holding companies, and how these were used to manage acquisition debt and rental liabilities with operating companies. Excessive debt acquisition at an operating company level has the potential to reduce funds available to adequately staff care centres.

Outcome and follow ups: PIRC will continue to engage Orpea on the implementation of the GRI Tax Standard. Subsequent revelations of systematic corner cutting have emerged, resulting in a government investigation and the resignation of director Yves Le Masne. We will cover this more in our next quarterly report. PIRC will continue to engage the company as part of a collaborative group of investors and will advise clients on the best course of action.

## DECENT WORK

As ever, decent work remains an important area of concern. From union busting to sexual harassment and forced labour, PIRC has engaged with a number of companies in different markets over a series of disparate but interrelated issues relating to the treatment of employees. The financial materiality of such actions is also becoming more apparent. In an environment of high employment and labour shortages, failure to create a fulfilling and safe working environment may come back to bite companies. In addition, too often we have seen companies talk the talk over equality and inclusivity, but fall short in practice.

### ACTIVISION BLIZZARD

Overview: Activision Blizzard is a worldwide developer and publisher of video games for online, personal computers, consoles, and handheld devices. It provides interactive software products and content, with a focus on developing and publishing video games. Headquartered in California, it maintains operations throughout North America, Europe, and Asia. Issues arising: Activision Blizzard workers staged a series of walk outs over the company's reported "alcohol-soaked culture" of sexual harassment. More than 1,700 contracted workers and employees signed a petition in November demanding that CEO Bobby Kotick resign.

Engagement: On 29 November 2021 PIRC joined a collaborative engagement coordinated by the Workforce Disclosure Initiative (WDI) to discuss the company's data disclosure practices and encourage participation in the 2022 WDI. The walk outs and sexual harassment claims were not discussed directly but it was acknowledged by company representatives that the events of the previous few months necessitated an increased focus on human capital management practices and disclosures. The company informed us that it published its first

ESG report in 2020 and expressed openness to idea of disclosing workforce data, as a proactive measure to lift standards. However, concerns were expressed about the number of ESG metrics in circulation and the difficulty in determining which to commit resource to. PIRC expressed support for WDI as being the only survey covering a comprehensive set of indicators on workforce practices and encouraged the company to reconsider.

Outcomes and follow up: Parties agreed to continue the dialogue. Microsoft has since acquired the company for $75billion, meaning future engagement will be directed to Microsoft as the parent company. That brings its own set of problems, with the possibility of ongoing investigations and progress being stalled and even halted by merging efficiencies. The fact that Bill Gates left the board after his own indiscretions does not set the greatest of precedents within the Microsoft empire.

**TOP GLOVE**

Overview: Top Glove Corp Bhd is a Malaysia-based rubber glove manufacturer, providing medical and surgical gloves for clients around the world – including the UK Government.

Issues Arising: PIRC previously engaged with Top Glove earlier in the year over its response to allegations of forced labour and the resulting Withholding Release Order (WRO), effectively an import ban, issued by US Customs and Border Protection (CBP). That was subsequently dropped on 10 September 2021. However, Canada banned Top Glove products in November.

Engagement: Top Glove began by outlining the current situation with the CBP and stated that they are now off the list and not required to do any reporting to the CBP. However, the CBP will continue to monitor the company and anything that could be improved upon.

PIRC then questioned the company on various workforce issues, starting with the ongoing automation process at the company. Top Glove discussed how this would see their workforce reduce but they are also opening new factories which will provide new jobs. They are looking to create 30,000 job opportunities. The company also stated that there have been no changes to their relationships with unions during the recent company changes. Finally, PIRC asked about a recent worker fatality. The company said that a review is still pending but based on the post-mortem it was not an occupational incident.

Outcome and Follow Ups: The company has made improvements, as recognised by the CBP in relation to the removal of the WRO. PIRC will continue to maintain dialogue with the company to support changes in practice and improvements for workers. PIRC is continuing to engage more widely in the sector.

**COMPASS GROUP**

Overview: Compass Group PLC is a British multinational contract foodservice and support services company headquartered in Surrey. The contract foodservice company is one of the largest private sector employers in the world, with operations in 45 countries and over 500,000 employees.

Issues arising: PIRC has previously engaged the company on its response to workforce safety during the pandemic and disclosure of Covid-19 employee fatalities. This meeting primarily focused on the company's approach to the Corporate Governance Code, as well as turnover (at a high figure of 23%).

Engagement: On 29 November 2021 PIRC met with Compass's designated nonexecutive director (NED) for workforce engagement. The primary discussion topic specifically look at how the designated NED role has worked in practice in terms of number of meetings with the workforce, style and content of the meetings and any board decisions influenced by the engagement so far. It was reported that in this financial year the designated NED held six meetings with individuals from 14 different countries, with a similar number the year before. The programme continues into 2022 and it was felt that the pandemic hasn't impacted the ability of the designated NED to engage people across the business.

Outcomes and follow ups: The meeting set out expectations for consultation between the designated NED and elected workforce representatives as part of the company's recognised trade unions and works council, to deepen the engagement process. The company agreed to consider this and will enquire about attendance of the designated NED at the Spring European Works Council meeting. The current designated NED will continue in the role for a further two years and welcomed input as it evolves.

**SMURFIT KAPPA GROUP PLC**

Overview: Smurfit Kappa Group plc is a global provider of paper-based packaging head-quartered in Dublin. The company has a head office in Liverpool. Following a merger of the Jefferson Smurfit Group and Kappa Packaging in 2005, the renamed Smurfit Kappa Group successfully listed on the Dublin and London Stock Exchanges in 2007.

Issues arising: Manufacturers have been hit by labour shortages, particularly in relation to the transportation and storage of their goods. The company also has a relatively high staff turnover, exacerbated by the Covid-19 pandemic.

Engagement: In November PIRC attended a small group investor meeting with the company to discuss their sustainability strategy and performance. PIRC discussed whether labour shortages had impacted the company's ability to produce and deliver packaging safely and effectively. To mitigate long standing staffing issues owing to the rural locations of some production sites, the company has dedicated recruitment and training programmes. It was reported that in certain locations, particularly in the US, there is a risk to employers from Amazon distribution centre recruitment drivers constraining the supply of workers and increasing pay rates. Internationally the labour shortages were being felt most acutely in the transportation of goods, which is a subcontracted service, the costs of which has increased as a result.

The company reported that its relatively high labour turnover rate was reportedly skewed by operations in Mexico where short-term contracting and turnover is a more common feature of jobs. In addition, PIRC inquired about the company's health and safety (H&S)

performance following two reported fatalities. The response covered the pro-active measures taken on H&S in paper mills.

Outcome and follow up: An offer for PIRC to visit a paper mill to learn more about H&S standards was made. This offer has not been taken up, but we will continue to monitor the company's workforce related and other ESG disclosures.

**DEERE & COMPANY**

Overview: Deere & Company operations are categorised into three major business segments: the manufacture and distribution of agriculture and turf equipment; the manufacture and distribution of machine and service parts for construction, earthmoving, material handling, and timber harvesting; the financing sales and leases by John Deere dealers of new and used agriculture, turf, construction, and forestry equipment.

Issues arising: On 14 October 2021, 10,000 John Deere employees from 14 different US facilities went on strike over pay. The employees are members of the United Auto Workers (UAW) trade union, which had been negotiating a new contract with the company for several months. This is the first strike in the company for over three decades and has attracted international media attention. Engagement: PIRC contacted the company in October 2021 about the industrial action and set out the expectation that companies routinely seek to improve workforce provisions in terms of wages and benefits to the best of their ability. Industrial action is something that investors take into consideration when assessing a company's risk management.

As such it is the expectation of PIRC and its clients that negotiations are made in good faith and that a constructive relationship with trade unions is forged. In the context of the twinned health and economic crises over the last 18 months there is a strong impetus to improve rewards going to workforces, particularly in companies that have made additional profits during this period.

Outcome and follow up: On 17 November the workers approved a new six-year contract officially putting an end to the strike. No follow up meeting has been requested with the company.

**CLIMATE CHANGE**

Climate change continues to be one of the most significant topics of engagement for both PIRC and LAPFF. More and more companies are acknowledging their responsibilities to achieve zero carbon emissions, but unfortunately these self-proclaimed goals sometimes lack tangible plans and targets.

The importance of transition plans cannot be stressed enough. As investors based in the North of England we are well aware of the pitfalls of undertaking industrial transition without adequate planning or protections for local businesses and communities. But the need for a fair and just transition cannot provide cover for fossil fuel firms' inaction.

During the quarter LAPFF met with a number of companies to discuss emissions and net zero plans, particularly with a view on the Say on Climate conference in February 2022.

**BP**

Overview: BP is a worldwide, British headquartered, oil and gas company, one of the seven "supermajors." It is integrated into all aspects of the industry, including exploration, extraction, refinement and distribution.

Issues arising: LAPFF discussed details of the company's energy transition plan, and whether BP is willing to put a 'Say on Climate' vote to shareholders at its 2022 AGM.

Engagement: Company representatives provided more background to the company's transition plan, including a 40% production reduction over 10 years, and a goal of 50GW of renewable generating capacity by 2050. The company also noted that it operates the UK's largest public network of EV charging points, and plans to install more – in the UK, in India, as well as in China.

Outcome and follow up: The company said a 'say on climate' resolution is being considered for 2022. A further meeting with the LAPFF Chair is planned for 2022.

**HEIDELBERG CEMENT**

Overview: Heidelberg Cement is one of the world's largest building materials companies, operating across five continents. The Company is headquartered in Germany and last year reported annualised sales volumes of 122 million tonnes in cement and clinker.

Issues Arising: The cement industry is estimated to be responsible for around 8% of global emissions and therefore is one of the most carbon intensive industries in the world. The cement industry is vital for any transition, required for the construction of new renewable technologies. But with the debate around the effectiveness Carbon Capture Utilisation and Storage (CCUS) continuing, it is still unclear exactly how the cement industry can try to meet its net zero ambition.

Engagement: PIRC met with the company as part of the ongoing sectoral engagement programme focusing on a just transition within the cement industry. In response, the company stated that they did not anticipate much displacement within their workforce. They also mentioned how they have been stopping work in some countries for business reasons and not due to climate change.

The company did however outline they are committed to retraining their workforce but also feel hiring new employees who are digitally trained will be key to their transition. It was also discussed how they use CCUS on a 'case by case' basis, which supports PIRC's previously mentioned concerns with other cement companies on how meaningful a role CCUS can play in the industry's decarbonisation efforts. The company's understanding of the 'just transition' concept was low. Whilst there is a decent level of reporting on social issues in their annual report, this isn't connected in any way to their environmental agenda. As a German company with co-determination, it was surprising that the need for a worker involvement in climate risk planning was not given more emphasis.

Outcome and Follow Ups: PIRC will continue to maintain dialogue with the company with a particular emphasis on the development of a just transition strategy. PIRC will review progress in this area ahead of the company's next AGM and recommend voting accordingly.

**BARRATT DEVELOPMENTS**

Overview: Barratt Developments is a property developer in the UK, one of the largest in the UK. Last year the company announced the creation of 352 new jobs in Merseyside in response to growing demand. In October the company announced its intention to build 550 new homes on greenfield in Rochdale.

Issues arising: The property sector is a major contributor to carbon emissions, with a large proportion of emissions emanating from buildings when in use. But building materials and the building process itself generate greenhouse gas. The sector is facing higher environmental standards from government. It also means that housebuilding is a sector which LAPFF wants to continue to engage, whilst PIRC has already held extensive engagements on topics from high pay to leaseholds, as well as on climate.

Engagement: Cllr Doug McMurdo secured a meeting with the chair of Barratt Developments. LAPFF gained assurances about plans Barratt are making towards achieving net zero for homes and for their operations. The engagement discussed how they were going to meet the government's future homes standard and work being undertaken with their supply chain. The discussion also covered achieving the transition to net zero in a just way as well as the company's exposure to concerns around leasehold contracts.

Outcome and follow ups: LAPFF will continue to engage with Barratts and other housebuilders to ensure targets they have set are being met. PIRC will also endeavour to hold housebuilders to account.

**STANDARD CHARTERED**

Overview: Standard Chartered is a multinational banking and financial services institution, headquartered in the UK with operations around the world.

Issues arising: A meeting was held with Standard Chartered chair, José Viñals, to determine how the bank is progressing working with clients to reduce carbon emissions and align with the bank's net zero by 2050 policy. Member concerns had been relayed to the chair about the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows its activities to be aligned with an increase of 5-6°C in global warming.

Engagement: The company issued a roadmap for its progress to net zero in October which included 2030 targets to reduce financed emissions for thermal coal mining and oil and gas power, as well as plans to mobilise US$300 billion in green and transition finance by 2030. There was further engagement in November, which confirmed an absolute target for coal, and that no investments would support any project expanding capacity. Outcome and follow ups: LAPFF has remained in touch with NGO contacts who have considered filing a resolution to the 2022 AGM asking for commitments not yet evident in the company's current transition plans. The company confirmed it will put a ‘say on climate’ plan to the vote at the 2022 AGM.

**CA100+ BENCHMARK**

The second iteration of the Climate Action 100+ benchmark is upcoming in March 2022. There have been updates in the methodology used for the Disclosure Framework, as well as new Alignment Assessments that assess direct and indirect climate policy engagement activities. This was an opportunity to highlight areas of improvement in terms of metrics and disclosures. LAPFF engaged with a number of companies as to how they could meet the benchmark in its entirety by 2023.

**ARCELORMITTAL**

Overview: ArcelorMittal is a steel manufacturing firm with operations around the world. It has an annual crude steel production of over 75 million metric tonnes, the second highest in the world.

Engagement: LAPFF sent a letter, along with other lead investors in the CA100+ initiative, to ascertain the company’s approach and reporting targets for achieving alignment with the initiative’s goals. A reply from the chair, Lakshmi Mittal, confirmed collaboration with the Science Based Target initiative (SBTi) on new methodology for the steel sector. It is to be Paris-aligned and work towards a 2050 net zero target. However, the company did not meet the 2025 carbon emissions indicator target, claiming that much of the policy would be weighted towards the second half of the decade.

Outcome and follow up: A meeting in December sought for publication of a more granular report on lobbying with a trade association overview as well as information on the shareholder consultation for a transition plan to be put to the 2022 AGM.

**LYONDELL BASELL**

Overview: Lyondell Basell is a multinational chemical company that produces hydrocarbons and plastics technologies. It is the third largest independent chemical manufacturer in the United States, where it is headquartered.

Engagement: Company representatives outlined their unwillingness to provide further updates until the publication of the sustainability report. In the first iteration of the benchmark, six indicators were not met, and four were only ‘partially’ met. LAPFF encouraged further disclosure in relation to lobbying activities. Paris-aligned accounting, audit disclosure and remuneration ‘underpinning’ were raised.

Outcome and follow up: LAPFF awaits further publications, scheduled for April 2022.

**NATIONAL GRID**

Overview: National Grid owns and operates the UK’s electricity network, as well as operating some networks in the United States.

Issues arising: Similarly to ArcelorMittal, LAPFF entered into discussions about the upcoming CA100+ benchmark, and how the company could improve its performance.

Engagement: The company gave further detail of net zero alignment with International Energy Agency's (IEA) 2035 date for all relevant electricity emissions, noting the assumption of a zero carbon power grid by 2035.

Outcome and follow up: A meeting in December covered disclosure on lobbying activities and further discussion on Paris Aligned accounting and audit disclosure.

## HUMAN RIGHTS

### BHP

LAPFF is currently undertaking extensive engagement with the mining sector. It is clear that, two and five years on from the Brumadinho and Samarco disasters respectively, companies are still prevaricating in their duty of care to victims. What's more, there are still concerns about existing tailings dams, and the safety of residents downstream at other locations.

LAPFF Chair Cllr Doug McMurdo met BHP CEO, Mike Henry, for the first time, discussing BHP's imminent unification process and ongoing human rights concerns relating to Samarco and its joint venture Resolution Copper project with Rio Tinto in Arizona.

There was some progress in relation to community engagement, with Mr Henry and Ken Mackenzie, BHP Chair, outlining their expectations of incorporating free, prior and informed consent in relation to Resolution Copper before the project can proceed.

LAPFF also shared its experience of engaging with Brazilian communities affected by the Samarco tailings dam collapse and found Mr Henry receptive to this feedback. LAPFF also issued a voting alert opposing BHP's climate plan, in both London and Sydney. While LAPFF was pleased to see BHP put its plan to a 'say on climate' vote, LAPFF's view is that the plan had significant shortcomings. For example, there was a fear that the company could rely too heavily on unproven technologies such as carbon capture and storage (CCS) in the plan. The plan also appeared to contradict BHP's assertion that the company will benefit from a very quick transition to a green economy. The plan could have moved the company much further much more quickly but did not.

LAPFF will continue to engage with BHP in relation to both Resolution Copper and Samarco. It is expected that LAPFF will publish a report on mining and human rights in Q1 of 2022. LAPFF will continue to engage with BHP on its climate developments more frequently.

### BURBERRY PLC

Overview: Burberry Group plc is a London-based international high-fashion label and luxury goods retailer that designs and sources apparel and accessories.

Issues arising: Burberry has a diversified supply chain, sourcing materials from all over the world. As a result, the procurement process will include sourcing materials from regions with an inherent human rights related risks.

Engagement: In November, the pool met with the company to discuss its approach to mitigating human rights risks within its supply chain. The company provided an overview of its human rights due diligence processes. These included conducting a human rights impact assessment globally on a biannual basis. The company outlined that assessments serve to identify potential areas of risk, capture emerging risks in relation to new operations and projects, and review or develop mitigation plans as required. The company further outlines that it undertakes preacquisition or precontract assessments for human rights risks in terms of their potential impact on human rights. In response, it was highlighted that further disclosures around the risk profile of the countries in which it sources materials would help shareholders better understand the risks facing the company. When asked about the process of ensuring compliance and alignment with its own human rights policies, the company stated that it conducts announced and unannounced audits which consist of worker interviews, document reviews and site tours, and are repeated on an ongoing basis to confirm compliance and continuous improvement. It was further elaborated that worker interviews are conducted confidentially, with workers randomly and with fair representation of the workforce, including union and worker representatives where applicable. In response, NLGPS representatives highlighted the important role unions play in mitigating human rights risk. Whilst social audits have a place in ensuring compliance, strong union coverage can play a key role in supporting greater agency of employees and ultimately reduce the risk of human rights violations taking place. It was made clear that supporting the increase in union density throughout its supply chain would further help to mitigate human rights related risks within its supply chain

Outcome and follow ups: Of all the NLGPS holdings engaged over human rights, Burberry has been the most advanced with regards taking meaningful steps to address risks within the business. That said, improvements in disclosures relating to country-by-country risk assessments and reported grievances would afford stakeholders better visibility of the risks facing the company.

**GOVERNANCE**

**RYANAIR**

Overview: Ryanair Holdings plc is a holding company for the Ryanair Group of airlines. Ryanair currently flies to 23 separate locations from Leeds Bradford Airport, making it the second busiest airline operating out of West Yorkshire. The airline flies to 33 locations from Liverpool John Lennon Airport, the most of any airline, and is projected to fly to 83 locations from Manchester international Airport.

Issues Arising: PIRC has been monitoring shareholder voting turnout, given its importance in effective corporate governance. We noted that turnout at Ryanair’s 2021 AGM had fallen significantly to under 10%. We were also aware that in response to Brexit and the requirements for majority EU ownership and control of EU airlines that the company had sought to disenfranchise non-EU shareholders. Nonetheless a turnout of under 10% was surprisingly low.

Engagement: PIRC contacted the company to establish whether the AGM voting results posted by company were correct. Whilst there had been a small error in the figures the company confirmed that the overall picture was correct. Therefore, PIRC asked whether this was due to the disenfranchisement of non-EU investors. The company responded that while restrictions on voting rights contributed, in part, to the low turn-out but there had been a reduced participation in AGMs of Irish PLCs across the board due to the migration of the Euronext Dublin CSD system from CREST to Euroclear Bank Belgium in March 2021. They added that this had made the voting process more complicated in some cases and had discouraged certain investors from voting. Nonetheless the company was hopeful that turnout would improve in future as investors became used to the process.

Outcome and Follow Ups: PIRC subsequently reviewed the voting turnout at several other companies, both Irish PLCs and other airlines. Whilst it was the case that turnout was reduced at other Irish companies often the effect was small. In contrast, at another airline that had sought to disenfranchise non-EU shareholders turnout had fallen from 83% in 2020 to 16% in 2021. PIRC will continue to monitor this important governance issue.

**PHARMACEUTICAL INDUSTRY**

LAPFF wrote to five pharmaceutical companies for engagement meetings to discuss whether Covid has required them to change their business models or business strategies. Only Roche offered a specific, bespoke meeting. LAPFF was, however, able to meet with Johnson & Johnson through a collaborative investor discussion. J&J has an administrative office, as well as a manufacturing site in Leeds.

With depressing familiarity to other health outcomes, people in the North suffered higher levels of infection and death from Covid-19 than elsewhere in the country. It is therefore of interest to understand how Covid and the associated changes have impacted these businesses.

Both have treated Covid as a test of their existing business models and strategies. There appear to have been more operational changes, such as how staff work together online and determining the right balance of working from home and working from offices, than there have been business model or strategy changes. There might be further developments to consider in respect of business model and strategy before companies can decide whether they are well-placed with their existing structures or whether they need to make adjustments in the longer-term.

LAPFF will write again in the new year to the companies that have not yet granted meetings. Timing is critical as all of the companies are contributing in one way or another to the pandemic response, so company representatives might be more or less available depending on when Covid waves hit and when certain drugs are released in response.

## WATER STEWARDSHIP

### CHIPOTLE

LAPFF has been in dialogue with Chipotle since 2019 regarding the company's approach to water stewardship and managing the water stress within its value chain. When the dialogue was first initiated the company was committed to the shared objective of mitigating water related risks and committed to measuring water usage as well as any water sources significantly affected by water withdrawal moving forwards. As of 2021, Chipotle is yet to conduct a water risk assessment for its full value chain.

In response to the lack of progress, LAPFF worked with the Greater Manchester Pension Fund to file a resolution to request that Chipotle provide an assessment to identify, in light of the growing pressures on water supply quality and quantity posed by climate change, its total water risk exposure, and policies and practices to reduce this risk and prepare for water supply uncertainties associated with climate change.

LAPFF maintains dialogue with Chipotle and on this issue and will continue to work constructively with the company to ensure it is taking the necessary steps to manage water risk effectively.

## Q4 VOTING

The end of the year continued to see some interesting issues coming to shareholder votes, and examples of companies facing significant challenges from investors. In the US some well-known companies such as Tesla, Microsoft, Oracle and Nike all had meetings and there were a number of interesting resolutions that attracted strong support.

Resolutions relating to climate change continue to do well and those at Autozone and Sysco Corporation were supported by a majority of shareholders. NLGPS voted in favour.

Resolutions covering diversity and inclusion and racial and gender equity have found much more support in recent years. As we noted in a previous report, resolutions requesting racial equity audits, a new topic in 2021, have really hit a nerve. One such resolution at Oracle achieved majority support in Q4. Resolutions at Microsoft, calling for a report on the effectiveness of workplace sexual harassment policies, and at Tesla, asking for a report on diversity and inclusion also received majority support. NLGPS voted in favour in all cases.

Despite increased rhetoric around the 'S' in ESG' resolutions on human rights and employment-related issues did not do well in Q4. Those at Tesla and Nike received the support of around a quarter of shareholders.

Similarly the idea of giving employees a voice at board level, or developing related methods of workforce engagement continues to be opposed by most investors in US companies. Resolutions at ADP, Proctor and Gamble and The Clorox Company did not achieve strong support, though NLGPS supported in all cases.

## Shareholder Resolutions

| Company Name | Shareholder Resolution | NLGPS vote |
|---|---|---|
| News Corporation | Simple Majority Voting | For |
| Nike Inc. | Report on Human Rights Impact Assessment | For |
| Tesla Inc. | Report on Median Gender/Racial Pay Gap | For |
| Microsoft Corporation | Report on Racial Discrimination | For |
| The Procter & Gamble Company | Adopt a Policy to Include Non-Management Employees as Prospective Director Candidates | For |
| Automatic Data Processing Inc. | Report on Workforce Engagement in Governance | For |
| The Clorox Company | Adopt a Policy to Include Non-Management Employees as Prospective Director Candidates | For |
| Microsoft Corporation | Prohibit Sales of Facial Recognition to All Government Entities | For |
| Cardinal Health Inc. | Require Independent Board Chair | For |
| Nike Inc. | Report on Median Gender/Racial Pay Gap | For |

## Votes by Percentages

| Vote Type | For | Oppose | Abstain | Withhold |
|---|---|---|---|---|
| Remuneration Advisory | 46% | 38% | 1% | N/A |
| Remuneration Binding | 46% | 21% | 32% | N/A |
| Auditor Appointments | 20% | 75% | 5% | N/A |
| Director elections | 76% | 16% | 5% | 3% |