LGPS Central Limited

Quarterly Stewardship Report

SECOND QUARTER, 2019-20 (JULY-SEPTEMBER 2019)

CHESHIRE PENSION FUND

Derbyshire Pension Fund

Leicestershire County Council PENSION FUND

Nottinghamshire County Council

SHROPSHIRE COUNTY PENSION FUND

Staffordshire Pension Fund
Local Government Pension Scheme

West Midlands Pension Fund

West Midlands ITA

Worcestershire Pension Fund

Responsible Investment & Engagement

LGPS Central's approach

LGPS Central's approach to Responsible Investment & Engagement carries two objectives:

OBJECTIVE #1

Support the Company's investment objectives

OBJECTIVE #2

Be an exemplar for RI within the financial services industry & raise standards across the marketplace

These objectives are met through three pillars:

*Our **Selection** of assets*

*Our **Stewardship** of assets*

*Our commitment to **Transparency and Disclosure***

ADDITIONAL DISCLOSURES

Responsible Investment & Engagement Framework

Stewardship Code

Voting Principles

Voting Disclosure

Signatory of:

PRI Principles for Responsible Investment

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

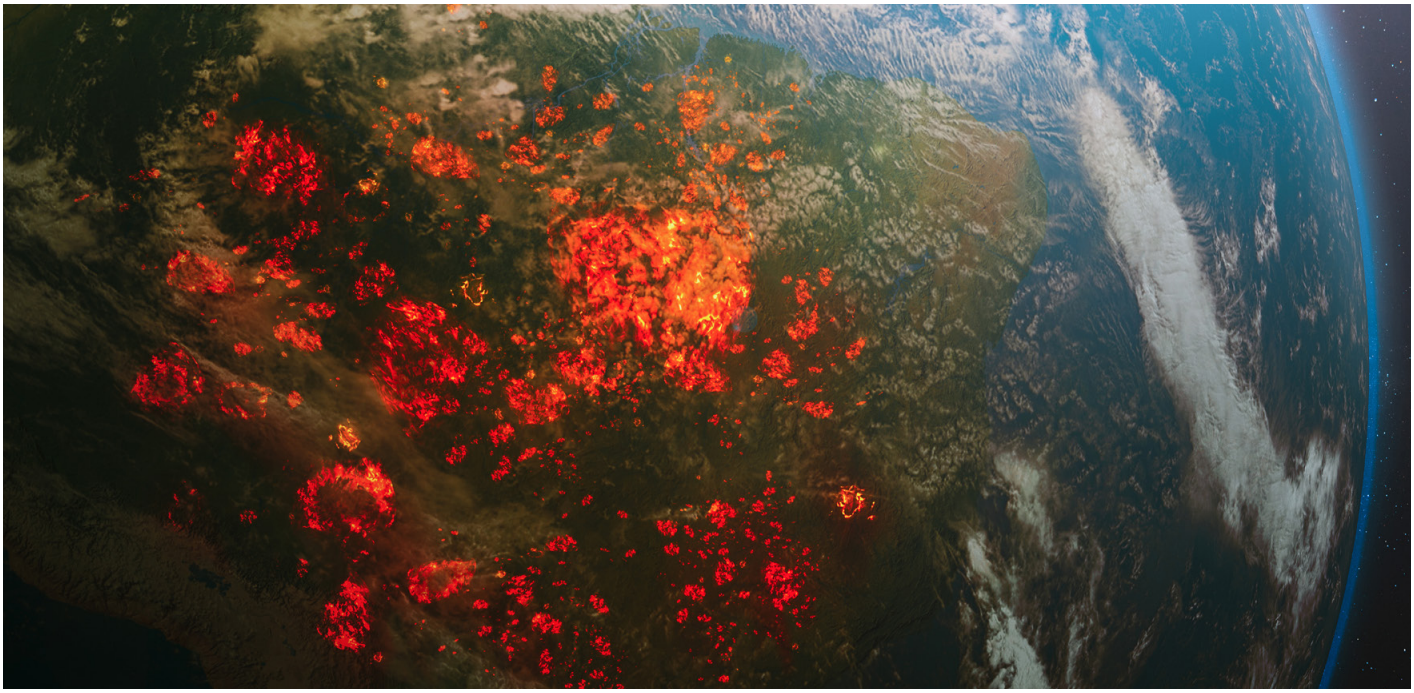
01 Introduction and Market Overview

Radical shift in how a company's success is measured – but is a statement enough?

The Business Roundtable, one of the most powerful pro-business lobbying groups in the United States, released a new policy statement in August that demonstrates a radical shift in how a company's success is measured. The new *Statement on the Purpose of a Corporation* is signed by 181 CEOs from across industries who commit to lead their companies for the benefit of all stakeholders including customers, employees, suppliers, communities and shareholders. This statement supersedes previous statements and outlines a modern standard for corporate responsibility where the short-term maximisation of shareholder return is no longer a company's sole purpose. We see the same change on specific themes, for example on tax transparency, where the focus is shifting away from minimising tax to paying your fair share for public services that society including businesses rely on for their operations.

As a long-term investor we have long advocated the same view in our engagements with companies. We expect companies to take a truly holistic, "360-degree" view of their core business and operations and to have ongoing, strategic dialogue with key stakeholders. We would in the same breath caution against a traditional CSR approach where philanthropic projects unrelated to the core business are purported to tick this box. Sceptics of 'stakeholder capitalism' are in plentiful supply. Larry Summers, former US Treasury secretary under President Bill Clinton, writes in the Financial Times that the Business Roundtable's statement might be more rhetorical than real. We will continue to ask companies for action that goes beyond rhetoric for instance in how they treat and invest in their workers, their communities, their customers and suppliers. This modern view of good corporate practice goes hand in hand with a modern interpretation of fiduciary duty where material ESG factors should and must be considered.

This quarter saw a report from the UN Intergovernmental Panel on Climate Change (IPCC) that warns of rising air temperatures over land. Reducing emissions from sectors such as agriculture and food will be essential to keeping global warming well below 2°C, according to the report. Land plays a central role in absorbing



and emitting greenhouse gases. Better land use, such as increasing afforestation and reducing deforestation, will be an integral part of limiting global warming to well below 2°C. The findings of the IPCC report were amplified with the news of fires raging in the Amazon in September, drawing attention to the alarming speed of deforestation in one of the most biodiverse places on Earth. Scientists warn that we are near a tipping point where rainforests are at risk of gradually turning into dry savannas. At LGPS Central we see a combination of reputational, operational and regulatory risks stemming from continued unsustainable land use and deforestation. We therefore supported a PRI-led Amazon investor statement calling on companies to take urgent action. The statement calls on companies to tackle financially material deforestation risks, including market and reputational risks, within their operations and global supply chain and was signed by 230 institutional investors representing US$ 16.2 trillion in assets under management.

Excessive executive remuneration is a continuing concern and we would like to see a fairer relationship between executive pay and overall workforce pay. As we have stated in our Voting Principles, we believe that levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. This ties in with the sentiment of what modern good corporate governance looks like. We therefore welcome the trend in the UK where pay for FTSE 100 chief executives has fallen to its lowest level in five years due in part to investor pressure over egregious rewards. According to Deloitte, median pay for a FTSE 100 chief executive was £3.4m in the last financial year, down from £4m in the previous period, the lowest level since 2014. Several high-profile pay revolts have punctuated this summer's AGM season, including with Standard Chartered where more than a third of shareholders voted against the company's new pay policy over concerns about chief executive Bill Winter's pension allowance. Where LGPS Central has voted against management on contentious pay proposals, we aim to follow up the vote with engagement in order to explain our voting rationale and to achieve appropriate pay reform.

In July LGPS Central hosted its inaugural Responsible Investment (RI) Summit. Pension Committee and Local Pension Board representatives from all the Pool's Partner Funds attended to hear about key developments in RI, why it is relevant to fiduciary duty and how a theme like climate change can be tackled as an investment issue. The latter was covered both from an asset allocation perspective – with a feature presentation on climate-aware factor investing – and from the perspective of engagement with companies, sectors and regulators. The summit also gave an update on engagement and plans for engagement across key stewardship themes including single-use plastics, tax transparency and tech sector risks alongside climate change. Delegates were given opportunity to interact both in plenary and group-discussions.

02 Engagement

This quarter our engagement set[1] comprised 1,458 companies with 2,256 engagement issues[2]. There was engagement activity on 686 engagement issues and achievement of some or all engagement objectives on 573 occasions. Most engagements were conducted through letter issuance or company meetings, and we or our partners mostly met or wrote to the Chair or a member of senior management.

Most of our engagement work focusses on key stewardship themes that have been identified in collaboration with our partner funds. These are climate change, single-use plastics and plastic pollution, fair tax payment and tax transparency, and technology and disruptive industries sector risks. We continue, however, to employ a broad stewardship programme – beyond just our targeted themes – covering issues like fair remuneration, board composition, diversity, labour rights, to name but a few.

STRENGTHENED TRANSPARENCY IN SUPPLY CHAINS ON MODERN SLAVERY

During the last quarter we responded to the *Home Office's Transparency in Supply Chains Consultation* which seeks to strengthen the transparency in supply chains requirements of the Modern Slavery Act. As a long-term, global, diversified investor we would like to see high standards of business conduct across themes including human and labour rights. It is appalling that, more than a century after abolitionism, slavery continues to exist in contemporary form. Weakness of labour rights in the supply chains of technology companies is of particular concern to us as 'technology and disruptive industries' is one of our current stewardship themes. Our response, which largely aligned with a coordinated response by Rathbone Brothers Plc and CCLA Investment Management, highlighted the need for mandatory reporting across the current areas of the Modern Slavery Act. We also asked for improved reporting on the efficacy of company actions, for instance asking companies to report on instances of modern slavery that they have proactively discovered in their supply chain. All our consultation responses are published on our website.

UK CORPORATE GOVERNANCE – ENGAGING FOR IMPROVEMENT

UK companies have now had one round of AGMs since the 2018 UK Corporate Governance Code came into force. The new code raises the governance bar at UK-listed companies, as the forthcoming Stewardship Code will do with UK investors. We are engaging a UK telecoms company and a UK fashion retailer where we believe improvements to corporate governance, strategy, capital management, remuneration and disclosure would be to the long-term benefit of the businesses and to investors. Both the telecoms and fashion retail industries are undergoing vast changes as a result of technological change. We believe a coherent and best-in-class governance framework will put our engagement targets in a better position to be able to handle the shocks and stresses to come. Working with a small investor group, we have sent letters to the Chairs of both companies requesting shareholder input into their forthcoming governance reviews.

EXECUTIVE PAY AND ALIGNMENT BETWEEN PAY AND PERFORMANCE

Executive pay is an issue that we continuously address in our engagement and voting. We are supportive of remuneration committees that are willing to design pay schemes that deviate from traditional Long Term Incentive Plan (LTIP) structures and, during the quarter in review, we contributed to a research report by The Purposeful Company that assesses alternative remuneration designs, specifically 'deferred shares'[3]. The study finds deferred shares to have the advantages of simplicity and of encouraging long-term management behaviours, and the report encourages companies, investors and proxy advisors to give deferred share schemes due consideration.

Following the main proxy season, we and our stewardship provider continue to engage companies on remuneration. On our behalf, Hermes EOS engaged a European building systems supplier during the last quarter, where executive remuneration was one of several issues discussed. Hermes EOS welcomed the improvements made to the remuneration policy but encouraged the implementation of a longer (two-year) holding period for the LTIP. Hermes EOS also pressed for a review of the termination packages, which may be excessive.

[1] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider. This quarter's total includes 726 companies written to as part of the International Mining and Tailings Initiative collaboration.

[2] There can be more than one engagement issue per company, for example board diversity and climate change.

[3] Deferred shares are in this context pay awards made in the form of company shares, where the vesting period is long-term and there is a requirement to hold the shares beyond one's term of office.

03 Stewardship Themes

In order to be efficient and targeted in our engagement, we prioritise specific Stewardship Themes.

We acknowledge the fact that economic trends and market assessments evolve over time and that the landscape of Environmental, Social and Governance (ESG) factors that are considered material to investing evolve in tandem. Given that engagement requires perseverance and patience, we expect to pursue the same themes over a one to three-year horizon, and in some cases – like with climate change – a longer time period.

In collaboration with our Partner Funds, we identified four themes which will be given particular attention in our stewardship efforts over the year ahead:

- Climate change
- Single-use plastics,
- Fair tax payment and tax transparency
- Technology and disruptive industries

In our Annual Stewardship Plan (ASP) we have adopted a strategy of seeking to combine collaborative engagement alongside direct engagement with companies. We also aim to encourage the establishment and promotion of best practice standards through industry standard setting or regulation. The latter element is particularly important, given that the stewardship themes we identified in this year's ASP are relatively new to investors. During this quarter we have therefore sought out several industry standard engagement projects that we actively support, alongside company engagement.

CLIMATE CHANGE

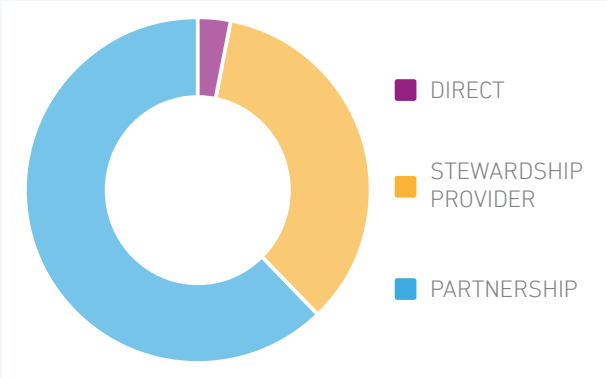
This quarter our climate change engagement set comprised 268 companies with 282 engagements issues[4]. There was engagement activity on 146 engagement issues and achievement of some or all engagement objectives on 104 occasions.

Our climate change stewardship continues to build on collaborations with the Climate Action 100+ Initiative (CA100+), the Transition Pathway Initiative (TPI), Institutional Investor Group on Climate Change (IIGCC) and the CDP (formerly Carbon Disclosure Project). During this quarter, CA100+ published its first Progress Report since launch in December 2017. The report gives a review of how the oil & gas, utilities, mining and metals, transportation, industrials and consumer products sectors are progressing against the CA100+ goals around climate governance, reduction of emissions and climate disclosure. As an example, the report points to a handful of oil & gas majors (including Shell, Repsol, Equinor and Total) that have developed initial investment plans to diversify their businesses and have set long-term intensity targets to reduce emissions. The report notes that no company in this sector has yet comprehensively explained to investors how its business, and associated scopes 1, 2 and 3 emissions profile fit with achieving net zero emissions by mid-century. CA100+ has over 370 investor signatories. LGPS Central has been an active member taking on co-lead and focus-group roles for various engagements since inception of our company. We are currently co-leading or in the focus group of ongoing engagements with five companies.

We continue to be concerned when companies either directly or indirectly lobby in a manner that is not positively aligned with the goals of the Paris Climate Agreement. In the case of mining company BHP Group, we supported a shareholder resolution asking the company to suspend memberships of industry associations whose record of advocacy since 2018 demonstrates, on balance, inconsistency with the Paris goals. LGPS Central fully agrees with the co-filers that corporate climate lobbying is one of the most corrosive blocks to achieving the goals of the Paris Climate Agreement. Negative lobbying works against the creation of the necessary regulatory environment to support the transition to a low-carbon economy. We do acknowledge and applaud BHP Group for its leadership in climate change action and disclosure. At the same time, we believe that asking the company to go a step further on climate-negative industry association lobbying is warranted. We put these views to the company CEO on a joint investor call. While the company felt somewhat aggrieved by the shareholder resolution, given their proactive stance on climate change, they also acknowledge investors' concerns and stated that the company will leave industry associations if there is material misalignment. The shareholder resolution received 22% support at the BHP Group Plc's AGM in London on 17 October, which is a substantial level of support. BHP Group is a dual listed company and the shareholder resolution will also be voted on at BHP Group Limited 's AGM in Sydney on 7 November.

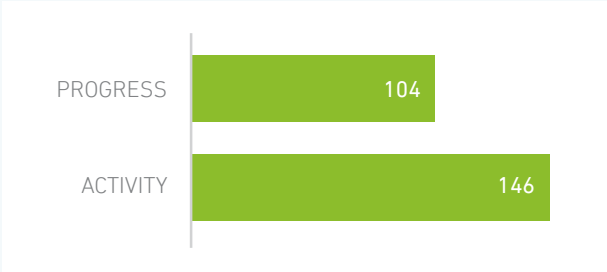
During 2019 LGPS Central has been part of an investor group led by Sarasin & Partners that is engaging auditors on climate risk accounting. As we saw the end of this quarter, the investor group had engaged three of the Big Four (KPMG, PwC and Deloitte) and a meeting with EY Global was held in October. Together with the investor group, we expressed an expectation of auditors to test critical accounting judgements against credible economic scenarios that are Paris aligned and to highlight where company assumptions, for instance on future oil price, may be too aggressive. There seems to be acceptance from the auditors that climate risks, where material, are relevant to their role in auditing company accounts. The auditors also acknowledge that there is a need for in-house training on climate risk and some are moving on this. The challenge seems to be around which practical steps auditors can take given massive uncertainties, and with a disinclination to "second-guess" executives in their accounting assumptions. All the audit firms asked for and welcomed shareholders encouraging further disclosures directly from companies. The next step for this engagement project is to write to the audit committees of the bigger fossil fuel companies, with their auditors on copy. The auditing firms all saw this three-way engagement as a positive step change.

*ENGAGEMENT VOLUME BY **TYPE***



- 282 engagements in progress
- Most engagements undertaken via CA100+
- Key engagement on negative climate lobbying

*ENGAGEMENT VOLUME BY **OUTCOME***



[4] There can be more than one climate-related engagement issue per company.

SINGLE-USE PLASTICS

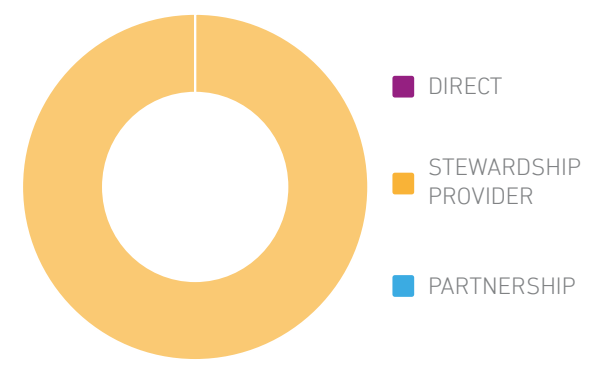
This quarter our single-use plastics engagement set comprised 13 companies with 15 engagements issues. There was engagement activity on 12 engagements and achievement of some or all engagement objectives on two occasions.

Over this quarter we have prioritised participation in and support of two industry standard initiatives that have direct relevance to the plastics theme. Influencing corporate practices on a theme across industries is something we view as a very powerful engagement tool and we will seek to do this both in preparation for and alongside dialogue with companies. We intend to engage for example retailers and other plastic-dependent sectors using both initiatives as a reference as appropriate.

Firstly, we are supporting a Plastic Pellet Pollution project that is coordinated by the Investor Forum. The aim of the project is to get a new industry standard through the British Standards Institute (BSI) for plastic pellet management in order to stop pollution of the environment. Plastic pellets that escape into the environment, including natural waterways (oceans) cause a lot of damage to the ecosystem by entering the food chain, initially posing serious threat to marine and bird life – but potentially also a health threat to people. The project relies on broad stakeholder collaboration, including with investors, industry associations, government, corporates and NGOs. Secondly, we have signed a petition from investors to the Marine Stewardship Council (MSC) on "ghost gear". We like to see MSC strengthen its fisheries standard as it pertains to abandoned, lost or otherwise discarded fishing gear, also labelled ghost gear. Ghost gear is a marine debris and plastics pollution problem of enormous proportions that must be addressed to help protect ocean life and secure the future of oceans as a productive and sustainable global food resource. In the petition, we stress that the inclusion of ghost gear in MSC's certification standards is necessary to ensure that MSC's program is highly relevant to fundamental environmental, food security and safety needs. Commercial seafood partners rely on MSC as a 'one stop assurance' program for their sustainable procurement policies.

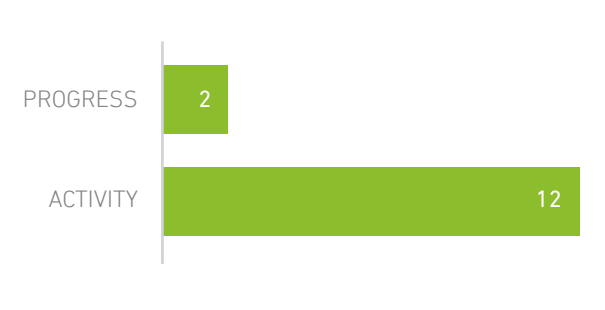
On our behalf Hermes EOS engaged 13 companies over concerns with single-use plastics and plastic pollution during the quarter in review. As an example of recent engagement, HEOS was asked by a UK drinks producer to provide an investor perspective on what its 2030 ambitions should address. The company was seeking input on what HEOS considers to be the most material issues, where there are gaps in its current strategy, and how investors expect the world to change by 2030. HEOS emphasised, amongst others, the transition to a circular economy and that the company could play a role in developing innovative packaging solutions that enable re-use and reduction of waste, rather than recycling.

*ENGAGEMENT VOLUME BY **TYPE***



- 12 engagements during the quarter
- Support of two initiatives to help improve standards across the plastic value chain
- Evidence that companies are actively seeking investor advice on sustainable packaging

*ENGAGEMENT VOLUME BY **OUTCOME***



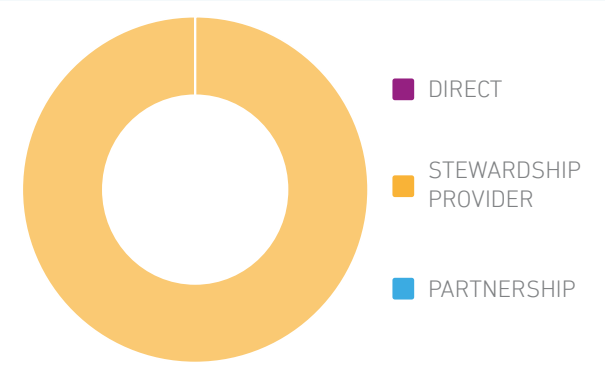
FAIR TAX PAYMENT AND TAX TRANSPARENCY

This quarter our tax transparency engagement set comprised six companies with eight engagements issues. There was engagement activity on four engagements and achievement of some or all engagement objectives on one occasion.

Consistently with a 'shareholder primacy' form of capitalism, companies have historically treated tax as a cost to be minimised. As reported above, a trend towards 'stakeholder capitalism' is leading companies to instead seek to make a full economic contribution, acknowledging that through taxes they invest in the community and the society in which they operate. When taxes are paid fairly, it ensures a level playing field for businesses and overall stable markets. Whether companies are paying the right amount of tax can be a complex question. However, whether a company is transparent on how tax is determined and on its governance around tax and tax risk, is more straightforward and it is something we are encouraging through engagement. In order to achieve this, we are supporting the Fair Tax Mark and we will use the standards expressed through the Fair Tax Mark certification to UK companies that we engage.

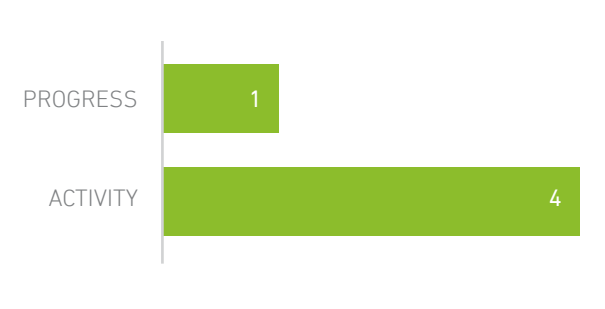
During the quarter Hermes EOS (our stewardship provider) engaged six companies, all banks, on our behalf on tax transparency. Poor tax-related conduct has occurred in the banking industry in relation to client servicing. As an example, is the 'cum-ex' financial engineering scheme. Staff in one bank allegedly traded shares to another just before dividends were paid, enabling both to claim withholding tax rebates on the same shares. Treasuries in Germany, Austria and Denmark are thought to have lost high sums in overpaid tax rebates. A legal process against a set of primarily European banks to reclaim the funds is ongoing. Considering this, HEOS has sent its expectations on tax policy, governance and transparency to a focus list of 10 banks. After an initial assessment of tax policies and reporting at these companies, HEOS has investigated the unreported areas of tax practice and pressed the banks on their controls for tax-related conduct across the company. Many banks know that they need to do more on tax, and some are strengthening their policies and reporting.

*ENGAGEMENT VOLUME BY **TYPE***



- 8 engagements during the quarter
- Support of Fair Trade Mark will be upheld in engagement with UK companies
- Engagement efforts and some progress seen on tax policy and transparency in the banking sector.

*ENGAGEMENT VOLUME BY **OUTCOME***



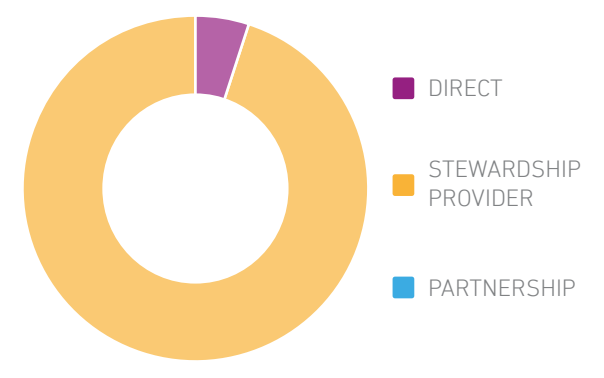
TECHNOLOGY AND DISRUPTIVE INDUSTRIES

This quarter our technology and disruptive industries engagement set comprised 33 companies with 61 engagements issues. There was engagement activity on 44 engagement issues and achievement of some or all engagement objectives on seven occasions.

We have joined a collaborative engagement initiative led by the New Zealand Crown-owned investors aiming for social media companies to strengthen controls around the live streaming and distribution of objectionable content. The engagement is targeting Alphabet, Facebook and Twitter. So far, all three companies are communicating with the investor initiative and have made progress towards the stated objective. For example, Facebook has announced a commitment to staying one step ahead, and for instance is obtaining footage from US and UK international firearms training programmes to help it detect scenes like the Christchurch shootings. The collaboration also supports the Christchurch Call, an initiative that focuses on eliminating terrorist and violent extremist content online. The initiative, launched in May this year, was led by New Zealand Prime Minister Jacinda Ardern alongside French President Emmanuel Macron. Part of the engagement with companies will include monitoring of how they uphold commitments made under the Christchurch Call.

On our behalf, Hermes EOS engages technology companies on a broad spectrum of vulnerabilities via its Social as well as its Strategy, Risk & Communication themes. Hermes EOS has reported on engagement on supply chain human rights topics across sectors, including with the technology sector. As an example, Hermes EOS has engaged Hon Hai, Apple's largest supplier, over six years following reports that emerged of workers committing suicide and of exploitative working conditions. Hermes EOS gained insights into an independent investigation, raised concerns with the chair at the AGM, visited facilities to speak with workers including union representatives, and requested that the company progress with its worker health and wellbeing programme. Following this engagement, Hon Hai has taken the positive step of publishing a human capital management strategy, but Hermes EOS will continue to engage on its further development and implementation.

*ENGAGEMENT VOLUME BY **TYPE***



- 61 engagements in progress
- Collaborative engagement with social media companies (Alphabet, Facebook and Twitter) on content control
- Some progress is seen on labour issues in the supply chain

*ENGAGEMENT VOLUME BY **OUTCOME***

04 Voting

POLICY

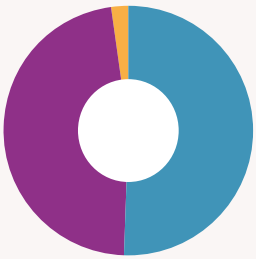
For UK listed companies, we vote our shares in accordance with a set of bespoke UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor.

COMMENTARY

On behalf of our clients, we continued to vote shares at company meetings between July and September 2019[5].

[5] The data presented here relate to voting decisions for securities held in portfolios held within the company's Authorised Contractual Scheme (ACS)

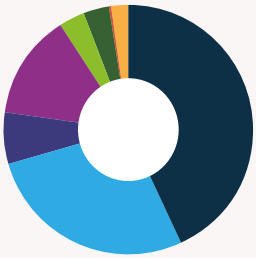
GLOBAL



- Total meetings in favour **50.6%**
- Meetings against (or against AND abstain) **47.4%**
- Meetings with management by exception **2.0%**

Over the last quarter we made voting recommendations at 247 meetings (2,871 resolutions). At 117 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at five meetings. We supported management on all resolutions at the remaining 125 meetings.

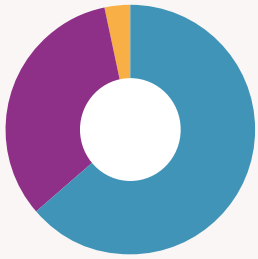
GLOBAL VOTES AGAINST AND ABSTENTIONS BY CATEGORY



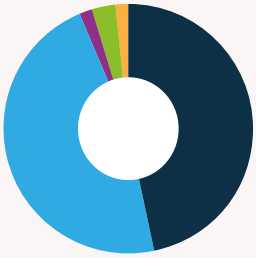
- Board Structure **43.1%**
- Remuneration **27.4%**
- Shareholder resolution **6.7%**
- Capital structure and dividends **13.7%**
- Amend articles **3.3%**
- Audit and accounts **3.3%**
- Poison pill/Anti-takeholder device **0.3%**
- Other **2.0%**

UK

We made voting recommendations at 91 meetings (1,413 resolutions) over the last quarter. We recommended voting against or abstaining on 64 resolutions over the last quarter.



- Total meetings in favour **63.7%**
- Meetings against (or against AND abstain) **33.0%**
- Meetings with management by exception **3.3%**



- Board Structure **46.9%**
- Remuneration **46.9%**
- Capital structure and dividends **1.6%**
- Audit and accounts **3.1%**
- Poison pill/Anti-takeholder device **1.6%**

At the AGM of Sports Direct we voted against the re-election of founder CEO Mike Ashley because we have serious and ongoing concerns over poor corporate governance and business strategy. These severe governance issues are, in our view, linked to the dominance of the Mr Ashley, who is a majority shareholder. We also voted against the re-election of three board directors who have been members of the audit committee during a particularly troubling time for the company which included the late disclosure of a Belgian tax liability, the delayed reporting of financial results, and the refusal of the incumbent auditor (Grant Thornton) to seek re-appointment.

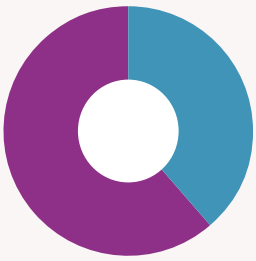
We voted against the remuneration report at JD Sports Fashion Plc's AGM over concern about the significant awards that are to be made to the outgoing CFO, alongside bonuses paid out at an exceptional level for the fourth consecutive year. Although earnings performance has been strong, we do not feel that the company has provided adequate disclosure to substantiate the excessive remuneration. We also voted against the resolution proposing a special bonus arrangement for the Executive Chair. The bonus of £6 million will be awarded in cash and is not subject to future performance, contrary to LGPS Central's Voting Principles. Peter Cowgill is effectively combined CEO/ Chair and has in our view too many board commitments. We therefore voted against his re-election to signal our preference for a division between CEO and Chair and a reduction in his extracurricular appointments. We will follow up with company engagement.

EUROPE EX-UK

We made voting recommendations at 31 meetings (409 resolutions) over the last quarter. We recommended voting against or abstaining on 75 resolutions over the same quarter.

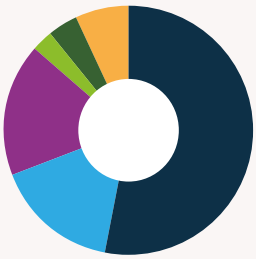
Jazz Pharmaceuticals Plc is a biopharmaceutical company based in Ireland founded in 2003. It is a leader in sleep medicine and with a growing hematology and oncology portfolio. At their AGM we voted against the election of director Norbert Riedel over concerns about remuneration committee performance. We also opposed an advisory vote on executive compensation because the company's long-term pay awards are not dependent on long-term performance.

Züdzucker is a German business specialising in sugar for food production but also bioethanol for the fuel sector. At their AGM, we voted against a non-independent supervisory board nominee, Walter



- Total meetings in favour **38.7%**
- Meetings against (or against AND abstain) **61.3%**

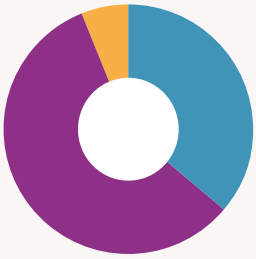
Manz because of the failure to establish a majority-independent board. The board currently has no independent directors, and Herr Manz' tenure would be for three years before having to face shareholder re-election. We also voted against two capital-related resolutions on grounds of insufficient disclosure.



- Board Structure **53.3%**
- Remuneration **16%**
- Capital structure and dividends **17.3%**
- Amend articles **2.7%**
- Audit and accounts **4%**
- Other **6.7%**

NORTH AMERICA

We made voting recommendations at 33 meetings (328 resolutions) over the last quarter. We recommended voting against or abstaining on 51 resolutions over this quarter.



- Total meetings in favour **36.4%**
- Meetings against (or against AND abstain) **57.6%**
- Meetings with management by exception **6.1%**

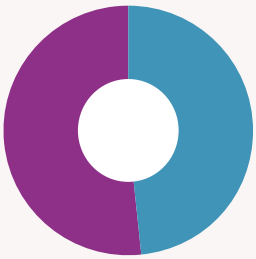
The board of Anadarko Petroleum Corporation sought shareholder approval to be acquired by Occidental Petroleum Corporation at Anadarko's AGM in August. While we voted to support the acquisition, we voted against a "Golden Parachute" for the CEO and other NEOs (Named Executive Officers). A Golden Parachute is defined as a large payment or other financial compensation guaranteed to a company executive if they should be dismissed as a result of a merger or takeover, which in this case we viewed as not corresponding to performance.

At the AGM of DELL Technologies Inc (USA) we voted against the election of directors David W. Dorman and Egon Durban over concerns related to lack of board diversity and independence. We generally consider majority board independence and independent key board committees to be essential to ensure representation of shareholders as opposed to company management. The company has three classes of stock, and we are also concerned with the board's refusal to remove this multi-class capital structure which we view as not protecting value for minority shareholders. Further to this, we voted against a proposed stock incentive plan because in our view the plan cost is excessive and allows broad discretion to grant early pay awards to executives.

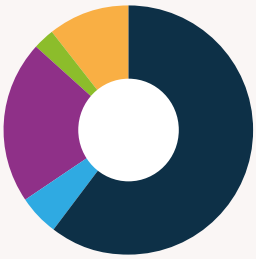
- Board Structure **43.1%**
- Remuneration **37.3%**
- Shareholder resolution **19.6%**

DEVELOPED ASIA

We made voting recommendations at 37 meetings (278 resolutions) over the last quarter. We recommended voting against or abstaining on 38 resolutions over this quarter.



- Total meetings in favour **48.6%**
- Meetings against (or against AND abstain) **51.4%**



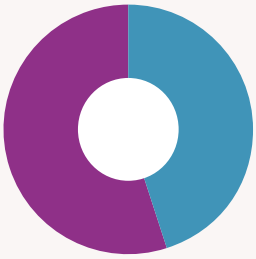
- Board Structure **60.5%**
- Remuneration **5.3%**
- Capital structure and dividends **21.1%**
- Amend articles **2.6%**
- Audit and accounts **10.5%**

We voted against management on 11 out of a total of 14 Japanese companies that were voted on in the last quarter, largely due to concerns about overall board structure and a lack of board diversity. We support Hermes EOS' corporate governance principles for the Japanese market which stress the importance of an effective composition of boards, including on core issues like board independence and board diversity. We strongly encourage Japanese companies – especially large ones – to ensure that at least a third or more of the board is independent although the Japanese Corporate Governance Code only requires board to include at least two independent non-executive directors. As we have stated in previous reports, Japanese boards have one of the lowest proportions of female representation in major markets. Since 2019, we will oppose the re-election of the chair or president of a Japanese company with no female director or statutory auditor unless they can provide a convincing explanation.

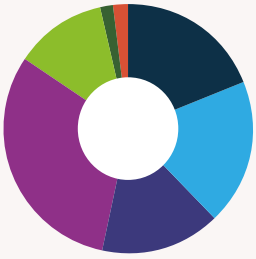
Flex Ltd. is a company that provides technology solutions across sectors. It is incorporated in Singapore but is a US domestic issuer listed on the Nasdaq. At their AGM in August we voted against the election of director Jennifer Li over concerns of her commitment level (she has attended fewer than 75% of total board and committee meetings in the past year). The company paid severance to the outgoing CEO upon his voluntary retirement, which is not common market practice. No aspects of the CEO's sign-on compensation were performance based, and we felt there was a failure to link pay and appropriate performance

EMERGING AND FRONTIER MARKETS

We made voting recommendations at 42 meetings (367 resolutions) over the last quarter. We recommended voting against or abstaining on 58 resolutions over this quarter.



- Total meetings in favour **45.2%**
- Meetings against (or against AND abstain) **54.8%**



- Board Structure **19.0%**
- Remuneration **19.0%**
- Shareholder resolution **15.5%**
- Capital structure and dividends **31.0%**
- Amend articles **12.1%**
- Audit and accounts **1.7%**
- Other **1.7%**

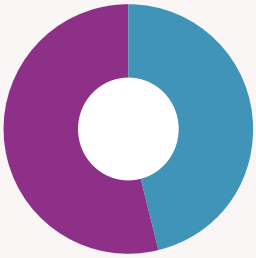
Naspers Ltd (South Africa) is a global internet group with a dual-voting share structure. We voted against the remuneration policy which includes a significant proportion of long-term incentives that are not performance related. We believe there is clear scope for increased disclosure of performance targets. We also voted against a resolution that gives the board authorisation to issue shares for cash.

At the AGM of China Gas Holdings, a gas-utilities company listed on the Hong Kong Stock Exchange, we voted against management on three resolutions. These concern the issuance of equity or

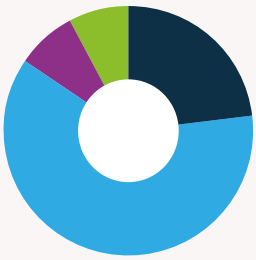
equity-linked securities without pre-emptive rights (the right granting to shareholders the first opportunity to buy a new issue of stock), authorisation of reissuance of repurchased shares and a refreshment of the employee share scheme. In each case we are concerned with the potential for excessive dilution of existing shareholders.

AUSTRALIA & NEW ZEALAND

We made voting recommendations at 13 meetings (76 resolutions) over the last quarter. We recommended voting against or abstaining on 13 resolutions over the last quarter.



- Total meetings in favour **46.2%**
- Meetings against (or against AND abstain) **53.8%**



- Board Structure **23.1%**
- Remuneration **61.5%**
- Shareholder resolution **7.7%**
- Capital structure and dividends **7.7%**

AGL Energy Limited is an Australian utility involved in the generation and retailing of electricity and gas for residential and commercial use. We voted against the remuneration report and against the approval of grants to the CEO under the LTIP. Our key concern is that pay and performance are not sufficiently linked. We voted for a shareholder resolution asking the company for climate-related transition planning disclosure. The company generates energy from thermal power, natural gas, wind power, hydroelectricity, solar energy, gas storage and coal. In our view, the shareholder resolution promotes better management of ESG opportunities and risks. It would allow shareholders to better assess AGL Energy's management of emissions risks if the company provided information on its GHG reduction goals. While the company recommended voting against the proposal, it received the backing of more than 30% of shareholders. AGL Energy Limited is part of the CA100+ initiative, which will exert renewed engagement pressure following the vote.

We voted at five companies in the New Zealand market. Only at one of those companies did we cast votes against management. That was in the case of Fisher & Paykel Healthcare Corporation Ltd, a manufacturer, designer and marketer of products and systems for use in respiratory care, acute care, and the treatment of obstructive sleep apnoea. We voted against two resolutions concerning approval of issuance of performance share rights and options to the CEO, Lewis Gradon. We are not satisfied that the pay reflects performance.

05 Industry Participation

LGPS Central is an active participant in the debate on good corporate and investor practice. We value collaboration with peer investors and with industry initiatives, which gives a stronger voice and more leverage in engagement.

The Transition Pathway Initiative (TPI) hosted its annual State of Transition event in July to present and debate the findings around climate risk management and performance of 274 companies across 14 sectors. These sectors account for around 41% of CO2 emissions from the universe of publicly listed companies globally. The research presented at the summit shows that 46% of companies are failing to adequately integrate climate change into their business decisions. Only 1 in 8 companies (12.5%) are reducing carbon emissions at the rate required to keep global warming below 2°. However, the report also notes that one in four (27%) companies assessed for a second year are improving on climate management. Against this backdrop, participants discussed both the urgency of the underlying climate crisis and ways of overcoming obstacles such as the still prevailing view that climate change is an externality and the lack of awareness. Investors in the room were urged to step up activity, including engagement. Later in the quarter, TPI in collaboration with Institutional Investor Group on Climate Change, hosted a "State of Transition Segment II" with workshops focused on particular sectors, including mining & steel, aviation and autos. There were a number of companies present at this event which allowed for detailed discussions on sector-specific challenges and emerging best practices. LGPS Central would like to see TPI get stronger support in key markets outside of the UK and Europe and is actively contributing to that development through our TPI steering group membership.

Our Stewardship Manager being interviewed as part of the State of Transition event

In September we attended the annual PRI in Person conference, this year held in Paris with a record 1,800 participants. A welcome message from President Emmanuel Macron highlighted the urgency of investor action to safeguard the climate, calling for increased protections for the Amazon rainforest. This was followed by a keynote address from Minister of the Economy and Finance, Bruno Le Maire, who spoke passionately about the need for an "urgent transition" in the financial system, echoing the conference theme: responsible investment in an age of urgent transition. Keynote speakers on the second day focused on investor responses to the climate emergency. We heard first from Aliénor Martin-Péridier, Co-organiser of the French student manifesto 'Wake-up Call on the Environment', who emphasised the priorities of today's younger generations when considering their careers. This was later followed by an insightful keynote interview with CEO of Royal Dutch Shell, Ben van Beurden, on how investor engagement through the Climate Action 100+ initiative has contributed to the energy giant's ambitious net-zero emissions targets. From an investor perspective, representatives of Allianz SE and CDPQ then discussed the steps they are taking towards a low-carbon economy.

We regularly contribute to RI-related advisory committees and make select speaking appearances at investment conferences. During the last quarter we spoke at the following events (see table below).

CONFERENCE/EVENT	TOPIC
LAPF SIF	ESG and real estate
LGPS Central RI Day Birmingham	RI&E at LGPS Central
LGC Symposium	General ESG

LGPS Central currently contributes to the following investor groups:

- Cross-Pool Responsible Investment Group
- UK Pension Fund Roundtable
- BVCA Responsible Investment Advisory Group
- PRI Listed Equity Integration Advisory Sub-Committee
- TPI Steering Committee & Technical Advisory Group
- Roundtable on Mining (Investor Mining and Tailings Safety Initiative)
- GFI Working Group on Data, Disclosure & Risk
- FRC Investor Advisory Group
- LAPF SIF Advisory Board
- IIGCC Shareholder Resolutions Sub-group
- IIGCC Paris Aligned Investment Steering Group

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central Limited

All information is prepared as of **08.11.2019**.

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