West Yorkshire Pension Fund

Responsible Investment

Policy Document

September 2021

Introduction

West Yorkshire Pension Fund (WYPF) is one of the UK's largest Local Government Pension Schemes (LGPS) with assets under management of c£16.6bn. These funds are invested to pay the pensions of our 290,000 members who are primarily based in the West Yorkshire region.

As an LGPS we are legally required to submit an Investment Strategy Statement (ISS) that describes our investment beliefs and processes. A core element of our process is a commitment to active stewardship: that is, we pledge to be appropriately informed about the investments we make, engage with the managers of the companies we invest in and use our voting rights. The ISS statement must also contain our views regarding Environmental, Social & Governance (ESG) matters that may influence the value of our investments. The identification and use of material ESG considerations in making investment decisions, in combination with our commitment to active Stewardship, defines our approach to Responsible Investment.

In recognition that Responsible Investing is a rapidly evolving field, we have adopted a set of broad overarching Principles which guide our Stewardship activities. While the Principles will be retained over the intended three-year time horizon of the Investment Strategy Statement, we will review our approach to Stewardship in light of our progress as an asset owner, industry developments and the evolution of best practice.

A review of how we seek to apply our Principles will be published annually in this Responsible Investment Policy Document in which we will also highlight some of the major ESG themes we consider to be relevant.

Who we are defines our beliefs

We believe that the following characteristics combine to shape our ESG principles:

- **We are a Defined Benefit pension scheme funded by employer, admitted bodies, and employee contributions. We are inherently long-term in our thinking and conservative in our attitude to risk.**
- **We believe in actively managing the pension fund and invest in a diverse range of UK and international equities, fixed income, private equity, infrastructure and real estate assets.**
- **Distinct from many LGPS funds, WYPF manages its funds internally relying on an in-house team of investment specialists rather than third party providers. This approach has produced strong investment returns while maintaining our investment cost per scheme member as one of the lowest of all LGPS.**
- **In 2016 the government introduced reforms designed to improve the efficiency of LGPS and to broaden the scope of the permissible assets, particularly to encourage investment in infrastructure. Central to these reforms were the creation of investment pools allowing LGPS to invest collectively to benefit from improved economies of scale. As a consequence, WYPF, together with Greater Manchester Pension Fund and Merseyside Pension Fund formed the Northern LGPS.**
- **As an LGPS fund we are subject to a variety of legislation including the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. We have also considered guidance from the Law Commission, and the Department of Work and Pensions in developing this policy. We have also taken on board the recommendations and framework of the United Nations Principles of Responsible investment (UN-PRI) and the UK Stewardship Code.**

Our ESG Principles

Principle #1

WYPF recognises that Environmental, Social and Governance (ESG) factors can profoundly impact an individual company's long-term sustainability

The ESG profile of a company reflects a significant number of individual characteristics ranging from the nature of its supply chains, the composition of its board, management's attitude toward unionisation and the carbon intensity of its business. We understand that the importance of individual factors varies considerably between companies and sectors and therefore seek to focus on material factors likely to make a long term impact on the business. The assessment of a company's ESG characteristics is a fundamental component of our investment process. A brief summary of the factors we consider include:

- **Environmental**. WYPF believes that climate change represents an existentialist threat to the world. The dangers of climate change have been flagged by central bankers and an increasing amount of regulation is based on the idea that climate risk is financial risk. Climate change has the potential to directly impact the value of the fund in two main ways: the physical impact that rising sea levels, the increasing frequency of extreme weather conditions and higher temperatures may have on a company's assets, workforce or markets; secondly, the risk that the transition to a low carbon economy may 'strand' certain assets or businesses by making them uneconomic. We believe that carbon intensive companies must swiftly formulate and embrace strategies to aggressively and realistically cut green-house gas emissions. We are committed to meeting the Paris Agreement Goals to achieve net zero carbon emissions by 2050 and exploring the feasibility of a 2030 target in line with the IPCC's 1.5° Celsius pathway. The transition to the low carbon economy presents not only risks, but also opportunities for the fund and we actively seek to invest in low carbon and renewable energy technology. Environmental factors are broader than solely carbon emissions: we believe companies need to control negative externalities such as water or air pollution and act to protect biodiversity.
- **Social.** We believe that companies need to understand a broader array of stakeholder interests, not solely those of its shareholders. Companies should seek to make a positive contribution to the welfare of employees, the communities in which they operate, and to the economy and society more broadly. We believe that employees should be treated fairly in respect of compensation, working conditions, equality of opportunity and have the right to join or form trade unions. Companies should also seek to understand and acknowledge their responsibilities to their supply chains. Companies should not aggressively seek to minimise their taxation through the use of transfer pricing, low tax regimes or other loopholes.
- **Governance.** We believe that companies must commit to organise themselves in line with corporate governance best practice. We encourage companies to develop cultures and processes that ensure that both the interests of shareholders are closely aligned to those of the management and that managers feel accountable to the board. Boards must be sufficiently capable, diverse, and independent to scrutinise management strategy, compensation and appointments appropriately. Executives should be rewarded appropriately for their contribution to the long-term success of the company. Compensation should reflect progress on both financial and ESG targets as well as the pay of the average employee. Auditors must be able to review and report on financial statements independently, fairly and impartially. We view non-audit work on the same company a potential conflict of interest and support regular rotation of auditors.

Principle #2

We don't believe that there is a trade-off between the investment performance of a financial asset and investing in a company that is behaving in a responsible and sustainable manner

Companies that are inherently short-term in their outlook, behave irresponsibly or unethically will not provide the necessary long-term performance that the fund needs to pay its members' pensions. In this respect we view ESG investing not from an ethical standpoint but as a way to control investment risk; an approach that is consistent with our fiduciary duties to our members.

Principle #3

WYPF chooses to be an informed and active manager

As such we will take care to thoroughly understand the business model, investment case, relative valuation and ESG risks prior to investment. We will diligently monitor investments already in the portfolio.

Principle #4

WYPF recognises its stewardship responsibilities though engagement and voting

While we recognise that most company managements attempt to manage ESG risks, where we believe there to be evidence of business or ESG risk the fund will communicate such concerns to management. If we fail to receive satisfactory explanation or evidence of behavioural improvement, we may choose to escalate our action and use our voting rights to enact positive change. We strongly hold the view that as owners of a company's capital, management are our agents and should act in the long-term interests of the company. To engage efficiently we may choose to do so with other like-minded shareholders. We exercise our voting rights and commit to reporting our voting record in a transparent manner.

Principle #5

Positive Engagement for Change

As a final step WYPF retains the option to divest from any given investment. In recent years the fund has been petitioned by many parties in this regard, however we strongly prefer to engage rather than divest for three reasons:

- As a pension fund we have a multi-generational investment horizon; we are uniquely well placed as long-term custodians of capital to ensure that companies are sustainable.
- Our power to influence companies is derived from our economic interest: if we sell our shares we abdicate our responsibility.
- There is growing evidence companies are making wide-ranging improvements to their business models largely due to multi-year shareholder engagement.

How we apply our ESG Principles

Background

The City of Bradford Metropolitan District Council, as administering authority for the WYPF, delegates all its functions as administering authority to the Governance and Audit Committee. The Governance and Audit Committee utilises the Investment Advisory Panel (IAP) as the vehicle for overseeing the fund's investment function. The IAP is responsible for the fund investment strategy. The Director of the WYPF has day to day control of all aspects of Fund activities, including the investment management function and by extension the fund's approach to ESG. The IAP meets on a quarterly basis to set the investment strategy, and at other times for special items when required. IAP includes elected members from each of the five local authorities in West Yorkshire, plus independent advisers, trades union representatives, active and retired member representatives, and (on a rotating basis) the Director of Finance from one of the five districts within West Yorkshire.

WYPF manages equity, fixed income and some real estate assets directly, while its in-house private markets team invests in externally managed funds for private equity, infrastructure, credit and other real estate. Some infrastructure investments are also managed by GLIL. The GLIL Infrastructure platform is a collaborative partnership between like-minded institutions in the local government pensions sector, with a common interest in increasing exposure to UK infrastructure and delivering long-term liability matching returns.

Where management is undertaken in-house, ESG factors will be considered as part of the assessment process both before and after investment decisions are made. This integration applies to both equity and other asset classes.

For externally managed funds, due diligence is carried out during the selection process for investment managers including a thorough review of the manager's approach to ESG. This is monitored throughout its investment term.

WYPF is a member of Northern LGPS (NLGPS), which exercises its Responsible Investment obligations independently to that of WYPF. Its policy is in line with WYPF's policy. The governance structure for NLGPS consists of an oversight board made up primarily of representatives of the participating funds' pension committees, including WYPF, which defines key strategic objectives including ESG matters, and provides scrutiny to an executive body of officers who will make the investment management decisions. NLGPS has established GLIL to invest in UK infrastructure, in line with its members' investment policies.

The Director of the fund is responsible for the design and implementation of the Responsible Investment Policy in accordance with the decisions of the IAP. The policy is monitored with regular reports to the Director and Investment Advisory Panel. It is reviewed at least annually or whenever revisions are considered appropriate. The Director also has the responsibility to ensure that investment managers are appropriately trained in ESG matters and that external third party advice is sought where required.

Transparency and Disclosure

WYPF aims to keep its members and public informed of its policies, submissions and track-record. Accordingly, the fund will publish online: an annual TCFD statement, a UK Stewardship statement, the historical record of its voting, its record of engagements and other documents the IAP believe pertinent.

Principle #1

WYPF recognises that Environmental, Social and Governance (ESG) factors can profoundly impact an individual company's long-term sustainability

We use a range of public and private sources to identify pertinent ESG factors at the company level and assess the potential impact in terms of severity and likelihood, choosing to focus on those material risks to the portfolio. We base these assessments on a Materiality Map produced by the Sustainable Accounting Standards Board (SASB), a non-profit organisation dedicated to improving ESG accounting standards. The Materiality Map attempts to highlight potential ESG factors by sector.

Examples of Investments made through GLIL

Flexion Energy | https://flexion.energy/

- A joint venture with ion Ventures to scale UK energy storage infrastructure and support the UK's transition to net zero.
- Flexion aims to have 300MW of battery capacity in two years, 1GW within five.

Clyde Windfarm | https://www.sserenewables.com/onshore-wind/great-britain/clyde

- Located near Biggar in South Lanarkshire, Scotland, the Windfarm has 206 turbines with an installed capacity of 522MW, enough energy to power 290,000 homes.
- GLIL Partnered with SSE & Greencoat Wind on the project.

Examples of public equity investments in Alternative / Green Energy

Smart Metering Systems | https://www.sms-plc.com/corporate

- The company funds, installs, operates and manages smart meters and carbon reduction assets, including Electric Vehicle chargers and battery storage systems, which facilitate a smarter, greener and more flexible energy system.

Examples of public equity investments in Sustainable Energy

Drax | https://www.drax.com/

- The company operates a generation portfolio of sustainable biomass, hydro-electric and pumped hydro storage assets across four sites in England and Scotland.
- It is the UK's largest source of renewable electricity.

ITM | https://www.itm-power.com/investors

- ITM Power is one of the leading global developers of green hydrogen technology and commercial projects.

We seek to integrate ESG scores into our investment and monitoring process and will use suitable measures, such as Bloomberg ESG data, where appropriate. We understand that the availability of useful ESG data is most developed for equity assets and less well advanced for other assets. Recognising the short-comings of the reliability and availability of data we also assess ESG factors in a qualitative manner. We recognise that Fixed Income investments are distinct since we act as creditor, rather than the owner, of a company. Nevertheless, screening Fixed Income assets for ESG factors is important since higher scores improve sustainability which in turn leads to better creditworthiness.

During the year the investment team recruited a specialised Responsible Investment Engagement Manager who will assist the team to further develop and implement ESG policy.

Environmental factors

We believe that Climate Change is a scientific fact and poses an existentialist threat to human life. The dangers of climate change have been flagged by central bankers and an increasing amount of regulation is focussed on the idea that climate risk is financial risk. We seek to assess the climate change risk throughout our portfolio and incorporate such considerations into our decision making process. We are subject to and support a number of measures including:

- **UN Paris Agreement.** (https://unfccc.int/) The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to "well below 2° Celsius, preferably to 1.5° Celsius", compared to pre-industrial levels. We encourage companies to embrace the Paris Agreement and to adapt their business models accordingly.
- **UK Government Net Zero Commitment.** In June 2019, the UK Parliament passed legislation requiring the government to reduce the UK's net emissions of greenhouse gases by 100% relative to 1990 levels by 2050.
- **The Transition Pathway Initiative (TPI)** (https://www.transitionpathwayinitiative.org/) is a tool that permits investors to assess how seriously companies are taking the threat of climate change and how realistic individual companies' carbon reduction commitments are.
- **Institutional Investors Group on Climate Change (IIGCC).** (https://www.iigcc.org/) The IIGCC is the leading European membership body enabling the European investment community to drive towards a net zero carbon future. The WYPF joined the IIGCC in 2003. The group now has more than 300 members across 21 countries with €37 trillion of assets under management. The IIGCC exerts pressure on companies, policy makers, regulators and governments to consider, prepare for and disclose on climate change risks. IIGCC also offers guidance on various aspects of climate change, including climate scenario analysis and successful investor engagement planning. IIGCC's Net Zero Asset Owners Commitment contains ten specific actions to help asset owners achieve Paris-aligned portfolios, including setting an interim portfolio emissions reduction target by 2030 or sooner. We support climate related resolutions at company meetings which are consistent with these aims.
- **Task Force on Climate-related Financial Disclosures (TCFD).** (https://www.fsb-tcfd.org/) The Financial Stability Board created the TCFD to improve and expand the reporting of climate-related financial information. Financial institutions, including the WYPF, are required to assess the potential financial risk of a variety of climate change scenarios and report on how such risks are being mitigated. We intend to submit our first annual report to the TCFD by October 2021. This document will be published on the WYPF website. A central component of the TCFD report is an analysis of the carbon footprint of the fund; essentially this is the sum of the pro-rata emissions of the investments in the portfolio. We intend to commission an

independent measure of the carbon footprint of the portfolio annually.

- **Climate Action 100+** (https://www.climateaction100.org/) is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. WYPF became signatory to the Climate Action 100+ project at launch in December 2017.
- **The CDP** (https://www.cdp.net/en) is a shareholder group that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The Fund became signatory to the CDP in 2007.
- **The Fund has the flexibility to pursue impact investments which, as well as delivering a financial return, also deliver a positive non-financial impact.** To that end the fund has actively invested in low carbon and renewable energy technology to assist in the transition toward a lower carbon economy. As of the end of June 2021, the fund had direct holdings of c£710m invested in public and private investments in alternative energy/green/infrastructure assets with £262m committed awaiting drawdown.

Social Factors

We believe that companies need to be socially responsible and understand a broad array of stakeholder interests, not solely the financial interests of its shareholders. This diverse range of factors includes:

- **We believe companies should treat their workers with dignity and respect recognising that they are core to the enterprise's long-term success.** Provision of employee welfare should exceed legally required levels. Attempts to treat 'gig-economy' workers as independent contractors are not encouraged.
- We encourage companies **to hire a work-force that is reflective of the communities and locations where they operate.** Companies should seek to close gender pay-gaps.
- We believe **companies should not attempt to minimize taxation** through the use of transfer pricing, tax shelters or low tax regimes to artificially reduce their tax burden.
- Reflecting our membership base we are keen to support the **rights of workers to free association and collective bargaining.**
- Companies should also seek to understand and acknowledge their wider **responsibilities to their supply chains.**
- Reflective of our geographic focus we are keen to **promote investments that benefit the West Yorkshire region.**

The monitoring and implementation of these factors into individual companies is done through direct engagement and voting.

Governance

Corporate Governance is the system by which companies are directed and controlled. Appropriate checks and balances need to be to in place to ensure adequate oversight without compromising a company's entrepreneurial spirit. Specific factors we consider:

- **Is the Chair:** appropriately experienced and qualified to run the board, independent at the time of appointment, and willing to listen and act on the concerns of stakeholders?
- **Is the Board**: sufficiently independent and qualified, able devote the necessary time, and suitably diverse to capture a range of opinions and views, appropriately experienced to manage the company's transition to a low carbon economy, sufficiently balanced in terms of tenure and does it have the will and desire to make management accountable?

- **Are the Committees appropriately structured:** How does the Audit committee ensure the quality of its internal & external audits? How does the Remuneration committee decide the overall compensation and strike the appropriate balance between salary, bonus and long-term incentives? Is the company sufficiently long-term in its approach on pay, is management compensation commensurate to its contribution, competitors and the median employee? How does the Nominations committee ensure sufficient diversity in succession planning?

The monitoring of these factors at individual companies is done through company meetings and third-party research.

The nature of Governance is usually beyond the remit of company investor teams and direct contact with the Chair is needed. WYPF actively seeks to establish working relationships with company chairs.

In addition, we use the following resources to monitor governance issues within the portfolio:

- **WYPF has employed PIRC (Pensions Investment Research Company)** (https://www.pirc.co.uk/) to monitor and provide guidance on corporate governance issues relating to the companies in which WYPF has a shareholding.
- **We are members of Local Authority Pension Fund Forum** (https://lapfforum.org) (see below) that highlights to members specific areas of concern regarding corporate governance.
- **We are members of the 30% Club** (https://30percentclub.org/initiatives/investor-group) a shareholder initiative aimed at prompting broader representative of women and minorities in board and executive positions. The initiative is targeting that 30% of the board of FTSE350 companies and 30% of the senior management of FTSE100 companies should be female. In 2021 the 30% Club proposed that companies adopt a similar pledge calling for ethnic diversity on boards.

Principle #3

WYPF chooses to be an informed and active manager

We are one of the few LGPSs that manages its fund internally. Directly employing a dedicated investment team has provided the WYPF with strong investment performance at a low cost while maintaining skilled and well paid jobs in the region. As of June 2021, the Investment Team comprised of 15 analysts and fund managers with an average investment experience of 21 years including 15 years at WYPF. By managing investments directly, we believe we are able to implement and control our ESG strategy more effectively than via a third party provider.

By investing money directly, the Investment Team has forged strong links directly with the companies in which it invests. The team regularly holds meetings with representatives of investee or potential investee companies at broker conferences or directly.

To further improve our knowledge, we have agreements with a number of investment banks and brokers who provide detailed research and analysis services, and we subscribe to other data & news services.

Fund Managers and analysts are encouraged to pursue relevant professional qualifications including the Chartered Financial Analysts (CFA) examination.

Principle #4

WYPF recognises its stewardship responsibilities though engagement and voting

Our approach to responsible investing is defined by the combination of: our ESG choices, our engagement activities and our voting decisions.

We actively engage with companies to encourage best ESG practice and will use our voting power accordingly.

By publishing our ESG Principles through our Investment Strategy Statement we aim to highlight our beliefs to investee companies.

If we believe an investee company has ESG standards that fall materially short of our expectations, we will engage with the company in a professional manner to attempt to understand the basis for these differences. We therefore consider engagement to be a two-way endeavour in that we seek to both inform investee companies of our expectations and understand their thinking on specific topics.

We further recognise that engagement is a process rather than a one-off action and improved behaviours may take months or years to achieve. We do, however, expect management to embark in dialogue and act in good faith. We set ourselves realistic time frames and short, medium and long term objectives targets for our engagements.

We also believe that engagement is more efficiently and effectively conducted on a joint basis with like-minded investors who share similar concerns.

As owners of capital we take our voting responsibilities seriously and exercise them in a way consistent with our publicly disclosed objectives and policy positions.

In line with our commitment to transparency and democratic accountability, we ensure that our voting aligns with our engagement. Should we decide to vote against board proposals will we seek to communicate this information with management prior to the vote. We publish our voting policies on our website.

WYPF LGPS is a signatory to the UK Stewardship Code (https://www.frc.org.uk/investors/uk-stewardship-code) The recently updated Stewardship code sets out twelve principles as a framework of good stewardship practice. As a signatory to the code we are obliged to make an annual submission to the FRC to explain how we are implementing and complying with the code. We will complete our first submission to the updated Stewardship Code by October 2021 and will post the document on our website once it is formally accepted by the FRC. The existing Stewardship Code Statement written in accordance with the previous principles is available to view on the WYPF website.

WYPF is a member of the Local Authority Pension Fund Forum (LAPFF). This is an association of 81 of the 88 LGPS funds, plus six LGPS pools, which carries out the majority of engagement work on the fund's behalf. The LAPFF engages with companies on a broad range of ESG topics via letters, meetings with boards, attendance at AGMs, and arranging the filing of shareholder resolutions or legal action if appropriate. The LAPFF also monitors how effective their engagement has been and reports this to members on a quarterly basis. In the year to March '21 WYPF engaged via LAPFF with 289 companies on 361 individual engagements

We have retained the services of PIRC as our proxy advisor to assist us formulating and implementing our voting at company AGM and EGMs. PIRC provide us with a quarterly report on votes cast on behalf of WYPF, which is published on our website.

Voting Records. In the twelve months to the end of March 2021 we voted on 20,347 resolutions at 1,570 company meetings. We voted for 12,031 resolutions, opposing 7,284 while the balance 1,029 were no voting / withdrawn. We most often voted against proposals concerning the appointment of Directors (32%), Share issuance or repurchase (56%) and pay schemes (82%.)

Principle #5

Positive Engagement for Change

While we endeavour to support the managements of companies in which we invest we will not hesitate to engage with investee companies which we believe are falling short of our ESG expectations. We recognise that engagement should be considered a process and is inherently long-term by nature. If we are met with intransigence or unable to secure an improvement in behaviour over a reasonable time frame, we may choose to escalate our activity through voting or resolution. WYPF considers shareholder resolutions to be a useful tool to proactively raise issues of concern either where boards of investee businesses are resistant to dialogue or change, or to amplify the shareholder

Some recent examples of engagement that WYPF has undertaken via LAPFF

Amazon

LAPFF has signed a letter co-ordinated by *Folksma and Ohman* to ensure that Amazon is respecting its workers' rights to free association and collective bargaining. While Amazon maintains that it has appropriate standards in place, LAPFF believes this is an unsatisfactory response as it has been reported the company hired a consulting company to obstruct union organisers. Discussions continue.

Tesco

LAPFF met with Tesco to encourage the food retailer to disclose metrics on the proportion of healthy to unhealthy produce it sells and set targets to improve the availability of healthy items.

Vale & BHP

LAPFF is continuing a lengthy engagement regarding the slow pace of reparations to the communities impacted by the Samarco & Brumadinho dam collapses.

voice where engagement with boards has been positive.

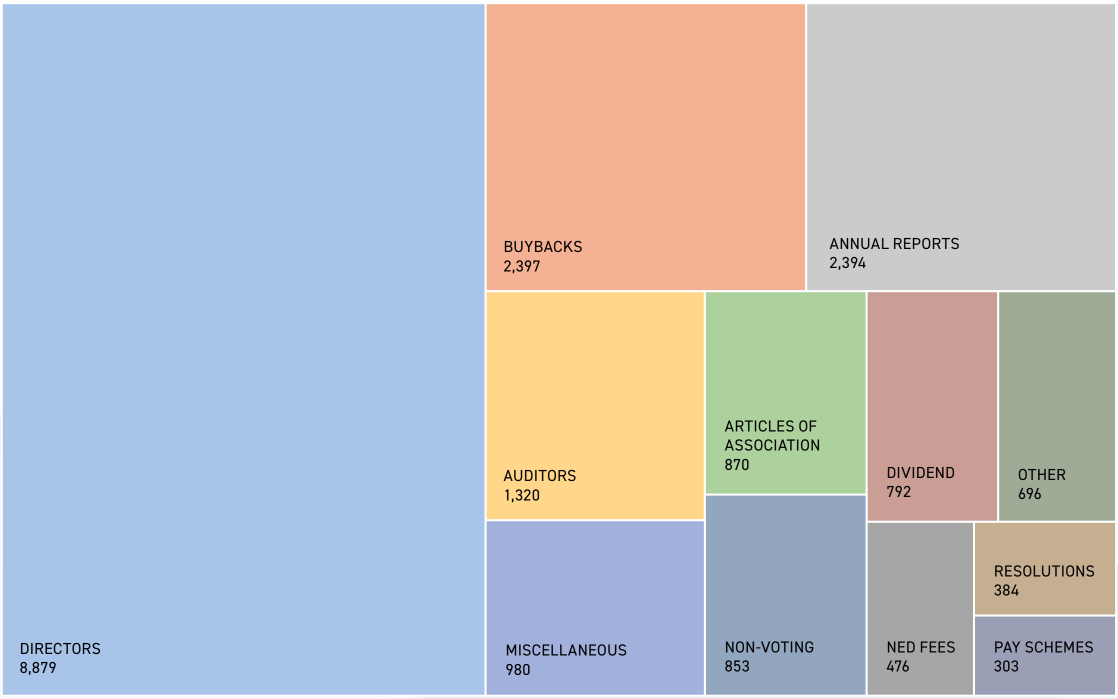
In attempting to reduce the Carbon Footprint of the fund consistent with the UK Government's Net Zero pledge we will seek to engage with companies to reduce their carbon emissions, rather than to remove carbon intensive companies from our portfolio.

Boycotts and embargoes. We will not use our voting rights or disinvest from any investment for political or ideological reason unless required to do so because of economic sanction from the UK Government.

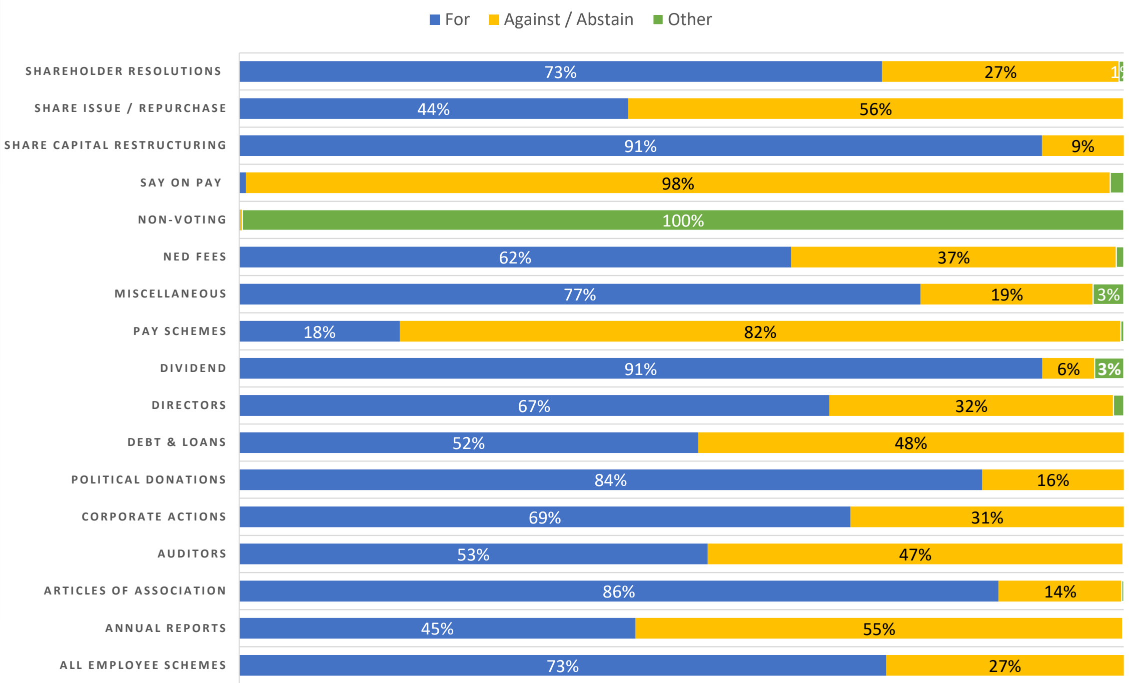
Exclusion. We may choose not to invest in a particular company or sector if we believe management are unwilling to engage in a constructive manner and that the ESG standards irredeemable. For example, we have not held any coal mining stocks for a number of years believing that the fuel is inconsistent with the transition to a lower carbon economy. Conversely, we may opt to invest in a company that has inferior ESG characteristics where there is a realistic expectation that management will seek to improve.

Public policy advocacy. We recognise that regulatory intervention is sometimes necessary to address issues such as corporate disclosure requirements and shareholder rights. Where appropriate WYPF will participate in public policy consultations and engagement. This may be through its own action or jointly with Northern LGPS, LAPFF or other collaborative investor initiatives.

TOTAL RESOLUTIONS VOTED ON BY TYPE



HISTORICAL VOTING BY RESOLUTION TYPE



Some examples of recent voting

WH Smith

We voted against the Remuneration report that proposed to give the Company's CEO a £4.5m long-term incentive bonus. We considered the CEO's total proposed compensation excessive at 36x the average workers' pay particularly in a COVID-19 hit year in which the Company had fired 1,500 employees, raised £166m in a rights issue and received furlough payments from the government. Subsequent to the meeting the company withdrew the proposed payment.

Royal Dutch Shell

We voted against the management's proposed Energy Transition Scheme believing it not sufficiently ambitious or rigorous. Specifically, we believed:

- the policy fails to make the Chairman responsible for the programme;
- is too vague in its promise to "decarbonise in step with society" and;
- its focus on carbon intensity rather than total emissions to be misguided.

We voted for a shareholder resolution calling for the Company to commit to more inspirational targets including cutting absolute emissions and establishing itself as a leader in energy transition.

Ultimately the management's proposal received 89% support while the shareholder resolution garnered only 30%. While the shareholder resolution was not adopted we believe it serves to maintain pressure on management to improve their approach to climate change.

AstraZeneca

While the drug maker merits praise for committing to produce a COVID-19 vaccine at cost we chose to vote against a remuneration proposal to boost the CEO's bonus potential to 900% of his £1.3m base salary from the current 750%. Not only would the proposed amount be overly generous, at 190x of the average worker's salary, we believe the majority of executive compensation should be in the form of base pay.

Current ESG themes

ESG investing continues to gain mainstream acceptance reflecting shifting investor & corporate attitudes, regulatory developments and world events. Fund flows to ESG based funds have been extremely strong: according to Morningstar, investments into ESG funds rose 19% Year on Year to the end of 1Q21 and assets under management with ESG mandates stand close to $2trn. Similarly, there has been growing awareness by defined contribution pension fund members that ultimately it is their money in institutional hands and they wish to see funds invested responsibly. This trend reflects the success of advocacy groups including ShareAction (https://shareaction.org/) and Make My Money Matter (https://makemymoneymatter.co.uk/) to push institutional investors to embrace ESG investing. Strong fund flows and increasing client scrutiny is likely to drive bifurcation of performance with high scoring ESG assets outperforming lower scoring ones.

Undoubtedly, **climate change remains the most important ESG factor for most investors.** Leading up to the United Nations COP26 summit (https://ukcop26.org/), scheduled to take place in Glasgow in November 2021, there is strong tailwind of commitments by countries, companies and investors to become 'Net Zero'. Adoption is being helped by the new US administration which is considerably more sympathetic to the climate cause and has recommitted itself to the Paris Agreement. Legislation, most notably in the form of the TCFD, is obliging companies to express climate risk as financial risk. In the Netherlands, in a noteworthy decision, a court ruled that Royal Dutch Shell was being insufficiently aggressive in its greenhouse gas reduction commitments and ordered the company to cut CO_2 emissions 45% relative to its 2019 levels by 2030. Climate change was also high on the agenda at many corporate annual general meetings, with investor groups keen to push companies for realistic plans for reducing emissions. Arguably, the most remarkable AGM was that of Exxon Mobil where a little known activist hedge fund 'Engine No. 1' secured sufficient shareholder support to place three of its nominees onto the board. The hedge fund only held a small investment yet it

succeeded in its proxy battle through judicious selection of nominees and aggressive lobbying of large institutional shareholders. A common theme of questioning at energy company AGMs is whether carbon commitments can be reconciled with other financial plans, particularly in regard to CAPEX or production growth forecasts.

Executive pay has traditionally been a fertile ground for investor discontentment. The mood was particularly febrile in the UK as a number of companies that, as a consequence of the COVID epidemic, had received government support and laid off workers, then sought to provide generous payments to executives. Investors predictably objected, on the grounds that management should share other stakeholders' pain.

Social Factors were also in the fore. In the US leaders of many companies expressed support for a variety of topics on which historically they would have remained silent, these included: voting rights, the Black Lives Matter movement, police brutality, and LGBQT rights. Support often came in the form of a 'Public Letter' where a CEO signs a public statement expressing a view on a particular topic. While a letter doesn't commit a company to a particular action, stepping into the social arena drew scrutiny from politicians, employees and customers.

In the UK Boohoo reminded investors of the difficulties companies have in monitoring suppliers, even those based in Leicester rather than Bangladesh. Recognising the enormous potential for lasting reputational damage, the company committed significant resources to an independent enquiry and to clean up its practices.

Workers' rights. The rise of the 'gig' economy emphasising flexibility has placed a significant burden on workers who lack much of the security relied upon by previous generations. Despite expressing a desire to be 'Earth's Best Employer' Amazon strongly rebuffed an attempt by its workers to unionize in one of its fulfilment centres in Alabama. Uber lost a UK court appeal as a judge ruled that its drivers are employees and not contractors and are therefore eligible for the usual protections, including the right to earn the legal minimum wage, holiday & sick pay, and pensions.

Dilution of standards. While UK Corporate Governance is considered to be amongst the best in the world there have been attempts to dilute some of the measures. Lord Hill's independent review aimed at encouraging companies to list in the UK proposed the relaxation of some standards, including the permitting of dual class share structures in the premium segment of the market. The subsequent poor performance of the IPO food-delivery company Deliveroo, in part because of investors' governance misgivings, may force the government to reconsider the recommendations carefully.

Personal Data. Following the Cambridge Analytica/Facebook scandal there is growing public awareness that the cost of seemingly free online content is the harvesting and selling of users' personal data. The collection, usage and control of customer data by social media companies is likely to be more closely scrutinized.

Taxation. Fiscal matters were again widely discussed with the G-7 reaching an accord backing the creation of a global minimum corporate tax rate of at least 15 percent in an effort to close cross-border tax loopholes used by some corporations. The accord has subsequently received further backing.

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