LGPS Central Limited

Quarterly Stewardship Report

THIRD QUARTER, 2019-20 (OCTOBER-DECEMBER 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

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***

This report covers Central's stewardship activity. Our stewardship efforts are supplemented by global engagement and voting services provided by Hermes Equity Ownership Services (Hermes EOS). For more information please refer to Central's Responsible Investment & Engagement Framework and UK Stewardship Code Compliance Statement.

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

Regulation is shaping "Sustainable Finance" across markets and the whole investment chain is under renewed scrutiny to live up to new, yet evolving standards

When the EU introduced its *Action Plan on Sustainable Finance* in March 2018 one might have expected a relatively slow policy-making process. However, regulatory initiatives are being rolled out including new climate benchmarking and disclosure regulations which follows a recommendation from a Technical Expert Group on sustainable finance set up to assist implementation of the plan. At the core of the *Action Plan* lies a goal of creating a common language for companies and their investors on what can be considered "future fit", and through that enhance transparency and minimise the risk of greenwashing. That common language and understanding is being captured in a sustainable taxonomy which, starting with climate mitigation and adaptation activities, will set out what can or cannot legitimately be considered a sustainable economic activity. This should spur better dialogue between companies and investors and allow investors to compare "apples with apples" when assessing for instance same-sector companies on a given sustainability parameter. During the last quarter, the EU took a major step towards internationalising this work by launching an *International Platform on Sustainable Finance* (IPSF). The IPSF is aiming for considerable global political clout and has already assembled a number of heavyweight international organisations as 'observers'.

Country members will be represented by national authorities at finance/treasury ministry, central bank or supervisor level, and must be responsible for developing environmentally sustainable finance policies and initiatives in their respective jurisdiction. It is interesting to note that founding members are, alongside the EU countries, largely found outside of the OECD and include Argentina, Canada, Chile, China, India, Kenya and Morocco.

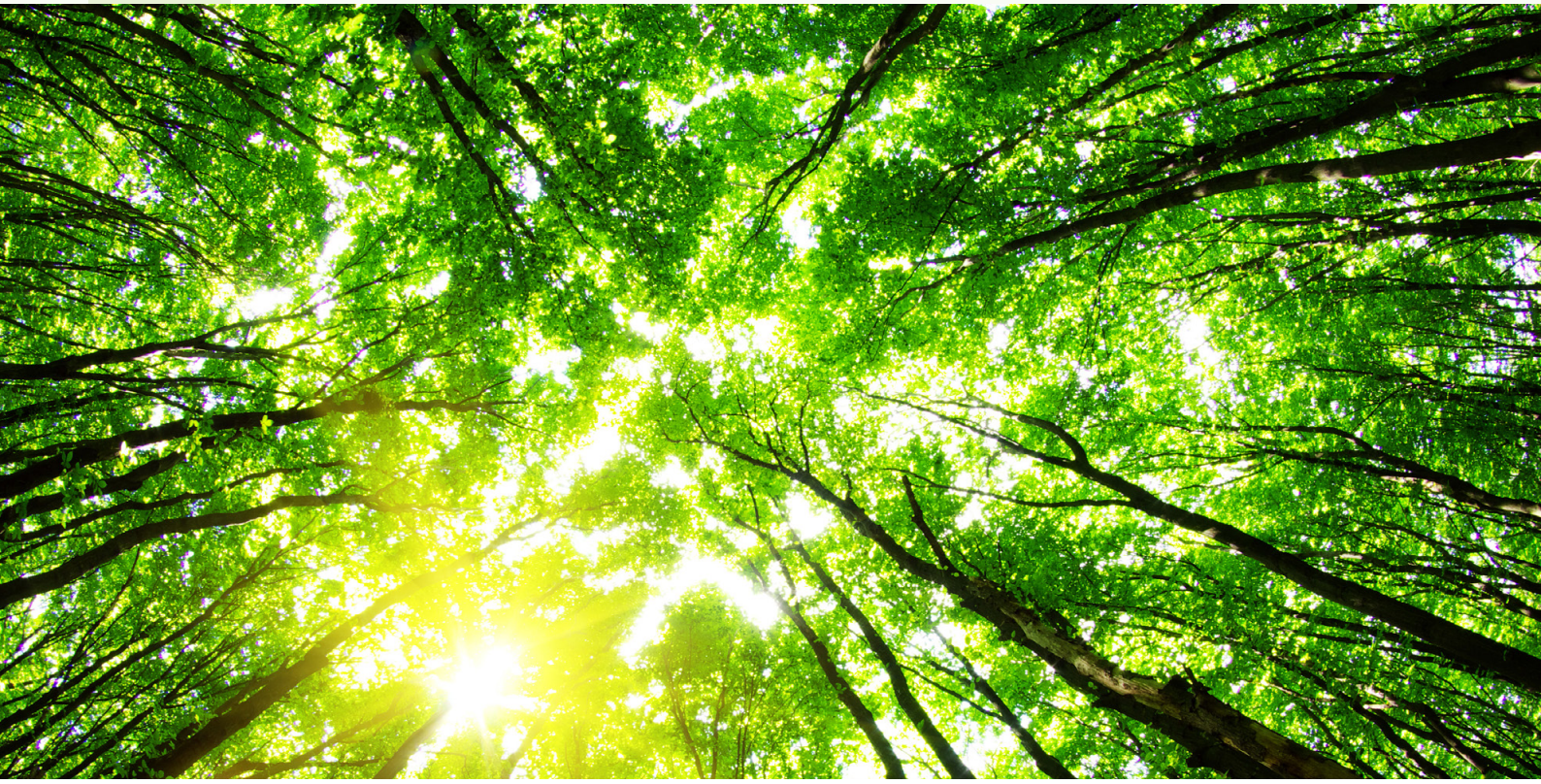
In tandem with clearer and higher regulatory expectations, we see that asset owners are asking more of their asset managers and are increasingly ready to call out managers that do not deliver genuine ESG integration. During the last quarter, ShareAction published a report that examines how 57 of the world's largest asset managers voted on 65 shareholder resolutions linked to climate change. According to the report US asset managers are clear laggards in terms of proxy voting on climate, while European asset managers lead the way. A number of CA100+ investor signatories fail to support resolutions at CA100+ focus companies. However, disclosure resolutions such as resolutions on corporate lobbying and climate-related disclosures seem to have entered the mainstream and gather more support. Resolutions on targets and transition planning filed by retail shareholders on the other hand, have received fewer votes than those filed by institutional investors in 2019. In December 2019 a group of shareholders put forward a resolution to BlackRock asking for a review of their 2019 proxy voting record and an evaluation of the company's proxy voting policies and guiding criteria related to climate change. The resolution also asks that a summary report on this review and its findings shall be made available to shareholders and be prepared at reasonable cost, omitting proprietary information. Larry Fink (BlackRock CEO) has placed climate change at the centre of his January 2020 letters to CEOs and shareholders, and we are discussing engagement action with peers both in Europe and in the US in order to build on this momentum.

The banking sector is also facing greater scrutiny. In the UK, banks are now stress-tested for climate risk. During the last quarter, The Bank of England (BoE) published its ground-breaking new framework to stress test the largest UK banks and insurers for climate risks. The BoE will ask firms to model their exposures to three climate scenarios: The catastrophic business-as-usual scenario where no further climate action is taken; a scenario where early policy action delivers an orderly transition to the targets set in Paris; and a third where late policy action leads to a disorderly and disruptive transition. It will build on the improved reporting of climate risks prompted by the Taskforce on Climate-related Financial Disclosure (TCFD). Last quarter also saw signatory banks of the Principles for Responsible Banking make a collective commitment on climate. The 36 banks in question committed to align their portfolios to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below 2, striving for 1.5 degrees Celsius. In Sections 3 and 4 below we touch on examples from the banking sector where LGPS Central has either co-filed or voted in favour of a climate-related shareholder resolution. Just as we expect Paris-alignment from corporations in their strategies and operations, we expect banks to define and disclose targets to reduce exposure to fossil fuel assets across sectors in line with the climate goals of the Paris Agreement.

Technology sector companies continue to be under scrutiny from regulators who are increasingly concerned with the dominance of the large internet players. Companies like Google, Apple and Facebook could be held to higher standards of proof in cases concerning anti-competitive behaviour. The EU anti-trust chief, Margrethe Vestager, is considering the proposal that digital platforms suspected of anti-competitive behaviour be required, in certain cases, to demonstrate clear gains for their users, rather than the EU having to prove the damaging effects on consumers. Vestager suggested in an FT interview that companies such as Google should bear extra responsibilities because they are so dominant that they have become "de facto regulators" in their markets. Beyond anti-trust, investors are continuing to express concern over a lack of social media content control. After nearly a year of engagement with big tech companies on this issue (following the Christchurch attack in March 2019, part of which was live streamed on Facebook), success has been mixed. However, the number of investors taking part in this collaborative effort has grown to nearly 100. That number is testament to an investor concern which we predict will not go away until we see real change both at governance and operational levels to effectively prevent and remove objectionable content on social media (see further detail in Section 3 below).

02 Engagement

This quarter our engagement set[1] comprised 1561 companies with 2876 engagement issues[2]. There was engagement activity on 754 engagement issues and achievement of some or all engagement objectives on 678 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.



In order to use our resources efficiently, our engagement work focusses mainly on key stewardship themes that have been identified in collaboration with our partner funds. These themes are touched on in more detail under Section 3 below. We continue, however, to employ a broad stewardship programme – beyond just our targeted themes – covering issues like fair remuneration, board composition, diversity, and human rights, to name but a few. We also employ a diverse range of engagement tools including filing of shareholder resolutions when this ties in with our overall engagement effort.

EXPRESSION OF CORE CORPORATE GOVERNANCE EXPECTATIONS

During the last quarter we have initiated dialogue with several companies following our shareholder voting over contentious ESG issues, including core corporate governance standards. This allows us the opportunity to explain to companies the rationale for our voting decisions and to express expectations for the next proxy season. It is one way of making sure that voting matters and to signal that we will persist on issues that are of critical importance to shareholders. In one case, we are engaging a UK-registered bank on their remuneration policy and practices. Our concern is that their Long-Term Incentive Plan (LTIP) allows for overly generous awards in certain 'good leaver' circumstances, and that this could be treated as a standard application, rather than under genuinely exceptional circumstances. We are furthermore concerned by the

[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.

fact that pension arrangements for executive directors are set at a level which is significantly higher than the wider workforce. Since the 2019 AGM where the remuneration policy was met with substantial opposition from shareholders, the company has decided to halve total executive pension awards with effect from January 2020. We will however continue to probe the company on how the pension award is calculated. The UK Corporate Governance Code states that only basic salary should be pensionable. There is some room for interpretation on what "basic salary" is and we will seek further clarity from the company on whether their calculation is in line with best practice.

With two other companies, one in the energy sector and one in the automotive sector, we have expressed concern over lack of independence as well as relevant skills and experience on their boards. In our Voting Principles we acknowledge that the most effective boards include a diversity of skills, experiences and perspectives. Both companies have expressed a willingness to engage on this and other issues, including climate change-related targets and corporate lobbying. In the case of the automotive company, their shareholder structure is such that more than 90% of shares are held among three shareholders which causes a lack of independence for board members who represent a majority shareholder. We aim to encourage the company to continue internal discussions around the advantages of having a more independent board. The company has set targets to move up the female contingency at all levels of the company and its Board currently has 30% gender diversity.

TRANSPARENCY IN CORPORATE LOBBYING

As a long-term, diversified investor we want to see companies well in control of both direct and indirect lobbying through industry associations. This requires a combination of good governance, oversight and transparency on the part of the company. Policy and regulation greatly influence how companies operate and on an issue like climate change, negative lobbying works against the creation of necessary regulation that will support the transition to a low-carbon economy. We are concerned that companies across sectors and markets do not always disclose their lobbying activities (direct and indirect) and that, in many instances, the industry associations of which a company is a member advocate in a manner which is not aligned with sustainability strategies and targets set by the corporation itself. With our long-term investment horizon, we would like as much certainty as possible from policy makers around e.g. climate policy, and if companies lobby in a negative manner we view it as an investment risk. During the last quarter we co-filed shareholder resolutions at three US companies; Honeywell Inc., Citigroup and Eli Lilly. While the three companies are in different sectors; aerospace, banking and pharma respectively, the common denominator is that they are currently not sufficiently transparent about their lobbying activities. The resolutions we co-filed were of the same wording, asking each company to provide a report, updated annually, disclosing expenditures, policies and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications. While negative climate lobbying is an underlying concern to us, the resolutions are worded to encompass lobbying in other policy areas where there may be misalignment with the long-term sustainable growth of the company and with the company's stated public policy and corporate responsibility positions. We have collaborated with US investor peers in filing the resolutions and are seeking dialogue with the above companies leading up to respective AGMs this spring.

03 Stewardship Themes

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

In collaboration with our Partner Funds, we identified four themes at the start of the current financial year which are given particular attention in our ongoing stewardship efforts.

These are:

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

Identifying core themes that are material to our investment horizon helps direct engagement and it also sends a signal to companies of the areas we are likely to be concerned with when we meet them. 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 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.

CLIMATE CHANGE

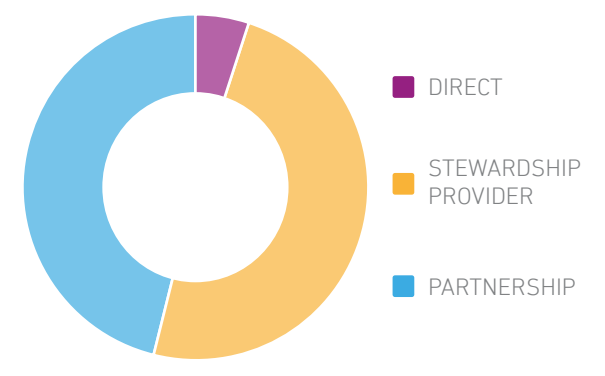
This quarter our climate change engagement set comprised 319 companies with 377 engagements issues[1] . There was engagement activity on 175 engagement issues and achievement of some or all engagement objectives on 137 occasions.

Since inception, LGPS Central has been an active member of the Climate Action 100+ initiative (CA100+), alongside the Transition Pathway Initiative (TPI) and the Institutional Investor Group on Climate Change (IIGCC). We are currently co-leading or in the focus group of ongoing engagements with eight companies that are part of the CA100+ initiative. The majority of these engagements are with oil & gas, and mining companies. We met the Chair, Company Secretary and Head of Sustainability of a major mining company during this quarter to discuss scope 1 and 2 GHG targets alongside scope 3 GHG assessments. While scope 3 emissions remain a particular challenge, not least in relation to steel making whose carbon intensity is 'hard to abate', the company is actively exploring low-carbon metallurgical innovation in collaboration with an academic institution in one of their key markets. We will continue this engagement and expect the company to explain further how it will revise scope 1 and 2 targets and continue its scope 3 assessments as well as their TCFD reporting during Q1 of 2020.

Also, as part of the CA100+ collaboration and led by Hermes EOS, we met the CEO alongside Head of Environment and Company Secretary at a UK-listed utility company. The discussion centred around how climate is embedded in the purpose, vision and strategy of the company, and how the company is managing the pace of activity/investment in low carbon solutions. While the company has already reduced its own carbon emissions by 26% and is now setting a new 10-year target for a further 35% reduction, most of the company's emissions are associated with its customers' use of energy, rather than its own operations. We are encouraged by the company's ongoing and increasing focus on how customers can lower their carbon footprint, for instance through pilot projects for "Zero CO2 homes". The company has set a 25% customer emissions reduction target by 2030 on a 2015 baseline, which we welcome, but we would like a clearer demonstration that it has undertaken detailed scenario analysis to understand the business and customer implications of limiting climate change to below 2°C.

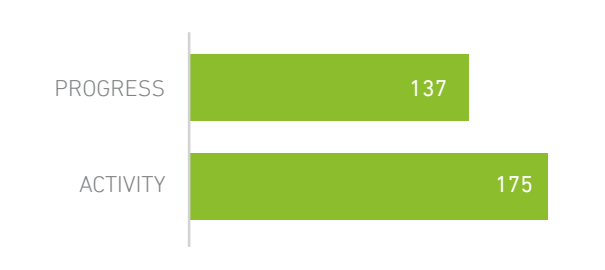
Together with 10 other investors LGPS Central co-filed a shareholder resolution at Barclays Plc asking the company to disclose targets to phase out the provision of finance to energy and utility companies that are not aligned with Paris goals. The resolution aligns with LGPS Central's responsible investment beliefs on climate change as a materially impactful trend. What we ask of companies outside the banking sector is that they manage financially material climate risks in line with the Paris goals. With this resolution, we want to send the same signal to banks, whose loan books could face similar risks. Responsibility for the timeline and details of the phase out would be at the Board's discretion and the company would be required to start disclosing in 2021. We are seeking dialogue with Barclays together with the other co-filers following the submission of the proposal and it is clear that the company is willing to have a constructive dialogue. We will emphasise to Barclays that energy and utility companies that do align their businesses with the Paris goals would not be included in the scope of the phase out. We view, therefore, the resolution as a request for good risk management by Barclays, and not as a shareholder-enforced divestment request.

*ENGAGEMENT VOLUME BY **TYPE***



- 377 engagements in progress
- Majority of engagements undertaken via CA100+
- First climate-related resolution filed at European bank

*ENGAGEMENT VOLUME BY **OUTCOME***



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

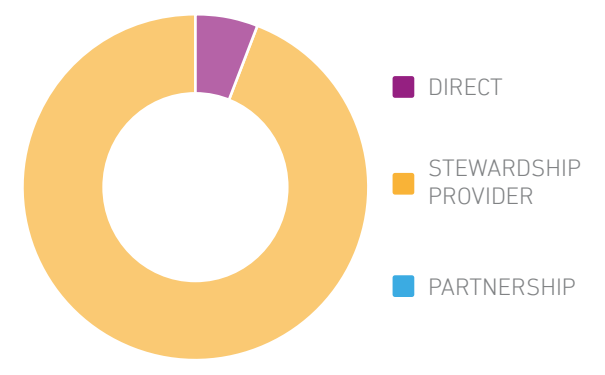
SINGLE-USE PLASTICS

This quarter our single-use plastics engagement set comprised 24 companies with 33 engagements issues. There was engagement activity on 17 engagements and achievement of some or all engagement objectives on seven occasions.

Together with a group of other investors, and led by Hermes EOS, we met the Head of Packaging Campaigns alongside the Investor Relations Director and Senior Investor Relations Manager at a large UK retailer. Our aim was to understand the current plans to reduce packaging, including plastics packaging. The company has a central packaging reduction plan and strategy to remove, reduce, reuse and recycle packaging. The company works along their value chain, including with commercial teams, customer teams, suppliers and buyers in order to achieve strategic alignment from their value chain. A key ask from us is that the company sets clear targets for reduction. The company explained that they, in principle, would like to see 100% reduction where possible, because a lower target may not incentivise some suppliers to aim high. Alongside engagement on the company's packaging strategy, we have also signalled an interest in discussing their ambitions relative to two specific industry standard initiatives that LGPS Central actively supports: Plastic Pellet Management and "Ghost Gear" (lost and abandoned fishing equipment), respectively.

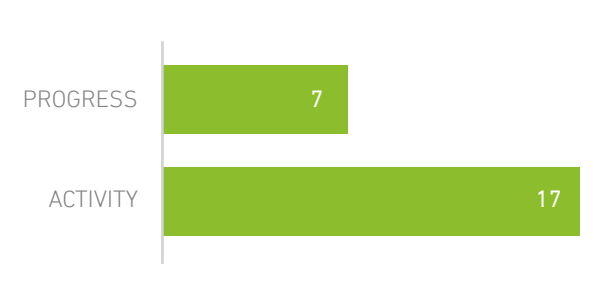
We have initiated a dialogue with a multinational food manufacturing company headquartered in the US to discuss how the company oversees the management of environmental, reputational and regulatory risks stemming from plastic pollution across its product development, operations and value chain. In this engagement, we are working alongside five other investors, the majority of whom are European based whereas one is based in the US. We aim to discuss with the company how environmental risk in the company's packaging strategy are managed and how that risk affects decisions for new products and technologies. We would also like to explore how the company is working to minimize negative impacts and how it introduces environmentally friendly, decomposable packaging for all products and regions. As an example, the company currently sells individually packaged portions of cereal which come in a plastic tub with a plastic lid. From a long-term investment perspective, we are concerned with both environmental risks and reputational risks stemming from changing consumer awareness and behaviour that the company carry by continuing to bring such products to market. The company has responded positively in the first instance and is agreeable to engage on the issues we have raised with them.

*ENGAGEMENT VOLUME BY **TYPE***



- 33 engagements during the quarter
- Productive engagement with large UK retailer on reduction of packaging, including plastics packaging
- Collaborative engagement initiated with US food manufacturer

*ENGAGEMENT VOLUME BY **OUTCOME***



FAIR TAX PAYMENT AND TAX TRANSPARENCY

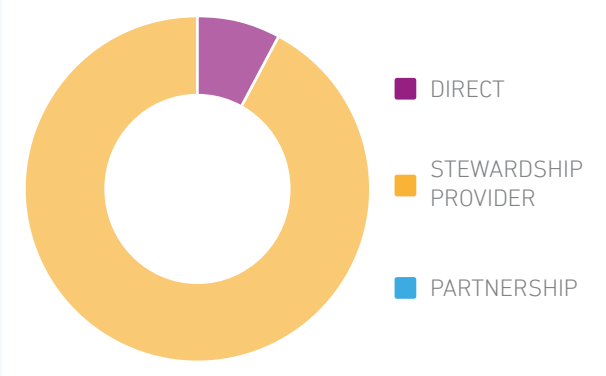
This quarter our tax transparency engagement set comprised 10 companies with 13 engagements issues. There was engagement activity on four engagements and achievement of some or all engagement objectives on one occasion.

On the tax theme, we have joined a recently established investor-collaboration and are initiating engagements both directly and through the initiative. For our direct engagements we have contacted a selection of UK companies that are among our largest holdings and that operate in sectors we view as vulnerable to this theme. These include amongst others, pharmaceuticals, banks and technology companies. For example, we have initiated dialogue with a pharmaceutical, multinational company asking them to explain their tax strategy and policy, and their current level of transparency around corporate value generation across countries. Recent best practice standards, such as OECD's Base Erosion and Profit Shifting (BEPS) project (launched in 2015) aims to ensure that multinational enterprises are by 2020 taxed where their economic activities take place, and value is created. We have expressed to the company that we would expect them to strive for that practice. We have also encouraged the company to consider if and how it might attain the Fair Tax Mark[4]. The company has given an initial, positive response and is agreeable to engage with us.

Responsible tax behaviour is a relatively new theme for both investors and companies. We therefore actively seek collaboration with likeminded investors and have in this quarter formed a collaboration with four other, European investors. Through this collaboration we aim to engage not only the obvious laggards but also companies that are already being more transparent. This is in order to increase our own learning and to better capture best practices in responsible tax behaviour as they evolve.

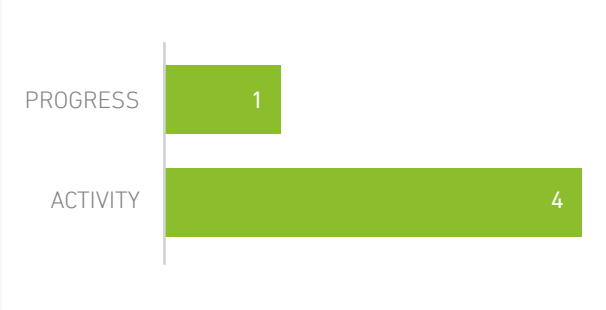
At the backend of this quarter, a new tax standard was launched by the Global Reporting Initiative (GRI). This is the first global standard to guide corporations on responsible tax behaviour and tax transparency. Whereas the existing OECD Base Erosion and Profit Shifting (BEPS) project asks companies to report to tax authorities, the new GRI standard asks companies to report on their tax behaviour to stakeholders including investors. The standard is voluntary and asks companies to disclose their approach to tax (including tax havens), their tax governance, control and risk management, their stakeholder engagement, and to provide a country-by-country reporting. The latter will shed light on whether profits are reported where economic activity takes place. This level of reporting will allow investors the ability to appraise a company's tax strategy and how that ties in with the overall business strategy and planning.

*ENGAGEMENT VOLUME BY **TYPE***



- 13 engagements during the quarter
- Engagement initiated with UK companies in vulnerable sectors
- Global Reporting Initiative launches new standard for responsible tax behaviour

*ENGAGEMENT VOLUME BY **OUTCOME***



[4] https://fairtaxmark.net/getting-the-mark/criteria-and-standards/

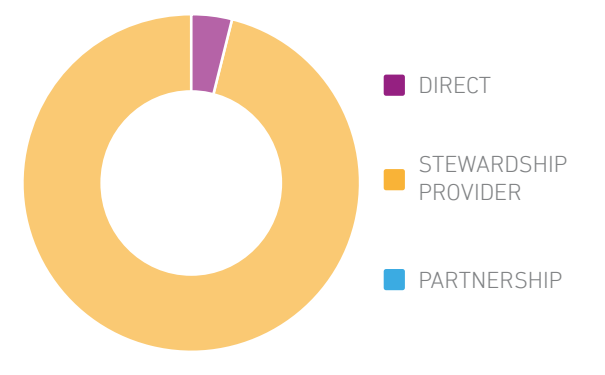
TECHNOLOGY AND DISRUPTIVE INDUSTRIES

This quarter our technology and disruptive industries engagement set comprised 43 companies with 82 engagements issues. There was engagement activity on 25 engagement issues and achievement of some or all engagement objectives on 11 occasions.

We have this quarter continued our collaborative engagement, 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. The initiative started following the Christchurch terror attacks in March 2019, which were initially streamed live on Facebook. While each quarter so far has seen some progress, we are currently discussing ways of ramping up the engagement to see stronger action by all companies and more willingness to engage the full group of concerned investors. Through a separate investor initiative, albeit partially interlinked, we are asking Alphabet to establish a Human Rights Risk Oversight Committee of the Board of Directors, composed of independent directors with relevant experience. We are concerned about the various human rights-related risks that technology sector companies face, such as weak human and labour rights in technology supply chains, workforce displacement through automation, content management, data privacy and malicious political interference. If these risks are not managed well, they could translate to investment risks in our portfolios. Alphabet has not responded, and a shareholder proposal has been put forward to the company regarding this issue. We will continue engagement on the issue of human rights risk oversight and management and expect to support the resolution if it is admitted to the AGM.

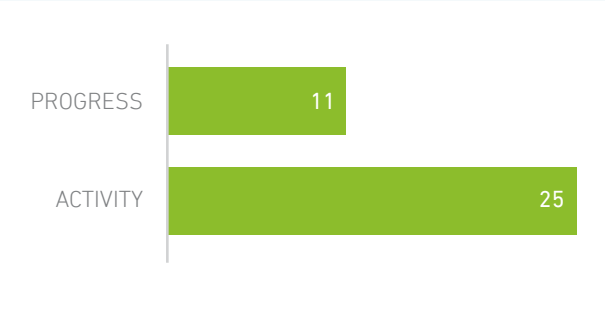
On our behalf, Hermes EOS engages technology companies on a broad spectrum of vulnerabilities via its Social as well as its Strategy, Risk & Communication themes. As an example, Hermes EOS engaged a large-cap technology company on various ESG issues, including workforce related issues, and how best to report on these to investors. The company sought Hermes EOS' views on a range of ESG ratings and benchmarks in its efforts to prioritise those that are more valued by investors. Focusing on the most relevant public disclosures should prove more time efficient and also give fairer access to information for all stakeholders, who may not be able to pay for subscriptions to privately disclosed information. The company was encouraged to participate in the Workforce Disclosure Initiative (WDI), an initiative with 137 investor signatories which asks companies to disclose how they manage workers in their direct operations and supply chains. Hermes EOS will continue to engage the company on workforce related issues, including corporate governance, child labour risks alongside risks linked to cobalt supply chains and also carbon emissions reduction targets.

*ENGAGEMENT VOLUME BY **TYPE***



- 82 engagements in progress
- Collaborative engagement with social media companies (Alphabet, Facebook and Twitter) on content control
- Human rights including workers' rights continue to be on our radar for tech company engagements

*ENGAGEMENT VOLUME BY **OUTCOME***



04 Voting

POLICY

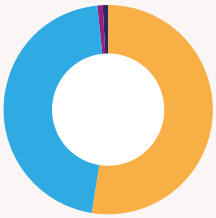
For UK listed companies, we vote our shares in accordance with a set of bespoke UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor.

COMMENTARY

On behalf of our clients, we continued to vote shares at company meetings between October and December 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)

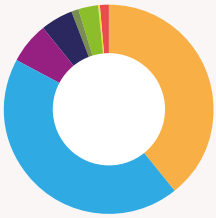
GLOBAL



- Total meetings in favour **52.6%**
- Meetings against (or against AND abstain) **46.0%**
- Meetings astained **0.7%**
- Meetings with management by exception **0.7%**

Over the last quarter we made voting recommendations at 285 meetings (2,269 resolutions). At 131 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at two meetings and abstaining at two meetings. We supported management on all resolutions at the remaining 150 meetings.

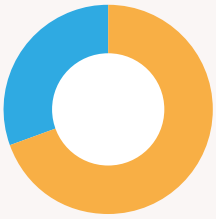
GLOBAL VOTES AGAINST AND ABSTENTIONS BY CATEGORY



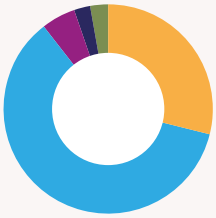
- Board Structure **39.2%**
- Remuneration **43.7%**
- Shareholder resolution **6.4%**
- Capital structure and dividends **4.8%**
- Amend articles **1.3%**
- Audit and accounts **2.9%**
- Poison pill/Anti-takeover device **0.3%**
- Other **1.3%**

UK

We made voting recommendations at 59 meetings (616 resolutions) over the last quarter. We recommended voting against or abstaining on 38 resolutions over the last quarter.



- Total meetings in favour **69.5%**
- Meetings against (or against AND abstain) **30.5%**



- Board Structure **28.9%**
- Remuneration **60.5%**
- Shareholder resolution **5.3%**
- Capital structure and dividends **2.6%**
- Poison pill/Anti-takeover device **2.6%**

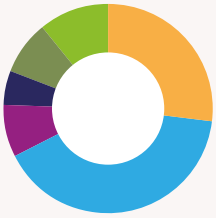
At the AGM of mining company BHP Group, we supported a shareholder resolution asking the company to suspend memberships of industry associations whose record of advocacy since 2018 demonstrates, on balance, inconsistency with the Paris goals. This is in line with recommendations from LAPFF and from our service provider, Hermes EOS. Negative lobbying works against the creation of the necessary regulatory environment to support the transition to a low-carbon economy. While BHP is taking leadership in climate change action and disclosure, we believe it is warranted to ask the company to go a step further in avoiding climate-negative industry association lobbying. 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.

We voted against a new remuneration policy for Whitbread Plc, a hotel and restaurant group, at the company's last AGM. Whitbread disposed of Costa to The Coca-Cola Company in January 2019 and hence revised its business plan to focus more on its hotel business. The new remuneration policy put to the AGM, is in response to this revised business plan. The new policy replaces a performance-based long-term incentive structure with a non-performance based one. This leads to higher certainty of consistently high level of pay regardless of performance. While under the new remuneration policy there will be no further awards made under the existing Long-Term Incentive Plan, that reduction is in our view not sufficient to justify the higher certainty of pay through the new plan. As explained in our Voting Principles we have a high regard for Remuneration Committees willing to explore alternatives to the traditional LTIP structures, which are often poorly designed and overly complex. However, on this this occasion we voted against the Restricted Share Plan which forms part of the new remuneration policy, for the same reasons as stated above.

EUROPE EX-UK

We made voting recommendations at 41 meetings (290 resolutions) over the last quarter. We recommended voting against or abstaining on 37 resolutions over the same quarter.

- Total meetings in favour **56.1%**
- Meetings against (or against AND abstain) **43.9%**



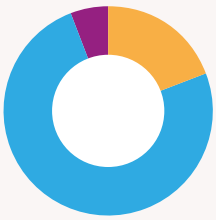
- Board Structure **27.0%**
- Remuneration **40.5%**
- Capital structure and dividends **8.1%**
- Amend articles **5.4%**
- Audit and accounts **8.1%**
- Other **10.8%**

At the Greek retail company Jumbo SA's AGM we voted against the election of board directors because all board member elections were presented under one item. We consider board elections as important items for shareholders and we view it as good practice that directors should be elected individually, so that there is individual accountability. Since it is current market practice in Greece to elect a single slate of directors the bundling into one vote, this element may not be a determining factor alone to opposing board elections in this market. However, in the case of Jumbo, it is an additional concern to us that the proposed board is not at least one-third independent.

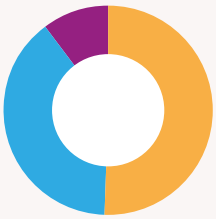
We voted against management at approximately half of the AGMs held in Europe ex UK this quarter. In the majority of these cases we expressed concern over a combination of core corporate governance practices including remuneration which is not appropriate relative to performance, issuance of equity with the risk of diluting existing shareholders as well as lack of board diversity and commitment. These are issues which we continue to raise both in voting and engagement with companies not just in the European market but across geographies.

NORTH AMERICA

We made voting recommendations at 36 meetings (417 resolutions) over the last quarter. We recommended voting against or abstaining on 69 resolutions over this quarter.



- Total meetings in favour **19.4%**
- Meetings against (or against AND abstain) **75%**
- Meetings with management by exception **5.6%**



- Board Structure **50.7%**
- Remuneration **39.1%**
- Shareholder resolution **10.1%**

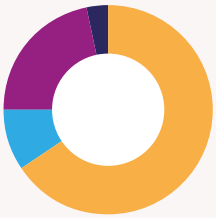
At the AGM of Cisco Systems, we voted for the CEO's pay although it is around 1.4x the peer median. The company has performed exceptionally well on a 1 and 3-year Total Shareholder Return basis relative to peers. More than 75% of long-term pay for the CEO is performance-conditioned, so a below-target shareholder return would substantially reduce the pay in the future. Ahead of the AGM, Cisco increased shareholding requirements for the CEO and Non-Executive Officers (NEOs). We generally take a view that significant executive shareholdings in the company helps align interests of executives and shareholders. In addition, Cisco extended clawback policies to performance shares as well as other forms of pay, which allow recall of pay awards under certain circumstances such as misconduct. This is a major shift in policy and a substantial new protection against malpractice given that the vast bulk of CEO/NEO pay is through performance-based shares. We voted for a shareholder resolution requiring that the CEO and Chair roles be split because we consider that general best practice, and also given the complexity of this business and the disruption inherent to the technology sector. The latter resolution, although it did not pass, received nearly 30% support from shareholders.

At Microsoft's AGM we voted against the ratification of the executive compensation (advisory vote). While acknowledging the company's long-term performance, we are concerned about the significant increase in the CEO base salary this year which include elements that are not strongly performance based. Our concerns are centred around the amount and timing of share buybacks (the re-acquisition by a company of its own stock) that the company has completed. These buybacks coincided with the share price peak, which was shortly followed by the increase in CEO base pay, without any company disclosure on efforts to mitigate the effect of buybacks on share price. We did not support a shareholder resolution asking the company to report on the company's global median gender pay gap, policies and related risks.

DEVELOPED ASIA

We made voting recommendations at 28 meetings (192 resolutions) over the last quarter. We recommended voting against or abstaining on 32 resolutions over this quarter.

- Total meetings in favour **60.7%**
- Meetings against (or against AND abstain) **39.3%**



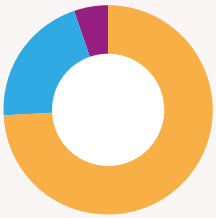
- Board Structure **65.6%**
- Remuneration **9.4%**
- Capital structure and dividends **21.9%**
- Amend articles **3.1%**

At Hong-Kong registered company New World Development (an investment holding company), we voted against several governance-related resolutions that were put to the AGM during last quarter. We voted against the re-election of two board members. In one case the board member has too many board commitments and in the other case the board member has failed to attend at least 75 percent of board and committee meetings without a satisfactory explanation. Per LGPS Central's Voting Principles, the capacity of a board director to make a full commitment to their appointment is an important aspect of board composition. We also voted against a proposal that sought to approve the issuance of shares without applying rights of pre-emption (i.e. without allowing existing investors first opportunity to buy a new issue of stock). Whilst companies require flexibility to manage their share capital without undue constraint, our concern is that this proposal will dilute the rights of existing shareholders. The resolution sought approval to disapply pre-emption rights on new issuances of a value up to 20% of share capital but, mindful of the UK's Pre-Emption Group guidelines, we believe a 10% limit is more appropriate.

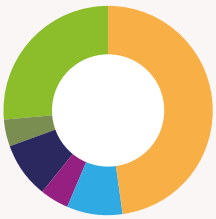
One third of the meetings we voted at in this market were at Japanese companies. While dialogue between investors and Japanese companies has improved in recent years, there are some ongoing challenges relating to key corporate governance standards including board composition. In more than half of the cases where we this quarter voted against management of a Japanese company, it related to inadequate board composition, either a lack of independence, or of diversity. Even companies that operate internationally and derive a majority of revenues from overseas often have boards comprised solely of Japanese nationals, who are typically over a certain age – late 50s upwards. Given this, and the large number of executive directors, boards tend to lack diversity of experience, skills and age. This issue will continue to stay on our radar for voting and engagement with Japanese companies.

EMERGING AND FRONTIER MARKETS

We made voting recommendations at 39 meetings (266 resolutions) over the last quarter. We recommended voting against or abstaining on 23 resolutions over this quarter.



- Total meetings in favour **74.4%**
- Meetings against (or against AND abstain) **20.5%**
- Meetings astained **5.1%**



- Board Structure **47.8%**
- Remuneration **8.7%**
- Shareholder resolution **4.3%**
- Capital structure and dividends **8.7%**
- Amend articles **4.3%**
- Audit and accounts **26.1%**

NWS Holdings Limited is a capital goods company and the conglomerate flagship of New World Development (see separate narrative in this Section under "Developed Asia"). At the AGM, we voted against the election of three board directors over concerns that they have too many other board commitments. Adding to our concern, two of these board directors serve on the company's audit committee which has allowed excessive non-audit fees

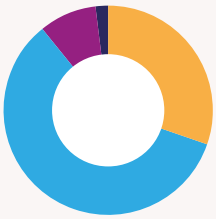
without sufficient explanatory disclosures (we also voted against the approval of the company's external auditor). We also voted against a proposal that sought to approve the issuance of shares without applying rights of pre-emption (i.e. without allowing existing investors first opportunity to buy a new issue of stock). The resolution sought approval to disapply pre-emption rights on new issuances of a value up to 20% of share capital but, mindful of the UK's Pre-Emption Group guidelines, we believe a 10% limit is more appropriate.

Sasol Limited, an integrated chemicals and energy company, has seen project costs overrun by USD 4 billion since the 2014 inception of its Leak Charles Chemical Project (LCCP). At the news of this in May 2019, the company's share price fell by c. 13% and subsequently fell further (to c. 42%) leading up to the AGM last quarter. We voted against the election of the CFO Paul Victor given his direct accountability for material failure of controls in connection with LCCP and his position as a senior executive during the period in question. We also voted against the members of the Audit Committee, thus signalling that we hold them accountable for the internal control failings that have been identified at Sasol in connection with the LCCP. While the resolution to re-elect these board directors passed, they were met with significant opposition from shareholders (varying between c. 17% and 30% opposition).

AUSTRALIA & NEW ZEALAND

We made voting recommendations at 82 meetings (488 resolutions) over the last quarter. We recommended voting against or abstaining on 112 resolutions over the last quarter.

- Total meetings in favour **40.2%**
- Meetings against (or against AND abstain) **59.8%**



- Board Structure **30.4%**
- Remuneration **58.9%**
- Shareholder resolution **8.9%**
- Capital structure and dividends **1.8%**

We voted against Westpac Banking Corporation's recommendations on three resolutions at their AGM this quarter. We opposed the re-election of a board director who is also the Chair of the Audit Committee (AC) due to governance and risk failures identified at the Royal Commission and by Austrac. Austrac is the Australian government entity overseeing anti-money laundering and counter-terrorism financing laws. We also voted against the remuneration report, which allows for bonus payments of up to 55% of the maximum opportunity despite failing to meet key financial indicators. We supported a shareholder proposal asking Westpac to disclose its strategies and targets for reducing exposure to fossil fuel assets in line with Paris goals. These include the elimination of exposure to thermal coal in OECD countries by no later than 2030. None of the three resolutions went the way we had voted, but it is noteworthy that the re-election of the AC Chair and the Remuneration Report received 42% and 35.90% opposition respectively. The shareholder proposal received a substantial 16.9% support.

At the AGM of Australia & New Zealand Banking Group Ltd (ANZ) we cast our vote in support of two climate-related shareholder resolutions in line with advice from LAPFF. One resolution asks for disclosure on strategies and targets for managing exposure to fossil fuel assets in line with the climate goals of the Paris Agreement, and the other asks that any lobbying through industry associations be aligned with Paris goals. Owing to the vagaries of the company's current constitution the advisory resolutions were not put to vote at the AGM. However, ANZ's Chairman acknowledged shareholder concern around lobbying alignment and committed during the AGM to undertake a review of industry associations during 2020 and to report on the findings. We will continue to engage ANZ and other banks on the issues of managing their exposure to fossil fuel assets in line with the Paris goals. The same issue has been raised with Barclays Plc through a shareholder resolution that LGPS Central co-filed alongside 10 other investors in December 2019.

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 Securities and Exchange Commission (SEC) in the US is proposing changes to rules on shareholder proposals and proxy advisers that would introduce major impediments to effective investment stewardship and efficient engagement between minority shareholders and corporations on ESG issues. The changes significantly raise the ownership requirements for co-filing a resolution and the percentage support a proposal must receive to be resubmitted. This makes it more difficult to submit and sustain proposals. Over this quarter, the PRI has done extensive analysis of the implications of the proposed changes and concluded that hundreds of resubmitted ESG shareholder resolutions would now, if the changes are implemented, fail to make the ballot. Furthermore, hundreds of successful ESG related resolutions would now fail to make the ballot. This means that, if finalised, the SEC's proposed amendments would in many cases hinder discussion of emerging ESG issues before investors have the chance to analyse and incorporate the latest thinking into voting behaviour. The changes relating to proxy advisers, requiring proxy advisory firms to allow companies to review and comment on recommendations before investors even see them, will greatly limit investors' access to independent advice. There is a further risk that the SEC's proposed changes will undermine the independence of proxy advice and cause unwarranted delays in an already compressed process. As a universal investor with minority stakes in companies across sectors and markets, LGPS Central views the proposed SEC amendments with great concern. We have signed a PRI-coordinated letter that has been submitted to the SEC urging them to consider our concern and to preserve the existing framework. The letter was signed by 193 investors managing over $11.5tn USD in assets. LAPFF has also submitted comments to the SEC on behalf of its members, raising the same concerns as described above.

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 on the right).

Our stewardship manager taking part in a panel discussion on the topic of barriers to diversity in portfolio management at AIMSE Europe Annual Conference (November 2019)

CONFERENCE/EVENT	TOPIC
Local Government Pension Investment Forum	General ESG
AIMSE (Association of Investment Management Sales Executives) Europe Conference	Diversity
DB Strategic Investment Forum	Climate change
Green Equities Conference	Climate change
Financial/Pinsent Masons Breakfast briefing	Diversity

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

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