Q2 | QUARTERLY REPORT
APRIL-JUNE 2022
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VOICE

PIRC

'TAX'

SEARCHING..

TARGETING BIG TECH OVER TAX

ESCALATING ENGAGEMENT ON TAX TRANSPARENCY

At the end of last year, we announced our intention to increase our work on tax, identifying it as an increasingly important issue for society, companies and their investors alike. While the inflationary squeeze continues there is increasing scrutiny of how and where companies generate revenue, and the amount of tax they pay on it. If it were ever true that the bottom line for investors was simply 'low tax is good', it is certainly more complex now.

As governments themselves increasingly realise the extent of tax avoidance and the need to clamp down, failure to comply increasingly becomes an investment risk too. That's why PIRC continues to increase our work on tax transparency. That means, as per the GRI Tax Standard, country-by-country reporting of tax payments and publishing a report on a company's approach to tax issues.

We've been engaging companies on tax since the end of 2021, and our first escalated engagement was undertaken with Amazon, with PIRC coordinated the filing of a tax transparency shareholder resolution. Before investors can assess if companies are paying their fair share of tax, they need to know where companies are earning revenue and paying their taxes. This is why our proposal called on Amazon to publish country-by-country reporting of their tax and financial payments, in line with the GRI Tax Standard.

Unsurprisingly, Amazon did not respond meaningfully to engagement on this topic, as other investors had found previously. Once the resolution had been filed the company tried to have the resolution thrown out. But in April the US Securities and Exchange Commission, with a new interventionist bent under the chairmanship of Gary Gensler, rejected Amazon's appeal. It was only the first time the regulator had ever sided with shareholders on the issue of tax transparency, marking a major milestone and setting a precedent for future filings.

Gary Gensler, Chair of the US Securities and Exchange Commission

$21.9bn: value of Microsoft contract to supply the US Army with headsets, at the expense of the taxpayer

$39bn: amount shifted by Microsoft from the US mainland to Puerto Rico, with a near zero tax rate

Investor lobbying of the SEC was crucial to this precedent setting decision. Investors with $3.6 trillion in assets under management signing onto PIRC's letter to the regulator in support of greater tax transparency. This support snowballed into growing momentum in the run up to the 25 May AGM, with more and more investors and advisers coming out in support. PIRC held and spoke at a series of webinars on the topic throughout the quarter, worked with the co-filers to push this issue up the agenda. We also launched our tax brief, setting out expectations of investor voting and engagement policies for responsible tax.

In the end, a historic 21% of independent shareholders rejected Amazon's position that greater transparency was not required and voted in favour of the resolution. This was a watershed moment for tax transparency, with investors expressing significant dissent over the company's failure to provide sufficient information regarding their tax planning practices. It was a significant result given the propensity for investors to vote in support of the company and the fact that this was the first resolution of its kind.

It is our belief that this 21% represents not a ceiling, but a floor upon which to build. In June PIRC coordinated the filing of another two transparency proposals, at Microsoft and Cisco. We are again targeting companies with dubious reputations engaging in sectors on the radar of

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authorities.

Because of the SEC ruling on Amazon's appeal at the start of the quarter, we do not believe that Cisco and Microsoft will seek to challenge the resolutions. We believe that the precedent set by the regulator is clear, and if so this means our attention can be more focused on building support rather than respond to a challenge via the regulator. PIRC has already initiated engagement meetings to build support for the recommendations in our tax brief and ensure increased support for the proposals at Microsoft and Cisco. For example, PIRC has joined the PRI Tax Reference group, to promote greater collaborative engagement with companies on responsible taxation.

The Microsoft and Cisco proposals were filed by investors with almost US400 billion in assets under management: the Greater Manchester Pension Fund, Italian asset management company Etica Funds, the Missionary Oblates, and the Ethos Foundation as co-filers, as well as with Nordic financial institutions including Finland-based Nordea Asset Management, and Danish pension funds PenSam and AkademikerPension.

The size, scale and global diversity of support reflects the international nature and concern around tax transparency. It costs governments up to US$240 billion in lost annual revenue, and with authorities becoming increasingly aggressive, represents a very real risk to investors.

PIRC also reviewed the public policies and voting guidelines of the top ten largest asset managers to understand whether these managers had identified tax as an engagement issue, and if so, how they were engaging and voting. This analysis identified significant gaps between the policies and guidelines of leading investors and those of the largest asset managers.

With governments taking a more proactive approach, companies face reputational, legal and financial risks. The business operations of companies that shift profits and IP to low-tax jurisdictions are threatened if presumed income and profit calculations are challenged by the new global tax reality.

PIRC's collaboration with the Centre for International Tax Accountability and Research (CICTAR) seeks to impress the importance of this to investors, working towards the normalisation of tax transparency. This is an issue of growing salience, and our experience to date suggests that more and more investors believe that this is an issue that deserves a greater focus in their voting and engagement activity.

For our part PIRC continues to expand its work on tax. In the second half of the year, we'll be looking to escalate our engagements with other tech companies, with the possibility of filing against more companies in November and December.

PIRC will be expanding opportunities for clients to file shareholder proposals, if this is of interest please get in touch.

16.89%
tax rate of the average Amazon worker in the UK
(using Glassdoor wage figures)

0.37%
Amazon's effective tax-to-turnover ratio in the UK

PIRC TAX BRIEF

Our briefing for investors sets out options for asset owners and managers who are looking to escalate their engagement on tax and looks at some of the more developed existing policies some have already adopted. More information on the briefing can be found in the 'publications' section.

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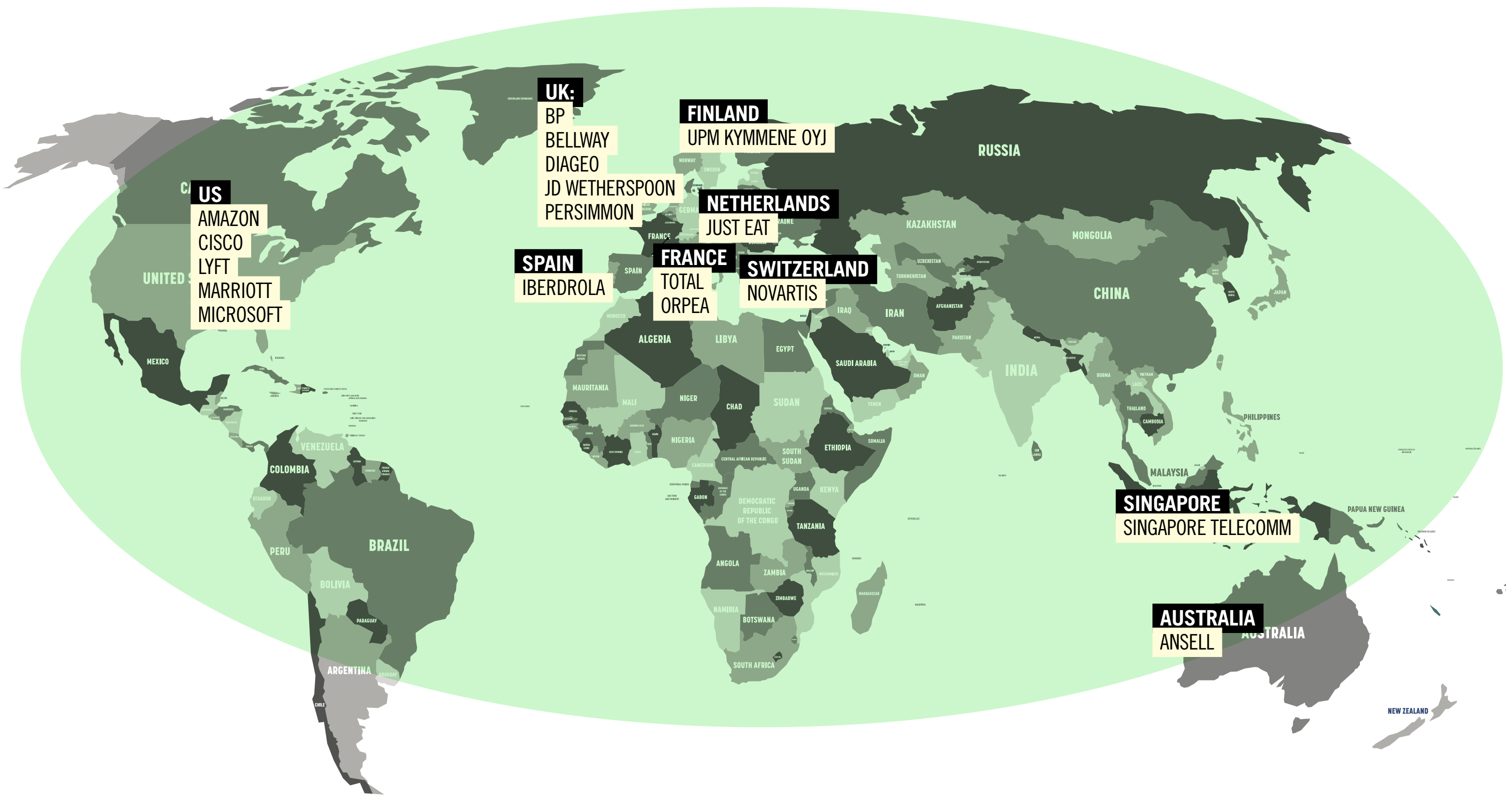

TAX

As outlined, tax is an issue of increasing importance to investors. In much the same way that analysis of and engagement relating to climate change environmental issues has grown over time, we envisage tax transparency to become more widespread concern for investors.

In order for this work to be effective, investors need to cohere around agreed principles. Whilst transparency alone is not enough, it is a necessary element and this is why PIRC has focused on the GRI Tax Standard as a baseline objective. Reporting in line with it would provide investors with the information they require to evaluate the risks associated with companies' approaches to tax.

So far PIRC has coordinated filing at tech companies but we also seeking to engage with companies in the pharmaceutical industry. In October 2021, 136 countries agreed to a framework for global tax reform. Switzerland, where major pharmaceutical firms are headquartered, plans to offer companies subsidies to offset the introduction of the 15% global minimum tax rate. This is a potentially thorny issue, but one that PIRC has begun looking at through our engagement with Novartis, and one that we will develop as the year progresses.

PIRC has also been engaging multinational companies in the healthcare sector on their tax practices. According to the UNPRI, companies in these sectors have relatively poor tax disclosures despite facing heightened risks, including: media coverage of alleged tax avoidance, particularly in relation to the transfer of intellectual property (IP) rights across jurisdictions to reduce tax burdens; and, their relatively high tax gap (the difference between statutory tax rates and what is actually paid) relative to other sectors.

Cisco Systems Inc.

Overview: Cisco Systems Inc is a US-based multinational technology company. It develops, manufactures, and sells networking hardware, software, telecommunications equipment and other high-technology services and products.

Issues Arising: Cisco's Global Tax Strategy document provides insufficient information on governance and risk management. The document is not fit-for-purpose, insofar as it does not provide investors with the information to undertake an appraisal of the company's tax risk appetite. Cisco fails to provide disaggregated profits or tax payments in non-US markets, with its approach to taxation has been repeatedly challenged by tax authorities globally. In 2021, TaxWatch alleged that Cisco avoided £68 million UK taxes in 2019.

In 2018, Cisco repatriated $67 billion in foreign cash holdings as a result of the Tax Cuts and Jobs Act. This was one

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of the largest repatriation plans among all US companies. The magnitude of the amount repatriated raised red flags about Cisco's tax planning strategy and its relationship to the company's business and sustainability approaches, and whether the company had been over reliant on artificial vehicles to reduce tax obligations in countries around the world.

Engagement: PIRC has sent a number of engagement requests to the company since December 2021. In May 2022, PIRC informed Cisco that it was considering filing a shareholder proposal at the company requesting that it produce a tax transparency report that complied with the GRI Tax Standard, unless the company made commitments to publish, at a minimum, a country-by-country report of its tax and financial information in the next twelve months. Investors have requested that the company publish country-by-country reporting since 2018, as part of the UNPRI's collaborative engagement on tax transparency. In June, PIRC met with the company to discuss the proposed tax transparency shareholder proposal, and whether the company would commit to providing additional tax disclosures, thereby allowing for the withdrawal of the proposal. As it transpired, Cisco could not or would not provide those guarantees.

Outcome and Follow-ups: The company refused to commit to providing additional tax reporting, so PIRC coordinated the filing of a shareholder proposal, with lead filer the Greater Manchester Pension Fund and co-filers Etica Funds and the Missionary Oblates. At the time of writing, the company has not responded to the shareholder proposal, and PIRC is awaiting the publication of the company's notice of meeting, including the response to our proposal. PIRC will be engaging with Cisco investors and encouraging them to vote for the proposal.

Novartis

Overview: Novartis AG is a multinational group of companies specialising in the research, development, manufacturing and marketing of a broad range of innovative pharmaceuticals and cost-saving generic medicines.

Novartis pharaceutical plant in Ringaskiddy Co. Cork, Ireland

Issues Arising: Novartis currently provides reporting against two of the four reporting areas under the GRI Tax Standard, the gold standard for tax transparency metrics. It provides a description its approach to tax (207-1) as well as the company's governance and risk management frameworks (207-2). Significantly however, it does not publish country-by-country tax and financial information (207-4).

The company's tax strategy states that they do not have subsidiaries in tax havens purely for tax optimisation purposes, and that their tax planning approach is aligned to their business and operational strategy. However, the company's list of subsidiaries provided in the company's 20-F statement shows subsidiaries located in known tax havens, even though the company's website does not include these countries in their areas of operation.

Engagement: PIRC met with Novartis's Investor Relations' ESG Director in June 2022. We asked whether the board had discussed publishing country-by-country reporting. While there has been discussion at board level, the company says that at this stage it will only privately report country-by-country information to the Swiss tax authorities as required by law, and not do so publicly.

The company stressed that a key principle of its tax strategy is to pay fair tax where they operate, and that profits should accrue where profits are created. However, it could not explain why there are subsidiaries in tax havens where it does not have operations. This question was taken on notice.

Outcome and Follow-ups: PIRC highlighted that, according to our tax brief regarding our expectations for companies regarding tax practices and disclosures, the publication of country-by-country reporting will be taken into account when deciding whether to recommend voting for or against a company's financial statement.

CLIMATE TRANSITION

PIRC has been engaging companies regarding their net zero transition pathway ahead of the 2022 AGM season and the proposed 'Say on Climate' votes, with particular emphasis on the oil and gas majors. The initiative asks companies to set out their strategy to manage the transition to a net zero emissions business and put it to shareholders. This has been growing in prominence as investors are increasingly pushing for emission disclosure consistent with the Task Force on Climate-related Financial Disclosures, a five-year plan to get onto a net zero emissions pathway and annual provision for shareholders to vote on such plans.

The UK government is moving towards making publication of corporate net zero

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transition plans mandatory and is setting up a high-level transition plan taskforce to develop a 'gold standard' for climate action transition plans by end of 2022. PIRC believes that the 'Say on Climate' will increasingly become the norm, especially at companies reliant on fossil fuels in their operations. But whilst the inclusion of such votes is welcome, their mere presence is not enough to guarantee our support. Decarbonisation plans must be Paris-aligned, feasible, have short-, medium- and long-term targets across Scopes 1, 2 and 3, and recognise the need for a just transition. Otherwise it becomes a mere tick-box formality, the type of window-dressing that needs to be replaced with real substantive action.

BP

Overview: BP plc is one of the oil and gas majors, operational at each stage of the hydrocarbon value chain in three main businesses - fuels, lubricants and petrochemicals. In renewable energy, BP's activities are focused on biofuels and wind.

Issues Arising: The latest Intergovernmental Panel on Climate Change (IPCC) report outlined the need for emissions to fall by about 45 percent from 2010 levels by 2030. In the lead up to the 2022 AGM BP enhanced its existing emissions reduction targets to include a 50% reduction in operational emissions on an absolute basis by 2030 against a 2019 benchmark.

Engagement: PIRC ranks BP's pathway to transitioning its business relatively favourably when benchmarked to its European and US competitors. In the build up to BP's 'Say on Climate' vote PIRC engaged on multiple occasions with the company to discuss its proposed pathway, voicing support for the action taken by the company as detailed above.

Divestment may achieve reduced emissions on a company's spreadsheet, but merely passes responsibility to other investors – ones lacking in the oil and gas majors' financial and institutional might and unable to carry out the systemic changes need to decarbonise the energy system.

However, whilst BP is taking its responsibility to transition to a low carbon business seriously, there are concerns that the existing plans are overly reliant on divestment as opposed to the internal displacement of hydrocarbon to renewable energy.

PIRC welcomed the inclusion of a fair and just transition segment in the transition plan. There were however few specifics shared in the meeting about whether or how job levels and job quality would be maintained as part of the move away from oil and gas, and into renewables like offshore wind. The company explained that because it is not transitioning from oil and gas for at least another decade, jobs in that sector will remain. It was also outlined that the company's interpretation of the just transition focuses not just on workforces but on benefits to wider society, such as through the rollout of EV charge points.

Outcome and follow-ups: Given these concerns, PIRC withdrew its support for the company's net zero transition plan at the 2022 AGM. The inclusion of a 'Say on Climate' vote is to be commended and should become the industry standard. Nevertheless, PIRC will not support resolutions simply by virtue of their inclusion. The lack of defined targets set for how social and workforce impacts will be managed was raised as a concern during the engagement. The company reports that these metrics and targets will be shared in 2023.

Total Engergies SE

Overview: Total is an energy company that produces and markets fuels, natural gas and electricity. It is one of the six "supermajor" global oil companies, with business operations covering the entirety of the oil and gas chain. Total is also a large-scale chemicals manufacturer.

Issues arising: PIRC's focus on engaging the oil and gas majors over 'Say on Climate' votes saw us undertake an engagement with Total. There are concerns over the lack of Scope 3 targets.

Engagement: During the call TotalEnergies provided an overview of its proposed pathway to net zero by 2050. This included interim targets, which were enhanced during 2021, that targets a 30% reduction in customers' energy emissions against a 2015 baseline. Other notable elements of Total's transition plan include the role the company plays in climate advocacy, specifically in relation to the trade associations to which it belongs. Total gave examples from 2021 when membership has been termination at associations that were not aligned with Total's view on climate matters. The company also outlined how it had linked climate ambitions to the compensation structure.

PIRC raised concerns regarding the absence of a Scope 3 target. Understandably for a company focused on direct fossil fuel production, focus has been on medium-term Scopes 1 & 2 emissions reduction targets, set at 40% by 2030 against a 2015 baseline. The latest Intergovernmental Panel on Climate Change (IPCC) report outlines the need for emissions to fall by about 45% from 2010 levels by 2030. However, Total has not set targets in relation to capital expenditure (Scope 3), but it was noted that 2021 investments in renewables and electricity represented 25% of total investments, a comparatively high figure for the industry.

PIRC outlined further concerns over the veracity of the pathway to achieving net zero. There is a fundamental divergence between Total's strategy and that of the IPCC's and IEA's most recent assessment. Total continues to benefit from developing and sustaining its hydrocarbon business, despite scientific consensus that no new projects should be undertaken. The company's net zero scenario estimates 50 – 100MT sequestration of carbon via carbon capture and storage, which PIRC considers overly reliant on a technology not yet proven at scale.

Whilst it is encouraging to hear from the company with regards to ensuring a just transition, no defined targets have been set for how social and workforce impacts will be managed.

Outcomes and follow-ups: The net zero ambition and pathway outlined by the company represents continued improvement in how Total is attempting to mitigate the environmental impact of the business. Whilst there are credible elements to the pathway, specifically its approach to capital allocation, concerns remain over some elements of the

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proposed pathway, particularly around carbon capture and Scope 3 emissions. PIRC withdrew support for the company's transition plan.

Iberdrola

Overview: Spain-based Iberdrola is global energy provider, one of the world's biggest electricity utilities in terms of market capitalisation. The company is also considered one of the largest producers of wind power globally.
Issues Arising: There is particular emphasis on the power generation sector to decarbonise at pace given the benefit a low carbon global energy mix would have for other industries transition planning. Electricity utility companies such as Iberdrola must continue increase the provision of renewable energy without reliance on offsetting.

Engagement: During the quarter PIRC met with Iberdrola to discuss a range of climate, just transition and governance issues. The company presented its approach to mitigating the business risks posed by climate change and outlined how it intended to transition to a carbon neutral business by 2050. This included increasing its renewable capacity, increasing the number of regulated assets, and investing in green hydrogen.

The company relayed that there is a lack of clarity around the concept of the "just transition" and that they do not know what is expected. With regards to the risk of layoffs and impacts on local economies, this is not anticipated to be a problem, as the intention is to reallocate all employees at their closed coal stations within other parts of the business. The company does not feel a need to produce a specific just transition report as the majority of workers are tied to collective agreements meaning they are able to bargain for their rights in any major changes. The company also feels its practices up to now demonstrate a good level of treatment towards employees.

With regards to poor pay in some aspects of the renewables sector, the company felt that this is not due to the energy transition, but rather a wider societal issue. On prices and the cost-of-living crisis it was agreed that energy poverty cannot be solved by companies alone.

When asked about possible human rights abuses in their renewables supply chain, particularly in China, the company responded that whilst it can try to implement its own policies, it will take time for the whole industry to adapt policies to meet human rights levels. Growth of renewables in Europe would be stunted by divestment, as China is the source of 50% of global silicone supplies, a vital component in the production of solar panels.

Outcome & follow-ups: Other companies have not struggled with the concept of a just transition, and it is in the long-term interests of Iberdrola to formulate policies to match the need for such a plan. PIRC will continue the engagement with Iberdrola in the future, with particular focus on commitments regarding its capital expenditure and human rights due diligence.

OCCUPATIONAL HEALTH AND SAFETY

In June the International Labour Organisation's ratified occupational safety as a Fundamental Right at Work. PIRC believes that engaging on health and safety presents an opportunity for investors to have a meaningful real-world impact in the area of decent work. To inform our approach we carried out a review of occupational safety indicators and outcomes for FTSE350 companies.

We are seeking to engage all companies that we found to be subject to enforcement activity by the UK's Health and Safety Executive (HSE

In this quarter we met with housebuilders Bellway and Persimmon. The nature of construction means that such companies are more likely to feature prominently in such health and safety analysis, but that makes it more important that they are working to mitigate occupational safety risks. We also engaged drinks company Diageo.

Bellway

Overview: Bellway PLC is a UK-based housebuilder, constructing and selling homes. This includes the provision of social housing within developments.

Issues arising: It is PIRC's expectation that companies in high-risk sectors, such as construction, provide disaggregated data that references outcomes for their sizeable contingent workforce. However, Bellway does not currently disaggregate safety data in its reporting, meaning it is not possible to monitor the rate of incidents and risks by employment type.

Engagement: PIRC met with Bellway in May in acknowledgement of enforcement notices and fines from the HSE within the last five years. Agency workers and contractors tend to face additional risks

Builders and brick layers at work on a Bellway Homes construction site in the West Midlands, England, UK

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compared to their directly employed counterparts (such as insecurity over their shift patterns), less union representation and in some cases less training. For this reason, PIRC expressed the expectation that safety incidents involving them should be closely monitored by companies and by their investors, which requires disaggregated data.

On the topic of governance of safety risks, Bellway disclosed that reward systems for site managers and executives are designed in such a way that there is no perverse incentive for safety risks to be neglected in the pursuit of improved statistics and rewards. This was supported by PIRC, and we shared scepticism about the use of bonus payments made to executives for the absence of safety incidents, as safety should be a core element of a director's role and not something that warrants additional reward.

Impacts of changed IR35 "off payroll" tax rules (for companies who engage self-employed workers in the UK) were also discussed. Bellway shared that the main IR35 compliance risk area for the company was in relation to agency hires. As such it has been working with a restricted number of recruitment agencies and ensuring that the supply of labour through these firms to Bellway are directly employed workers, not self-employed contractors.

Outcome and follow-ups: The company welcomed the suggestion of disaggregating workforce data disclosures and informed us of its ambition to improve the granularity of data in the year ahead, supported by a new safety monitoring system initiated in 2021. In the meantime, Bellway agreed to share data by employment type with us.

It was also agreed to reconsider participation in the Workforce Disclosure Initiative which the company has up to now not participated in due to resource constraints. Finally, Bellway agreed to share information on ESG factors relevant to its new contract with Ilke homes – creating factory-built housing, part-funded by Homes England; as well as information on the liability status of remaining Bellway properties affected by unsafe cladding.

Workers on a housing building site for Persimmon

Persimmon

Overview: Persimmon Group is housebuilding business based in the UK, with three main areas of operation: the Persimmon Homes business is the core operation of the Group, which builds residential properties; the Charles Church business provides a range of premium homes; the Westbury Partnerships business focuses on social housing.

Issues arising: In 2021, the company received one HSE prohibition notice, having previously received one in 2017. Prior to it had two improvement notices in 2020, and one in 2019.

Engagement: The company was keen to put the HSE activities into context. In 2021 it had reportedly received 47 HSE in person site checks, which resulted in one notice. As housebuilders operate in a high-risk sector, they have more regular HSE checks than other companies, and whilst Persimmon would like to avoid any notices, one notice out of 47 is deemed manageable.

In terms of the governance of safety risks, the company felt it had a robust reporting procedure. Safety is disclosed as a major principal risk for the company, meaning every H&S issue is reported on and investigated. If there is a notice enforced, then a full-scale investigation is undertaken that goes through to board level for assessment. The company collects live data across the year from all its sites and this allows it to be reactive to any issues that arise.

Contractor fatalities/injuries are reported alongside direct employees, but the company stated that it is unable to disclose the types of contingent workers or the overall composition of the workforce. It is not clear why the company is unable to disclose such breakdowns, as these figures are, by law, being collated in order to provide averages in the safety data. The reason provided is that contractor employment is short term by nature and that subcontracting firms are hired to complete tasks and determine their own workforce sizes. However, given that housebuilders are required to record the number of people on site quarterly as it is an audited number required for regulators, and usually for the auditing of client contracts, these figures will be at Persimmon's disposal.

The workforce engagement model includes an employee panel that meets four times a year. There are 12 members, including the Designated NED Joanna Place, and feedback from the panel is supplemented by an employee engagement survey. However, both the panel and survey are for direct employees only.

Outcome and follow-ups: Given that the majority of the company's overall workforce consists of contingent workers (an estimated 6,000, compared to 5,300 direct employees), we would expect better disclosure of data for this group. We will continue to engage the company, and other housebuilders, on this point.

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Diageo

Overview: Diageo is a premium drinks business, operating globally across spirits and beer with a collection of brands include Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Tanqueray and Guinness. Diageo plc is listed on both the London Stock Exchange (DGE) and the New York Stock Exchange (DEO).

Issues arising: PIRC engaged the company to discuss the enforcement notices and progress reports by the HSE since 2018.

Engagement: The company provided six representatives for the June meeting, including the company secretary and senior IR and HR personnel. This indicated that workforce safety is a priority area for the company.

PIRC learnt that the company has been carrying out safety campaigns and engagements with its workforce as part of a strategy to create a culture of safety. They reported that their safety data scores are at their lowest ever and they are ahead of industry benchmarks, but still strive for improvements. They relayed that the HSE case has been dealt with and closed.

On the topic of contingent workers, Diageo reported that the majority of its workforce is directly employed but there is a small portion who are not (less than 5% of the total workforce of 27,650). The contingent work tends to be the use of agency hires or third party contractors for short-term work in busy periods when there is an increase in demand. The company was reluctant to share further information about the makeup of this workforce or risks arising, saying that the numbers are constantly changing due to the short-term nature of the work.

In relation to other workforce issues, the company expressed contentedness with a turnover rate of 10%. Labour shortages were not deemed to be a risk area. Diageo feels able to attract the necessary talent and skills through having a good reputation in the communities it operates in, and a competitive approach to recruitment.

Across global operations their industrial relations are reportedly dynamic, meaning Diageo routinely responds to bargaining claims through constructive union relationships. There are high levels of union membership in the company.

There was positivity about the appointment of an NED responsible for workforce engagement, in accordance with the 2018 Corporate Governance Code. The new board member has met 900 employees in 2021, increasing this year. Whilst they did consider other models, it was felt the appointment of a board member was most suitable, but this along with other decisions will be under review over time.

Outcome and follow-ups: PIRC challenged the assumption that disclosures on the small numbers of contingent workers are not needed and expressed the expectation for all companies to begin disclosing data on this group. Looking ahead, the company has laid out just transition targets for 2030. To meet them they intend to continuously reskill their workforce. Covid has already led to a reskilling of some roles and having seen the benefits, the company wishes to continue its focus on training.

HUMAN RIGHTS AND SUPPLY CHAINS

Ansell

Overview: Ansell is an Australian procurer and manufacturer of rubber gloves. The company has around 12,000 employees in manufacturing, covering particular segments such as medical equipment in Malaysia, industrial gloves in Sri Lanka, bodysuits in China and chemical protection equipment in Thailand. It also has a large network of providers in Asia from which it sources PPE.

Issues arising: As part of our ongoing work on human and labour rights we have continued to monitor the rubber glove industry in Malaysia. This is a sector where forced labour has been a particular problem, leading to import bans that have had a significant impact on affected companies. Ansell has relationships with a number of the manufacturers and was previously engaged in early 2021.

Engagement: On 30 June PIRC met with Ansell for an update on its work in relation to labour standards in supply chains. Ansell is confident there is no evidence of modern slavery in any of its direct workforce and it is suppliers in Malaysia that are the main risk. The company has a supply management framework in place to help them manage and assess risks, to determine what audits are done and what approaches they can take. There are still risks in the other areas, but Malaysia is by far the biggest.

In common with others, Ansell feels that breaking away from suppliers doesn't always lead to change. They do take the stance of assessing the level of non-compliance and working with the suppliers to bring about change. Where improvement is not achieved, it will look at terminating the relationship. The company has a labour rights committee that make the final call on whether to end the relationship after their assessment has been done. As a result of concerns relating to labour practices, the company halted orders from Brightway. It had previously also done so with Top Glove but has subsequently re-established this relationship.

PIRC asked for detail on health and safety and working hours as these were categories of non-compliance with standards most cited in the Ansell's reporting. It was reported that many instances of safety non-compliance relate to fire exits and bathrooms. On working hours, the company seeks to comply with the applicable working hours of the country, and not the ILO's 60-hour week standard.

PIRC asked about the Responsible Glove Alliance, of which Ansell is a founding member. Other members include Kimberly Clark, Top Glove, and Hartalega. It was formed last year and is working out how best to use their power to make transformational change in the industry, looking at due diligence trends and how best to undertake audits.

PIRC asked about union relations in Sri Lanka. In 2013 there was a strike that led to the termination of around 1,300 employees, subsequently found to be lawful. Ansell agreed to pay employees a redundancy payment as part of a settlement. Issues arose again in 2019 and they have recently settled the issue with the union and paid over the required payments to the affected employees. The issue still standing relates to 11 employees that led the strike, with Ansell yet to settle with these individuals and a court case upcoming.

PIRC also asked if the production employee turnover rate was high for the industry. The company said it has recently been higher than it would like, which was put down to the ease with which workers can change companies to work more hours. Ansell doesn't have a specific target.

Outcomes and follow-ups: PIRC will continue its focus on the sector, including undertaking stakeholder engagement, and seek to engage other members of the Responsible Glove Alliance.

PAY AND BENEFITS

Asda

Overview: Asda Stores Ltd is one of the UK's largest supermarket chains. The company operates out of 633 locations, and was taken over by EG Group in 2020 for £6.8 billion.

Issues arising: PIRC has engaged companies on the issue of pay standards. Discussions with Asda focused on the company's gender pay gap, issues with underpayment owing to outsourced payment services, and the Living Wage.

Engagement: On 30 May 2022 PIRC met with representatives of Asda as part of a collaborative investor engagement on pay. The discussion began by asking for an update on the company's approach to equal pay. Asda representatives outlined that they were unable to talk about any details that might be deemed relevant to an ongoing court case, but they shared the process taken to addressing this issue, both in retail, where there is no collective union in Great Britain, and in the warehouse operations, where Asda does have a bargaining agreement with the GMB. They expressed a commitment to equal pay and confidence that women are not being underpaid, and confirmed that pay audits are carried out to ensure this. PIRC expressed the expectation for measures to reduce liability that may arise from the court case by addressing any pay gaps proactively.

The discussion then moved on to the company's underpayment of wages as a result of faults with a third-party payment service. Investors expressed concern that some workers were being routinely underpaid and this was causing significant stress and anxiety, particularly in the context of the cost of living crisis. Asda confirmed the validity of these concerns, informed us that the problem has been flagged to the most serious level within the company, and that work is being done to rectify it. Asda confirmed that pay errors, to their knowledge, do not extend beyond a month, and tend to be spotted by the company rather than workers. However, all parties agreed that this was still not acceptable.

Finally, the Living Wage accreditation was discussed. Asda is open to discussing this ambition but made no commitments. They see their staff remuneration as not confined to base pay, but rather as a package of benefits and bonuses. The company is raising pay above the real Living Wage rate in some regions from July 2022.

An Asda supermarket, Cippenham, Slough

Outcome and follow ups: Accreditation on the Living Wage requires a commitment that all workers engaged via third-party companies, for examples in cleaning, security and other facilities maintenance roles, are also subject to Living Wage pay lifts. A follow up engagement has been agreed upon, scheduled next quarter. This will also assess whether the underpayment problem has been resolved within an adequate time frame.

Marriott

Overview: Marriott International Inc. is a worldwide operator, franchisor, and licensor of hotels and timeshare properties under numerous brand names. It owns very few properties, but operates, markets, provides services to and develops residential properties and home/condominium owner associations.

Issues arising: According to the US Bureau of Labor Statistics, more than 26 million people working in the US private sector have no access to paid sick days, including seven in ten of the lowest paid workers. A group of investors and their representatives coordinated by ICCR published a letter sent to over 40 companies, including Marriot, making the business case for a permanent paid sick leave benefit for all workers, focusing on the US, where sick pay policies are particularly poor.

Engagement: On 5th April 2022, PIRC met with Marriott International to discuss the company's sick pay policies and employment standards for its sizeable contingent workforce in franchised hotels.

The company informed us that within the US legal framework, collecting information from franchised hotels on their workforce is considered an anti-trust/competition issue, and as such are not permitted to collate workforce data. There are similar concerns outside of the US, where workforce outcomes are delegated to franchisees.

Marriott also said it could not disclose the number of direct employees not entitled to sick pay, but that the 'overwhelming majority' have a 'robust' sick leave availability. Representatives raised its flexible paid time off (PTO) policy that allows employees to use days for different reasons, including illness, holiday or personal reasons. After seeking clarity, Marriott confirmed to us that if an employee uses PTO for an illness, they can no longer use it for holiday.

The company confirmed its Covid sick leave policy is still operating and is being continuously reviewed. It feels that it has been beneficial for employees and well communicated across the company. However, they could not provide any statistics or data on how widespread or often the policy was used.

The company expressed its belief that HR policies are well-communicated to staff, and whilst not in the public realm, they are accessible to employees via portals and hiring orientation. Representatives reported that because sick pay has not been raised during engagement surveys with employees or discussions with unions (20% of the US workforce is unionised), they feel it is not an issue.

Finally, PIRC inquired as to whether a lack of oversight of indicators – such as employee turnover or occupational safety in franchised hotels – presents reputational and social risks. Marriott acknowledged this and informed us of a new document in production called 'Responsible Business Practices for Franchises' that will list clear expectations for partners around workforce issues.

Outcome and follow-ups: The company stated that they are continuing to evaluate their sick pay policies and view them as an important part of their portfolio for rewards and benefits. PIRC will continue to participate in the ICCR collaborative engagement on this issue, with Marriot flagged for continued engagement.

EMPLOYMENT RELATIONS

UPM-Kymmene OYJ

Overview: UPM is a Finnish forest industry company. It consists of six business areas including biorefining, energy, and paper and plywood production. The company's shares are listed on Nasdaq Helsinki Ltd. UPM-Cymene was formed by the merger of Kymmene Corporation and Repola Ltd in 1996.

Issues arising: In May 2022, PIRC met with company representatives to discuss the recent long-lasting strike by the Finnish Paperworkers' Union over a contract and pay dispute.

Engagement: The company shared its regret that the strike had lasted so long, caused disruption to customer deliveries and incurred costs, but it was not concerned that any clients had been lost during this time.

The resolution involved an improved pay deal for the workforce, but the main aim of the company (to replace the sectoral and companywide union bargaining agreements with segment specific agreements) was upheld. In this regard the company accepted the industrial action and reputational harm a necessary cost.

PIRC enquired about the company's injury rates, higher than industry averages, as well as the company's own targets. In response it was shared that the aim is always to reduce this rate, but whilst reductions have been made over some years, rates actually increased last year. The main category of incident was reported to be minor slips and falls.

Outcome and follow-ups: PIRC intends to follow up on safety issues, as well as learning more about the company's target to be an industry leader on work/time balance. The company acknowledged that as a result of the new contract, certain workers will in fact have longer hours, which runs counter to the ambition to improve work/life balance.

GIG ECONOMY

Lyft Inc

Issues arising: We have followed developments regarding the nature of the employment relationship with regard to ride hailing companies closely and consider that this poses a number of ESG challenges.

It is clear that this issue is both financially material and has a direct impact on drivers. When there have been significant legal or regulatory developments regarding the employment relationship there has often been a noticeable effect on share prices. This indicates that these are central to valuation of such companies.

We have also been concerned that long-lasting changes that affect the determination of the nature of the employment relationship have been and are being sought through ballot initiatives at state level in the US. One such example was Prop 22 in California

This does not align with the policy positions of some of our investor clients on decent work.

Nor do we believe that such initiatives align with the OECD Guidelines for Multinational Enterprises which state that companies should "Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labour, taxation, financial incentives, or other issues."

We identified that Lyft had made a substantial financial contribution to a group campaigning in favour of a ballot initiative in Massachusetts that relates to the nature of the employment relationship.

Engagement: We contacted the company to ask why it had chosen to support the ballot initiative in Massachusetts and the extent of due diligence undertaken in relation to its potential impacts on the rights of drivers.

Outcome and follow-ups: Whilst there has been some dialogue with the company, to date it has not agreed to meet and information provided has been insufficient. We recommended that clients support a resolution at the company's AGM in June. In a unanimous ruling in the same month the Massachusetts Supreme Judicial Court blocked the initiative.

GOVERNANCE

JD Wetherspoon

Overview: JD Wetherspoon PLC is a British pub chain founded in 1979. The Company also operates the Lloyds No 1 chain and a number of hotels.

Issues arising: PIRC met with JD Wetherspoon twice during the quarter. The first meeting was with executive chair Tim Martin to discuss his views on corporate governance and the application of the UK Corporate Governance Code.

Q2 ENGAGEMENT HIGHLIGHTS

Engagement: During an initial meeting the company's approach to the 'workforce engagement' aspect of the Code was discussed. Unusually the company has chosen to appoint four 'employee directors', two of whom are full members of the board.

In order to explore this further, a second meeting was held with the two directors who are on the board. Both are long-standing employees of Wetherspoons and are now senior managers within the company. Only managers and regional managers were invited to apply and there were no elections – the directors were selected having been interviewed by company executives.

The company said it believes important operational knowledge lies at the pub level and therefore actively solicits feedback from both pub managers in order to continuously improve. As such the four employee directors appointed to the Board were selected as the conduit for this message, based partly on their length of service within the company (between 10-30 years) and ability to garner views on business improvement from both customers and employees.

The appointment of 'employee directors' is best understood in these terms. Both the directors and the company understand the role to be an important mechanism for transmitting information upwards within the company. It appears that this can indeed lead to changes in company operations, even at a micro level. It is also clear that this does not primarily relate to workforce issues, such as pay and conditions – and employees' view on them.

Because of the lack of elections or representation of more junior staff members, the Wetherspoons model is probably more accurately characterised as the appointment of "manager directors". They undoubtedly play a useful role that benefits the business but are explicitly not expected to act as workforce representatives. In this sense the Wetherspoons model is different even to other companies with employee directors.

Outcome and follow-ups: PIRC will continue to meet with companies that are implementing versions of employee representation at board level.

PIRC PUBLICATIONS

PIRC released a number of publications in Q2, covering a number of different topics.

In May, as the Amazon AGM approached, PIRC co-published the Investor Brief on Tax Transparency along with CICTAR. It both reviewed some of the existing policies of investors in relation tax and set out recommendations for voting and engagement on tax as a financially material governance and sustainability issue. The brief reinforces the risks of non-compliance and the case for the GRI Tax Standard, but also elaborates on the need for independent oversight, the perverse impact of remuneration incentives and the role of asset managers.

On the theme of work, PIRC also published Lost Workers: Review of PLC Workforce safety disclosures. This came out on International Workers Memorial Day, and, as mentioned earlier, was issued at the same time that the ILO incorporated occupational safety as the fifth fundamental right at work. Analysing FTSE350 annual reports and HSE enforcement activity, it found serious underreporting of safety violations, a lack of consistency in reporting, in large part due to a lack of standardisation, and the absence of reporting on safety issues involving contingent workers.

A busy quarter for the PIRC printing presses saw another report come out, Exposing Social Washing. This report tackled the use of workforce engagement scores by companies, both as KPIs in their own right and as factors to include in incentive schemes. We found a number of the claims made in support of the use of such scores difficult to back up, with methodologies typically unavailable for public scrutiny. We also flagged concerns about how comfortable workers are responding honestly to such surveys, and about the interaction with collective rights and voice at work. What's more, over half of the companies we looked at are using these questionable workforce metrics in executive pay calculations.

PIRC EVENTS AND PRESENTATIONS

In the build up to Amazon's AGM, our tax lead Dr Katie Hepworth hosted an investor briefing on 5 May about the tax transparency shareholder resolution. It presented the rationale for filing the resolution. why investors should support it, PIRC's work in general regarding tax and the growing prominence of the issue to companies, shareholders, staff, customers and regulators.

On tax, PIRC staff spoke at a number of webinars, including at the French SIF in the aftermath of the Amazon vote. We also held a meeting with asset manager SSGA to discuss the investor briefing further, urging them to develop and implement a tax policy and support the shareholder proposals at Microsoft and Cisco.

PIRC staff spoke at and attended multiple sessions on social issues. At the start of April, Head of Stewardship, Tom Powdrill talked about human and labour rights as part of the broader theme of putting the 'S' back into ESG to the Society of Pension Professionals. He was also one of the members of a roundtable on the S of ESG organised by Funds Europe.

Our labour specialist Alice Martin represented PIRC at the Responsible Alliance of Care Investors, the coalition seeking engagement with care home providers over living and working conditions, and she spoke at the Resolution Foundation on the effects of decarbonising the world economy will have on work. She also attended the IPA Work Insight Group on the state of the UK labour market and ShareAction's investor workshop on the Living Wage.

To find out more about these events, please contact us (details at the end of the report).

Q2 ENGAGEMENT OVERVIEW

PIRC PRESS

PIRC has been in the headlines a lot this past quarter. Our work on tax transparency piqued the interest of investors and the wider public, but our engagement and voting recommendations on high pay, workplace safety, industrial relations and climate were also newsworthy. Our social media channels saw 41,400 impressions on Twitter and hundreds of LinkedIn page views.

Tax (Amazon):
- Tax transparency: the new frontier in corporate governance - Sustainable Views (by FT)
- Transparence fiscale : Amazon sous la pression d'un groupe d'actionnaires | Les Echos
- Amazon bags £425m in work from UK government as it is criticised over tax | Amazon | The Guardian
- PIRC sets out tax practice expectations for investors | News | IPE
- ESG resolution round-up: ISS and Glass Lewis split on Aussie major Woodside's climate plan | Responsible Investor (responsible-investor.com)
- SEC upholds shareholder proposal on Amazon's tax transparency - Pensions Age Magazine

Tax (Microsoft & Cisco):
- Microsoft faces investor call to publish global tax affairs | Reuters - Syndicated around the world, including in Canada's Globe and Mail
- Microsoft (MSFT) Investors File Resolution Targeting Tax Practices - Bloomberg
- Microsoft And Cisco Face Shareholder Pressure Over Public Disclosures (forbes.com)
- Microsoft Shareholders Ask For Vote On Releasing Tax Data - Law360
- Greater Manchester scheme leads call for Cisco's greater tax transparency | News | IPE
- This week in tax: Microsoft faces questions over tax strategy | International Tax Review

Industrial Relations:
- ESG Explainer: Investing in Industrial Relations – ESG Investor

Audit:
- Audit reforms aim to prevent accounting scandals - BBC News

Climate:
- Advisory firm PIRC slams Shell on climate strategy before AGM | Reuters
- Proxy advisor urges Exxon shareholders to oust Woods as chairman | Reuters

Pay:
- Shell boss faces investor rebellion over £13.5m pay package | Shell | The Guardian
- Advisory firm PIRC opposes Centrica remuneration policy (yahoo.com)
- British Gas owner Centrica warns windfall tax will hit investor confidence | Financial Times (ft.com)
- 'Social Washing' Risk From Questionable Employment Metrics – ESG Investor

Workplace Safety:
- PIRC warns safety risks go unreported in workplace safety disclosures review of PLCs | IOSH Magazine
- UK companies under-reporting workplace injuries to investors - PIRC | Reuters
- corporate governance | ESG | reporting health and safety (britsafe.org)

Twitter:
- Elon Musk unveils $46bn financing package to fund Twitter takeover | Daily Mail Online

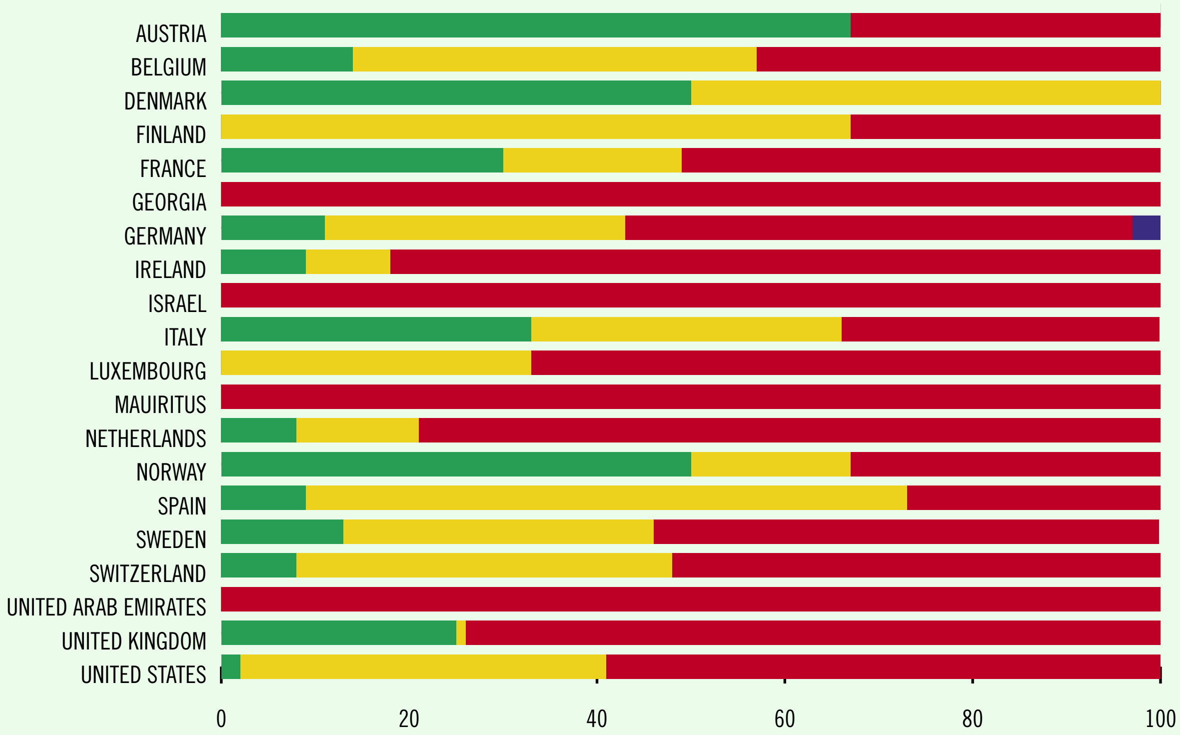
Q2 Engagements

PIRC engaged with several hundred companies over issues relating to meetings that took place during the quarter. The table below lists further stewardship engagements with companies on ESG issues. In a number of cases, we engaged with a company more than once during the quarter.

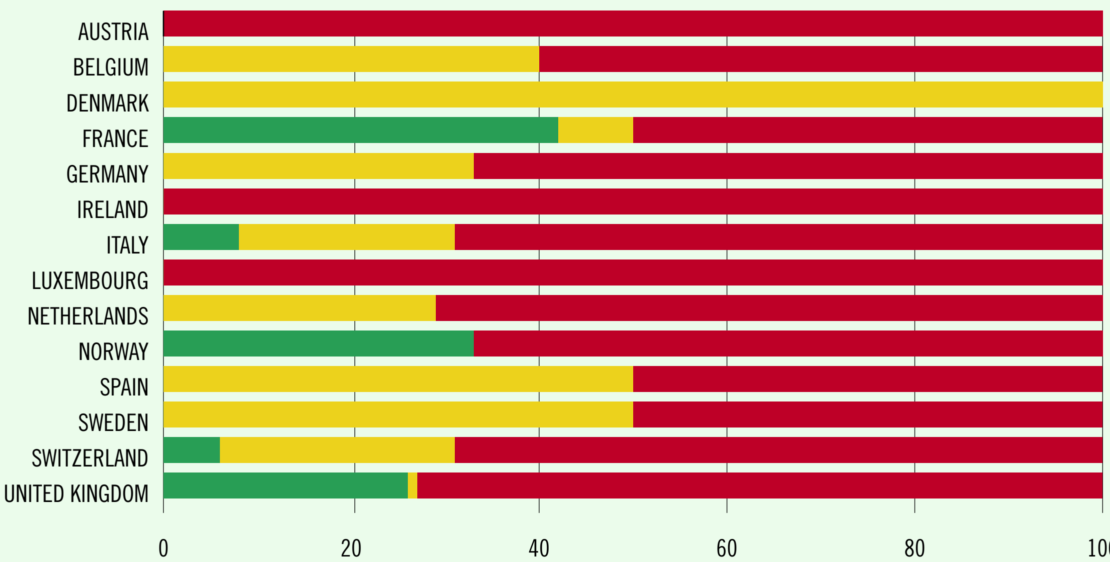
Company	Domiscile	Issue	Collaborative
ANSELL LTD	AUS	Human Rights, Supply Chain Management	
EDF (ELECTRICITE DE FRANCE) SA	FRA	Tax	
DIAGEO PLC	GBR	Health and Safety	
PERSIMMON PLC	GBR	Health and Safety	
JD WETHERSPOON PLC	GBR	Governance	
UNILEVER PLC	GBR	Public Health	Y
REGIS RESOURCES LTD	AUS	Climate Change	
NOVARTIS AG	CHE	Tax	
CISCO SYSTEMS INC.	USA	Tax	
ORPEA	FRA	Social Risk, Reputational Risk	Y
SINGAPORE TELECOMMS	SGP	Human Rights	
GENERAL MILLS INC	USA	Public Health	Y
IBERDROLA SA	ESP	Climate Change	
LYFT INC	USA	Gig Economy, Lobbying	
JUST EAT TAKEAWAY.COM N.V.	NLD	Gig Economy	
ASDA	GBR	Living Wage	Y
BELLWAY PLC	GBR	Health and Safety	
FRASERS GROUP PLC	GBR	Governance	
CENTRICA PLC	GBR	Climate Change	
TOTALENERGIES SE	FRA	Climate Change	
UPM-KYMMENE OYJ	FIN	Industrial Relations	
JD WETHERSPOON PLC	GBR	Workforce Engagement	
BEST BUY CO. INC.	USA	Sick Pay	Y
VENTAS INC	USA	Employment Standards	
BP PLC	GBR	Climate Change	
TOTALENERGIES SE	FRA	Climate Change	
MARRIOTT INTERNATIONAL INC.	USA	Sick Pay	Y
MICROSOFT CORPORATION	USA	Tax	

Q2 VOTING RECOMMENDATIONS

Remuneration advisory (%)



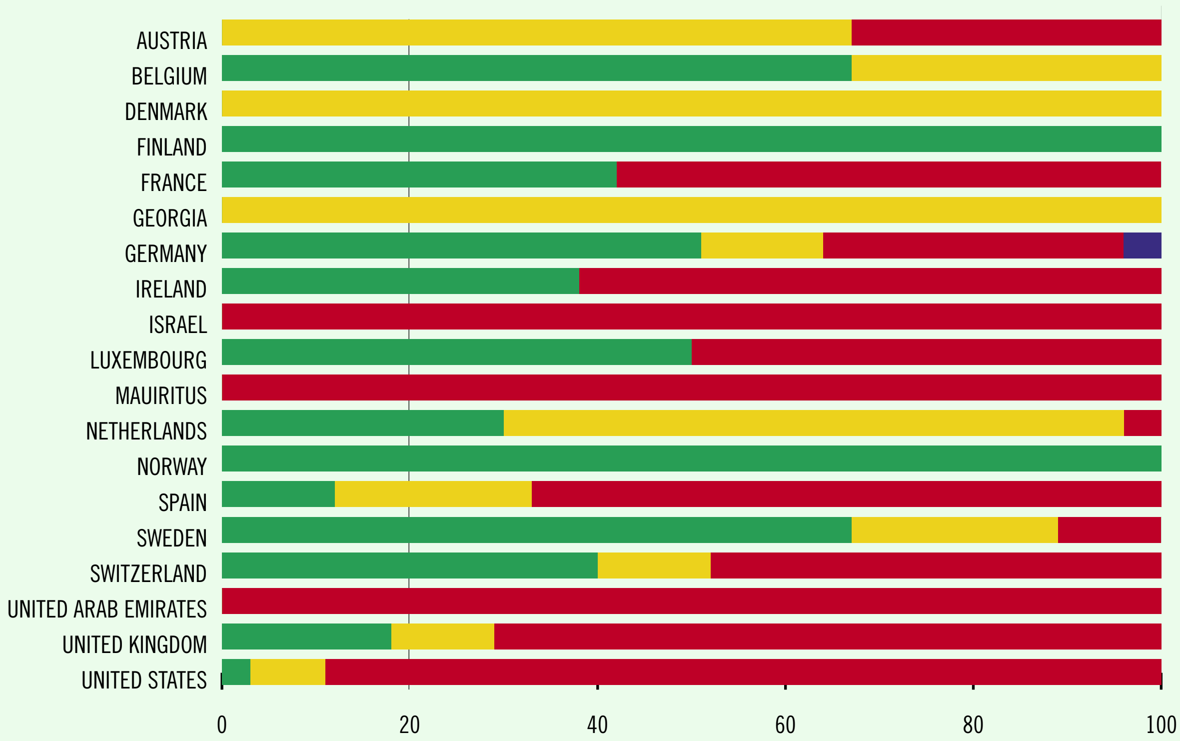
Remuneration binding (%)



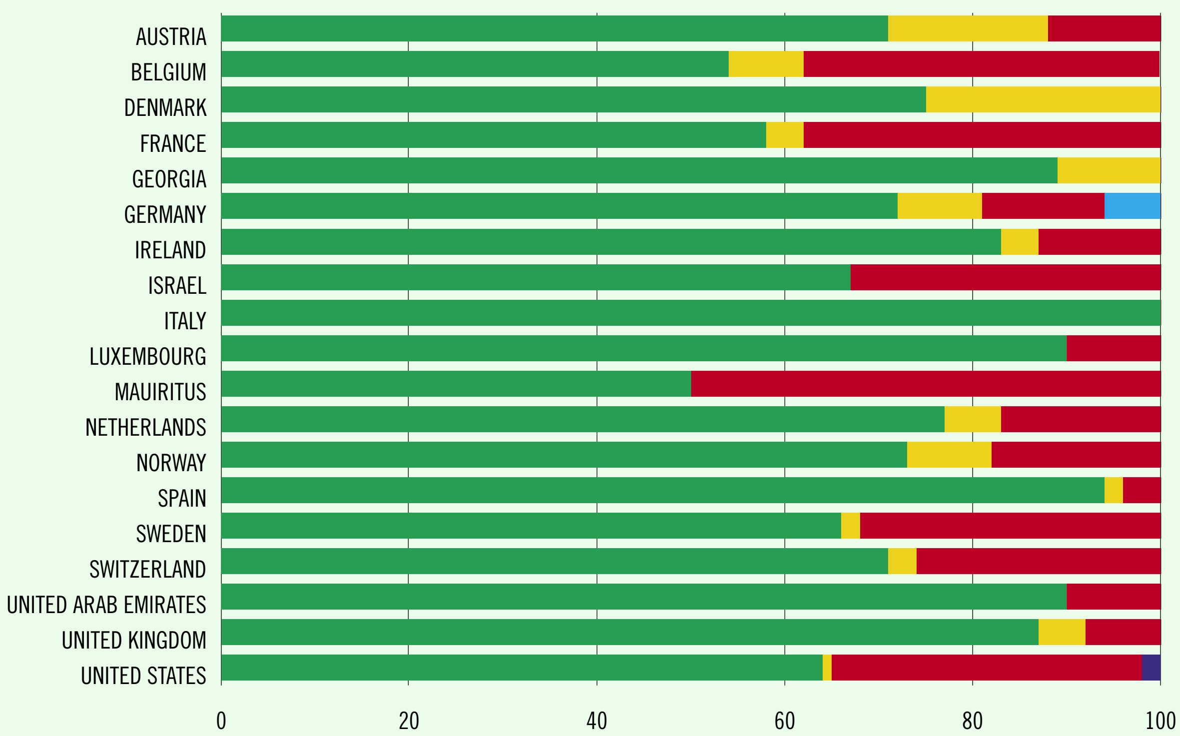
For Oppose Abstain Withhold Non-voting

Q2 VOTING RECOMMENDATIONS

Auditor appointments (%)



Director elections (%)



For Oppose Abstain Withhold Non-voting

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