

**Q2**

QUARTERLY REPORT  
APRIL-JUNE 2023  
PIRC.CO.UK

**VOICE**

**PIRC**

**BITTER**

**HARVEST**

**RIGHTS AT RISK IN UK AGRICULTURE**



# WHO WILL PAY FOR DECENT WORK?

In this quarter's Voice report we focus on work we have been doing on employment conditions in the retail sector. As part of our review of work in 2022 and prior years, we identified repeated issues of concern arising in relation to the UK's major publicly listed food retailers. These have included equal pay, labour standards in supply chains and modern slavery.

PIRC believes that the nature of these businesses – relying on large numbers of relatively low-paid workers in both the UK and overseas – means that workforce-related risks are systemic in the sector. It's somewhat analogous to how we think about climate change in relation to the oil and gas sector: we expect there to be ongoing issues of concern for the foreseeable future. What is more, given that a number of the businesses in this sector have a very large footprint in terms of both direct and indirect employment, we believe that their impact on human lives is highly material.

As a result, we proposed to the major companies in the sector – J Sainsbury, Marks & Spencer and Tesco – that they hold an annual engagement meeting to discuss a range of workforce issues, rather than schedule meetings in response to emerging controversies. All the companies agreed and during Q2 we





All pictures are of migrant workers picking for british supermarkets

held the first round of these meetings. Additionally, we met with Ocado.

The details of our engagements are included later in this report, but one of the principal topics we have discussed with companies in the sector as part of our 2023 round of engagements is the Seasonal Worker Scheme (SWS). This was introduced by the UK government in 2019 in an attempt to alleviate staff shortages. With Brexit, Covid and Russia's invasion of Ukraine, the entire economy, but particularly agriculture, has been in desperate need of more workers from abroad. Agricultural work by its very nature is seasonal, with fluctuating demand for physical work needing to be filled, and companies looking for workers have been able to source workers through the SWS.

However, workers and workers' rights advocates have, along with investors, voiced concerns that the SWS is ripe for abuse by unscrupulous actors within

supply chains. Workers can be forced to pay significant upfront recruitment fees to middlemen to secure these temporary roles, placing them at high risk of debt bondage. With travel, accommodation, living costs on top, not to mention an unreliable working calendar, workers can often end up in severe financial difficulties and more vulnerable to other forms of exploitation.

Those in debt bondage are less likely to raise concerns around pay, working conditions and hours. At the start of Q2 changes were made to the SWS guaranteeing a minimum of 32 hours work per week, a positive step that, in theory, guarantees some working security. It's not been uncommon for workers to be given fewer hours as a 'punishment' for not working quickly enough to meet targets.

However, amendments to the scheme that took effect from the start of April still fail to fundamentally deal with the issues

**The government has issued a call for evidence and is welcoming consultation responses on the SWS. The closing date is 19 September.**

You can respond at: <https://www.gov.uk/government/publications/seasonal-worker-visa-inquiry-call-for-evidence>.

### Government and recruiters need to address “systemic challenges within the design, operation and enforcement of the seasonal worker scheme” to “better protect workers vulnerable to illicit recruitment fees”.

Sophie De Salis, Sustainability Policy Adviser, British Retail Consortium

of enforcement and redress. As the group Focus on Labour Exploitation noted, **“workers have reported being told there is no work available and dismissed only a few months into their six-month visa, before they have earned enough to repay the money they borrowed to migrate.”**

Workers can in theory find a new job in agriculture, but they must be through the same operator that sponsored their initial SWS visa, and government regulation is incredibly vague about mechanisms for redress if workers are denied a new role.

Investors have been increasingly vocal about these issues, noting the first and foremost the real-world impact on workers and also the risk to supermarkets of labour abuses through the SWS. By sourcing food through agricultural companies potentially implicated in modern slavery, the retailers are themselves often find themselves the subject of significant criticism. Aside from reputational damage, land potential impacts on workforce logistics, in future we may see companies subject to legal action.





## INTERNATIONAL LABOUR ORGANISATION INDICATORS OF FORCED LABOUR

- Abuse of vulnerability
- Deception
- Restriction of movement
- Isolation
- Physical and sexual violence
- Intimidation and threats
- Retention of identity documents
- Withholding of wages
- Debt bondage
- Abusive working and living conditions
- Excessive overtime

## PIRC responds to shareholder dissent

Despite the chilling effect of the anti-ESG movement in the US, this AGM season saw continuing shareholder dissent against companies over a range of issues, with corresponding support for shareholder resolutions. Two topics where shareholder dissatisfaction was significant were climate transition plans and executive pay.

Even with big profits at oil and gas firms, shareholders still registered dissent against plans to cut back on renewables investment and the prioritisation of short-term fossil fuel projects over long-term environmental and financial sustainability. Votes against Shell and BP understandably received plenty of media coverage. However, the largest such vote came against Glencore, where 30 percent voted against the company's 2022 climate report.

As part of PIRC's new Carbon 1.5 proxy voting service, we have applied stringent criteria to assess company's climate plans and will recommend votes against the re-election of board members, and other management resolutions, where progress is weak. Failure to align plans with the Paris Agreement, provide short-, medium- and long-term goals across Scopes 1, 2 and 3 are major red flags, and increasingly investors are willing to challenge companies.

On executive pay, large increases in base pay, along with bonuses that were considered unmerited or excessive, drove votes against remuneration plans.

Under the UK Corporate Governance Code companies are expected to respond to votes against management of over 20%. PIRC tracks the voting results at company meetings and seeks to engage with those receiving significant opposition. In turn those engagements inform our future voting recommendations. In this way we ensure that voting and engagement activity are integrated within our stewardship programme.

We highlight a number of examples later in this report.

Due to our concerns about the SWS, PIRC was one of ten investors to sign on to an investor letter drafted by CCLA with four recommendations for retailers and associated firms. These are:

- **To undertake an independent investigation into the scale of recruitment fees paid by SWS workers.**
- **Implement the Employer Pays Principle that ensures employers (including those further up the supply chain) pay for relocation costs.**
- **Work with suppliers in the agricultural supply chain to implement a fair process to repay fees.**
- **Encourage the government to match the SWS with international commitments, such as the Principles for Tackling Modern Slavery in Supply Chains.**

We've spoken to labour rights experts to gain a fuller understanding of the sector and the risks, informing our engagements with companies and expectations of what is realistic. But as Andy Hall, an expert on labour rights, has noted, action by supermarkets, however urgent and welcome, cannot replace government leadership and intervention. It will require cooperation and action by all concerned parties – government, supermarkets, farms, worker organisations, auditors and investors – to improve the situation.

The supermarket taskforce was set up earlier this year by the biggest supermarkets to fund independent audits of farms and UK-based recruitment companies, to be carried out by Stronger Together. This taskforce was often cited by supermarkets in our engagements as evidence of the work being done, and we hope that it can be a useful vehicle in improving outcomes.

In a letter, the supermarkets collectively said that "the taskforce

is working to develop and implement tangible actions to help mitigate risks of worker exploitation". The taskforce will target the recruitment process, not necessarily the working and living conditions on farms, but it is nevertheless a welcome development.

One of the areas where regrettably we expect there to be continuing disagreement and limited movement is in relation to the Employer Pays Principle. In a nutshell this is the idea that workers should not shoulder any of the cost of their own recruitment, since it is the imposition of such costs on workers that can lead to debt bondage. Further, where workers have been subject to recruitment fees these should be remediated. Whilst there is notionally a consensus in support of the principle, clearly this involves a cost that some party will need to bear. At present volunteers are in short supply and no-one is willing to make the first move.

The problem with advancing implementation of the Employer Pays Principle mirrors what we have found when we have looked at social risk other sectors, such as the solar energy supply chain. Companies and their suppliers know that there are alternative arrangements that would reduce the likelihood of labour and human rights violations and in some cases they have modelled the costs of implementing them. But they are highly reluctant to move forward on their own.

For our part, PIRC will continue to engage with companies and work with investors such as CCLA which are leading work in this area in order to seek resolution to this issue. We will also explore the potential for policy engagement. However, we are realistic about prospects for success in the short term.



to managing these associated risks including contributing to the Common Principles for UK Seasonal Workers Scheme which set out best practice guidelines for suppliers recruiting seasonal workers. The company also discloses it partners with Issara Institute in Southeast Asia to tackle forced labour and reducing the recruitment costs for jobseekers. The company also outlined it was a member of the Seasonal Workers Taskforce, formed by leading UK supermarkets, which is looking to fund independent audits on British farms as well as publish open guidance for the food industry such as a grower's toolkit and checklist.

PIRC also met with Ocado Retail Ltd (ORL) in June. ORL is a host to 48,000+ branded products. ORL recognised they are responsible for their "Own Branded Products" (800+) of which was the subject of the meeting.

They use the platform SEDEX to compute the high-risk areas and assessments of their suppliers. They rely on SEDEX for guidance in the development of their human rights strategy. They are confident in the platform but also starting to put more efforts on their own. They have not yet committed to a human rights impact assessment as have said this requires much thought beforehand to decide on which sector they rely on most heavily and which needs attention.

The responsibility of the human rights supply chain is governed by CEO at Board level. Ocado have rolled out modern slavery training to all employees when they onboard, although it is slightly unclear if this is reflected into the Buying Team practices. Regarding the SWS, the company follows the advice of the government and mentioned they use the same suppliers as other retailers for at risk categories, e.g. Berryworld. There is no published list of suppliers like other retailers yet.

In common with other retailers they recognise the problems with the imposition of recruitment fees, and as the SWS is expanded further East they noted further protections are likely necessary. Regarding product sourcing abroad, they have chosen countries where there is a smaller risk. They would consider remediating recruitment fees on a case-by-case basis.



Retailers utilise social auditors to assess supply chain risks

**Outcomes and follow ups:** Our engagements with the retailers underscored the systemic nature of the risks in the sector. All of them were alert to problems with the SWS and also showed greater or lesser investment in monitoring of supply chain risks. There are differing strengths to each retailer. M&S demonstrated a high level of commitment to monitoring

and enforcement. Tesco has a stronger approach to and relationship with unions. Ocado had a much smaller operation, reflecting the different nature of the business.

All of the companies mentioned the importance of the Seasonal Workers Taskforce. Undoubtedly the Taskforce is undertaking important work. Collaboration across the sector has led to



the development of an app where workers can access information in a number of different languages about their rights. The retailers also clearly communicate with relevant policymakers.

That said, we were unable to make significant progress on the issue of the Employer Pays Principle with regard to recruitment fees. To state clearly: there is a cost to ensuring that workers themselves are not required to incur recruitment costs – a practice which can lead to debt bondage. No doubt this is a complex issue, and retailers are reluctant to simply commit to being the party that will commit to remediation. Nonetheless the longer that this issue continues undealt with the longer that migrant workers working in the UK for the benefit of UK consumers are at risk of exploitation.

We continue to liaise with workers' organisations and advocates and other investors to seek to address these issues.

## TAX

### Cisco Systems, Microsoft, Qualcomm

**Issues arising:** During Q2 we have continued a programme of engagements with companies over tax transparency. Our overall objective is for companies to adopt public country-by-country reporting (PCbCR), in order to provide investors with insight into their tax arrangements. We believe this is necessary given the latent risk in tax avoidance, which may crystallise rapidly in the event of public policy changes. In order to achieve PCbCR we have proposed to companies that they adopt GRI Tax Standard 207. During Q2 we met with a number of companies to seek to progress these objectives.

**Engagements:** On the 23 June PIRC met with Qualcomm Incorporated regarding tax reporting plans for the new CbCR laws in Australia, Romanian and EU countries for the FY2024/25. The company was open and stated it would be complying with all laws. It was reluctant to commit to the additional GRI 207 Tax Reporting Standard in advance of any legal requirement to do so in case disclosure

rules changed and they had to make changes. Proactively publishing a year in advance was something that would mean more human resources and cross collaboration between Tax and ESG teams and it was something they needed to put time into planning first before publishing. They expressed they do not have many operations outside the US, with almost 85% of IP being owned in the States and Sales originating there. They are committed to tax transparent reporting and the dialogue was informative.

PIRC met with Cisco Systems Inc. on 12 June and Microsoft on 20 June. We sought the companies' views on public country-by-country reporting and other regulatory developments. PIRC restated support for the adoption of the GRI Tax Standard. Notably, there was resistance to the adoption of the voluntary framework.

**Outcome and follow-ups:** All companies PIRC engaged over tax during the quarter acknowledged that PCbCR would be introduced in some form, but all were also resistant to adopting it before they were legally required to do so. Therefore, engagement in support of adoption of the GRI Tax Standard will continue.

At both Cisco and Microsoft clients of PIRC and other investors have refiled shareholder proposals seeking the adoption of the GRI Tax Standard. These resolutions will go to the companies' AGMs in Q4. PIRC is also considering filing similar proposals elsewhere.

## SIGNIFICANT VOTES AGAINST REMUNERATION

### Paragon Banking Group, On The Beach

**Issues arising:** As noted earlier in this report, PIRC routinely engages with companies where there has been significant shareholder opposition, as expressed in voting results, and where we have concerns about practice. During Q2 we focused on companies that had seen significant opposition in the previous quarter. Executive remuneration was the principal subject of a number of the resulting engagements.

**Engagements:** PIRC met Paragon Banking

Group plc on 16 May 2023 to discuss the high shareholder opposition (30.8%) to its remuneration proposals. The Chair of the Remuneration Committee and Company Secretary were present. Paragon spoke to the top 15-20 investors that expressed opposition. PIRC felt there was more transparency needed on targets. They have introduced metrics for climate risk (10%), customer (10%), people (10%) Risk (20%) Relative TSR (25%) Basic EPS (25%) metrics. Scoring for the total of this was 85%. Climate metric targets are being developed. It was suggested that in general it was important for remuneration arrangements to ensure a relatively consistent level of reward in order to keep executives motivated.

On 23 June 2023, PIRC met with On the Beach to discuss the company's remuneration policy in view of the high opposition vote. PIRC outlined concerns regarding the introduction of the LTIP which is not linked to individual performance. The company explained that it had introduced a retention based LTIP over its own concerns regarding sustained volatility within the travel industry and its affect on being able to set meaningful targets. The company also outlined the benefit of reducing complexity in their remuneration policy. PIRC was broadly supportive of measures to reduce the quantum and volatility of executive pay. However, PIRC expressed concerns about the company's use of ESG metrics in the annual bonus, due to a lack of sensitivity to executive performance in practice.

**Outcome and follow-ups:** As is the case with many of our engagements on executive remuneration, we found both that companies expect to remain a long way out of our step with our expectations and that they share many of our frustrations about the fundamentals of pay. Scepticism of the effectiveness of variable reward, the ability of ESG targets to capture meaningful activity and the ability of executives to understand the schemes in which they participate is not uncommon. Nonetheless companies do not expect to change their approach. Therefore, PIRC will continue to make clear to boards its concerns about both the fundamental structure and level of executive pay, and recommend clients oppose resolutions on remuneration where necessary.



## FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING IN THE US

### Apple Inc, eBay Inc, Starbucks Corporation

**Issues arising:** During Q1 we continued our participation in an investor group engaging with Starbucks Corporation and Apple Inc over Freedom of Association and Collective Bargaining rights. Both companies have committed to undertake reviews of the application of their existing policies, which is welcome. Attention has now turned to the nature and substance of these reviews. We also supported letters to other US companies on rights at work.

**Engagement:** In June PIRC joined the other members of the filing group in a meeting with the new CEO of Starbucks and other senior staff to discuss the nature of the company's proposed review. The meeting was broadly positive, although the CEO talked in very general terms about the importance of treating the workforce properly and did not touch on union-related concerns specifically, other Starbucks representatives did so. The members of the filing group set out their expectations of the review and concerns regarding prior practice. These have been restated in a follow-up letter to the company sent after the meeting took place.

At eBay PIRC has supported a letter to the company highlighting activity at recently acquired subsidiary TCGPlayer that appears in conflict with stated policy. eBay's human rights policy explicitly refers to the United Nations' Guiding Principles on Business and Human Rights and the International Labor Organization's Fundamental Conventions, and states that "eBay also respects workers' rights to unionize and commits to bargain in good faith with any relevant associations or labor unions."

TCGPlayer is alleged by workers to have breached workplace rights and failed to bargain in good faith. The letter to the company sought both a meeting and a commitment from the company to ensure that commitments in its human

rights policy are upheld across the business.

Regarding Apple Inc we continue to work with the other members of the filing group to ensure that the review of implementation of policy is effective. The group has itself continued to engage with unions seeking to organise within Apple.

**Outcomes and follow-ups:** With other members of the filing group, we have set out expectations of the review underway at Starbucks and will do likewise at Apple during the summer. It will be important that the reviews are undertaken in a way that meets the expectations of those that filed the resolutions, and of the workers affected by the two companies' activities. More generally we believe that a wider group of investors is now willing to support initiatives to support freedom of association and collective bargaining rights. We are working with unions globally to co-ordinate more work in this area.

## LIVING WAGE / LIVING HOURS

### ITV, moneysupermarket.com, Next, Ocado

**Issues Arising:** PIRC is a long-standing member of the Good Work Coalition run by Share Action. As part of our involvement in this initiative we have

sought to support as many of the group's engagements as possible during 2022. In Q2 these primarily focused on adoption of the Living Wage and of Living Hours.

The Living Hours standard requires that employers provide: decent notice periods for shifts, of at least 4 weeks' notice, with guaranteed payment if shifts are cancelled within this notice period; the right to a contract that reflects accurate hours worked; guaranteed minimum of 16 hours a week (unless the worker requests otherwise).

**Engagement:** On 14 June 2023, PIRC met with Ocado Group as part of the Good Work Coalition to discuss the Real Living Wage. The focus of the call was on the company's pay practices for its third party contracted staff and the company's position on Living Wage accreditation. The Company outlined that incentives were a crucial part of the Company's pay package and were popular among the workers. PIRC asked about the methods that the company used to gauge workforce support for incentive schemes. The company said that it found employees to generally prefer to be rewarded for the work that they do and noted that in the past, there had been negative feedback after an incentive programme was removed for its delivery drivers. The company also said that its measurement of the feedback on employee incentives had been qualitative rather than quantitative. PIRC also asked about how the company avoided the excessive separation of pay



practices between its separate business arms. The company responded that the people managers work closely with the designated non-executive director for employee engagement, who in turn chairs a forum of employees and can act as a messenger on behalf of the people managers.

On 22 June as part of the Good Work Coalition PIRC met with ITV to discuss the company potentially becoming a Living Hours accredited employer. This would commit the company to provide decent notice periods for shifts, the right to a contract that reflects accurate hours worked, and a guaranteed minimum of 16 hours a week. The company representatives explained the employment model, which involves both a significant number of contingent workers and a variety of modes of employment within that category. It is approaching the question of Living Hours positively, whilst recognising that employment in the television industry is very different to other sectors. The company will continue to engage with the Living Wage Foundation.

On 28 June, as part of the Good Work Coalition, PIRC met with Moneysupermarket to discuss the company becoming a Living Hours accredited employer. The company already provide all of their direct employees with Living Hours, reiterating that they have to be responsible and live out their value and their brand and so were very willing to become accredited. The next focus therefore was on their third-party suppliers and ensuring the lowest paid third-party employees would also be guaranteed living hours. Although slightly more complex, the company stated that they were keen to implement this and were working on the logistics for it; they have an upcoming meeting set up with the Living Wage Foundation to discuss the technicalities further.

**Outcome and Follow-ups:** In all cases listed above there are no immediate issues arising from the engagements, rather the group will continue to encourage those companies engaged to consider the proposed standard. PIRC is continuing to meet with a range of UK-listed companies as part of the Good Work Coalition and will report on those engagements in future updates.

## LABOUR STANDARDS IN MEAT PROCESSING

### JBS SA

**Overview:** JBS SA operates as a processor of a range of meats. The company has its headquarters in Brazil and exports its products worldwide.

**Issues Arising:** We have previously collaborated with the FAIRR Initiative in our work on the meat processing sector resulting from our focus on worker safety during the Covid-19 pandemic. FAIRR has recently released a report looking at labour issues in the meat processing industry, and also runs a benchmark of companies which compares them on a range of issues including working conditions. PIRC is engaging a number of companies in the sector over their scores.

**Engagement:** On 14th June, PIRC met with JBS to discuss thematic areas highlighted in FAIRR Initiative reporting and its approach to worker conditions, risk assessment and reportage in areas such as worker representation, sick pay measures and just transition. To note, the engagement was heavily USA focused as the company operates in a decentralised format. Each country has its personal ownership, but they are regularly looking out for synergies and there are components that they are looking to make more standardised e.g., performance management.

Employee structure is broken down into salaried, hourly workers, management support (clerks – who are paid hourly but have all the benefits that management salaried employees receive) and contractors (who are subject to the contract/policies of the facilities in which they work. In terms of employee engagement, JBS have an annual survey to understand what is going well and what can be improved upon. The new addition of parental leave to employee benefits was a direct result of this survey. Regarding third party employments – JBS USA have no centralised count of the number of third-party employers associated with the business nor a record of employers who are not associated with the intrinsic operations of the business.

The company have publicly disclosed

a turnover rate for their Brazil operations but not for their US operations. When asked if this was something they would disclose in their upcoming reporting cycle, they noted it had not been discussed.

They disclosed to us that last year (2022) the annualised turnover rate for hourly workers was 60%, which reduced to 50% in 2023 and the Supervisory turnover rate reduced from 66% in 2022 to 63% this year. The company acknowledged that the unattractive nature of the work at JBS has an impact on turnover and that the retention rates are very focused on turnover in the same roles, within the employee's first 90 days in the role. We asked whether the constant turnover and challenging labour market would influence a move to increased automation of roles. JBS noted that although automation is a lever that they want to pull from a long-term perspective, it will never be a solution as the nature of the business will always remain labour intensive and reliant on human capital.

In terms of safety, JBS USA is trending in the right direction. Every year, the company audit specific physical and ergonomic hazards with this year's focus being electrical hazards. The firm have dedicated teams who are auditing and remediating these hazards. So far, 33,000 physical hazards have been remediated.

JBS were industry leading in terms of disclosing a minimum provision of 40 hours paid sick leave. However, disclosure only highlighted sick pay for salaried workers. Company policy on sick pay is on a site-by-site basis. The company ensures compliance for each type of employee within each US state, but some aspects of the policies may vary due to differences in individual state laws.

They assured us that all leaves of absence are recognised under federal law; that bargained employees were also administered through their systems; and that there is a short-term disability benefit during FMLA and long-term disability benefit that workers are able to pay into; parental leave of 2 weeks is offered. Furthermore, the pandemic propelled JBS to establish an 'Infectious Disease Preparedness Plan' (IDPP) in conjunction with epidemiologists and physicians. In order to eliminate factors that would force people to come into work, the IDPP has modified JBS' pay policies, allowed for vulnerable workers to remain home





McDonalds was subject to allegations of child labour in its US operations

and continue to receive pay and prepared for school closures/parental leave.

Regarding collective bargaining and union participation, a large majority of JBS USA workers are union members (Beef workers: 100%, Poultry: 35-40%). However, the firm does not operate under state unions or national contracts. There is one contract for each facility, with around 50 different unions, which run on a 2–5-year cycle. Non-union workers are subject to company policy. JBS Brazil is highly unionised.

**Outcomes and follow ups:** PIRC will review the next iteration of the company's reporting to assess whether it has improved followed the FAIRR scoring and engagement in relation to it. If reporting does not improve PIRC will consider recommending a vote against the company's annual report. PIRC will also review disclosure on the company's workforce engagement model.

## CHILD LABOUR

### McDonalds Corporation

**Issues arising:** As we noted in our Q1 report, there have been a number of reports of child labour in the operations of companies within the US. PIRC has

been part of an investor coalition that has called on companies to address this issue urgently. McDonalds Corporation was already on the list of companies that the group had sought to engage and recent developments have promoted more activity.

During 2023 the Department of Labor (DOL) fined three McDonald's franchisees operating 62 restaurants across Kentucky, Indiana, Maryland, and Ohio \$212,000 for employing 305 children, including violations of the legal limits on hours, violations related to age requirements for dangerous tasks, and wage and hour violations including unpaid overtime and a lack of pay. The DOL found that two 10-year-olds sometimes worked as late as 2 am and were unpaid; one 10-year-old was allowed to operate a deep fryer.

In December 2022, a McDonald's franchisee in Erie, PA was fined \$92,1107 for violating child labour hours and safety regulations involving minor-aged workers, including 9 minors operating deep fryers. A 15-year-old minor suffered hot oil burns while using a deep fryer at a McDonald's franchise restaurant in Morristown Tennessee.

A dramatic rise in child labour has been accompanied by heightened media coverage, tougher enforcement, and potential reputational damage for companies violating child labour laws. The DOL has seen a 69% increase in

children being employed illegally by companies since 2018, with more than 3,800 children impacted during the agency's 2022 fiscal year.

**Engagement:** PIRC was a signatory to a letter McDonalds which was co-ordinated by SOC Investment Group. This called on the company to:

- adopt a zero-tolerance policy in its Global Brand Standards regarding the use of child labor in franchised restaurants;
- specify oversight of human rights, including child labour, in the charter of the Public Policy and Strategy Committee which is named in McDonald's Human Rights Policy as having oversight of the issue; and
- conduct an independent third-party human rights risk assessment of McDonald's business, including restaurants owned and operated by franchisees, with the results released publicly by December 31st, 2023, and with ongoing monitoring and annual updates.

**Outcomes and follow-ups:** Since the letter was sent, a BBC investigation into working practices within the UK alleged a toxic culture of sexual assault, harassment, racism and bullying. This report was based on allegations by more than 100 current and recent UK staff at



The Daya Bay Nuclear Power Plant supplies 70% of CLP Holdings Ltd.'s electric supply

outlets of the fast-food chain McDonald's. We will continue to engage with the company to address its problematic working practices.

## HUMAN RIGHTS

### CLP Holdings Limited

**Overview:** CLP Holdings Limited is an investment holding company. Its subsidiaries are engaged in the generation and supply of electricity in Hong Kong, Australia and India, and investment holding of power projects in the Chinese mainland, Southeast Asia and Taiwan.

**Issues arising:** During 2022 the Principles for Responsible Investment (PRI) launched a stewardship initiative Advance which aims to enhance business practices around human rights and social issues. The initiative sets out three expectations of corporations which underpin engagements; an expectation of full implementation of the UN Guiding Principles on Business and Human

Rights (UNGPs); Alignment of political engagement with the responsibility to respect human rights; deepening of progress on the most severe human rights issues with their operations and across value chains. The initial focus of the initiative is the metals & mining and renewables sectors. CLP Holdings was included on this basis with PIRC a member of the engagement group. Metals & mining and renewables were identified as sectors of focus owing to the high-risk profile according to the human rights risk and impact assessment as well as the rising importance amidst global transition to clean energy, and the subsequent rise in demand for transition minerals.

**Engagements:** In June PIRC met with CLP Holdings to discuss how the company manages human rights and social risks throughout its value chain. While the company has made a number of commitments to respect human rights, it scored poorly on World Benchmarking Alliances Social Transformation Baseline Assessment, including a score of zero on assessing human rights risks and impacts and integrating and acting on human

rights risks and impacts. As a result, PIRC asked the company if it would consider undertaking a comprehensive human rights risk assessment and commit to disclosing areas identified as having an increased risk. The company was responsive to the request and asked for peer examples of best practice with regards disclosure. PIRC subsequently provided the company with examples.

**Outcome and follow-ups:** The primary objective of the initiative is to advance human rights and positive outcomes for people through investor stewardship. In order to meaningfully assess CLP's human rights impact improved disclosure is necessary – particularly with regards areas within its value chain at most risk of abuse. The PRI will publish annual progress reports to provide updates on the progress of the initiative. In 2023, the PRI will publish the Advance assessment framework methodology, which will be used to assess the performance of the focus companies against the company expectations outlined above. In addition, PIRC will monitor company disclosures with regards a human rights impact assessment.



## Effective voting on climate

Ahead of this year's AGM season, PIRC launched our new Carbon 1.5 proxy voting service, providing specialist proxy research and voting recommendations to clients on the world's largest emitters. Time is running out to tackle the climate crisis. But despite the pressing need to act and continuous calls from investors to mitigate risks, company performance varies significantly. It has become apparent that investors need to be more forceful in their stewardship activities.

PIRC's view is that robust voting on climate must not be siloed in a separate climate service in, it must be mainstream in proxy research. Our new Carbon 1.5 service applies a critical lens on companies' progress. We review company targets (or lack thereof) in the short, medium and long terms, across all emissions, with rigorous criteria to ensure that companies are both planning in line with the Paris agreement and then sticking to their pledges.

Using this new service, investor can hold directors to account, and in practice in 2023 PIRC has recommended votes against the re-elections of a number of



**CARBON 1.5 OFFERS:**

- **Specific focus on the world's largest emitters where investment risks are greatest;**
- **Trusted proxy research into 1.5°C degrees aligned company targets covering all their emissions;**
- **Proxy voting recommendations that hold directors to account for climate inaction; and**
- **Proxy voting recommendations that escalate action according to how short a company is of investor expectations on 1.5°C targets.**

company leaderships where it is clear that practice is falling short. Two of the most prominent examples this quarter include Shell and Glencore. At Shell we recommended votes against the chair and the annual report, due to its lack of short-term targets and commitment to expanding its fossil fuel business. At Glencore we applied these criteria to recommend voting against the climate report, which was opposed by 30 percent of shareholders at the subsequent AGM.

Ahead of 2024's AGM season we will be rolling out an enhanced Carbon 1.5 service embedded into our voting service for existing clients and a standalone option for new clients. Please get in touch if you are interested in finding out more about the service.

## PIRC Publications

In April, PIRC released research indicating a fundamental disconnect between company performance on climate and the pay outcomes for executives. Of the largest global listed companies employing climate metrics, there was an average vesting level (the proportion of a bonus paid out) of 80%, emphasising the gulf between corporate payout culture and the reality of the impacts of climate change on the environment and society.

PIRC's analysis found a significant number of companies employing climate metrics in their pay schemes, especially in Europe. But often these are bundled in as part of broader ESG targets making them of questionable value even if they were more challenging than is the case currently. With investors seeking to engage on the issue of pay metrics, our research also highlighted the risks that investors become distracted on this issue rather than focusing on transition plans.

The structural problems evident in current attempts to link pay and climate change highlighted in the report are emblematic of the fundamentally flawed attempt to tie a diverse and often conflicting set of business priorities to rewards. PIRC has long been of the view that these priorities should be considered as directors' duties – required to promote the success of the company, not optional extras to be rewarded if achieved.

Conor Constable, Stewardship Manager, PIRC said: "We question the



view that a performance metric representing a fraction of the total opportunity available to executives is a credible tool to drive more desirable climate outputs. These metrics are neither easily measurable nor sensitive to the decision making of executives. If stakeholders are serious about holding decision makers accountable on issues such as climate change, it is necessary to pivot away from highly complex and opaque compensation structures to a renewed focus on the duties of directors and their legal obligation to be responsible for the impact of a company's operations on the community and the environment."

## Events

In Q2 PIRC representatives spoke at a number of events regarding social issues. The Responsible Investor conference in London featured our Director of Stewardship Tom Powdrill on a panel to discuss the cost-of-living crisis, outlining the investor implications around the squeeze in disposable income, more challenging industrial relations and allegations of profiteering in some sectors.

PIRC's Director of Policy Paul Hunter spoke to a workshop organised by the Trades Union Congress, asking 'How can pension funds advance the 'S' in ESG and raise labour standards?' This is a theme that PIRC has often approached investor issues at this angle, and our presentation focused on what investors can do, highlighting the work PIRC had undertaken for clients.

**EV Human Rights Benchmark:**

[Empreinte carbone et respect des droits humains, les véhicules électriques ne sont pas au rendez-vous - Transitions & Energies \(transitionsenergies.com\)](#)

**Pay**

[70% pay rise for Rio Tinto boss threatens revolt | This is Money](#)

[Rio Tinto faces shareholder revolt over chief exec's 70 per cent pay hike \(cityam.com\)](#)

[The Cost-of-living Crisis Domino Effect – ESG Investor](#)

[Tesco, Next, Deliveroo, should hike pay in line with inflation says investor group including Aviva \(proactiveinvestors.co.uk\)](#)

[Janus Henderson criticised over executive pay – Ignites Europe](#)

[Unilever investors revolt over fat cat pay | This is Money](#)

[Stock exchange boss: Pay executives more or risk exporting 'talent, skills and revenues' \(inews.co.uk\)](#)

[Vistry replaces board members following alleged bonus dispute | Construction News](#)

[Vistry shareholders revolt on executive pay | Construction News](#)

[Ryanair's Michael O'Leary back on flight path for potential near-€100m payout \(irishexaminer.com\)](#)

[DWS shareholders urged to oppose pay report – Ignites Europe](#)

[Gam riles shareholders over executive pay as CEO pockets £900k | Portfolio Adviser \(portfolio-adviser.com\)](#)

[Pirc urges investors to block Barclays 'potentially excessive' pay plans \(citywire.com\)](#)

[Severn Trent chief proposes 'social purpose' water firms amid utilities crisis | Severn Trent | The Guardian](#)

**Climate Remuneration**

[Climate-linked Exec Pay Sends Misleading Signal – PIRC – ESG Investor](#)

[Executive pay linked to climate risk sends misleading progress message | News | IPE](#)

[Climate-linked executive pay-outs 'fundamentally flawed' :: Environmental Finance \(environmental-finance.com\)](#)

**Governance**

[Investors urged to oust AstraZeneca boss Pascal Soriot | This is Money](#)

[HSBC chief faces investor revolt over Hong Kong | This is Money](#)

[HSBC faces more shareholder pressure as Pirc urges investors to vote against re-election of Noel Quinn \(cityam.com\)](#)

[How to make friends and influence shareholders – IR Magazine](#)

[Proxy Advisors Welcome FRC Analysis into Industry – ESG Investor](#)

[Active management 'has not delivered for most LGPS funds' | Local Government Chronicle \(LGC\) \(lgcplus.com\)](#)

**Climate**

[PIRC recommends vote for BP climate activist resolution | Reuters](#)

[Climate resolutions remain high on the agenda during proxy season | News | IPE](#)

[Pressure grows on BP over climate target climbdown \(thetimes.co.uk\)](#)

[BP: Green rebels secure further backing on climate change demands | HeraldScotland](#)

[Proxy adviser PIRC recommends vote against Shell's chair, annual report | Reuters.com](#)

[Shell investors urged to vote against energy resolution at AGM | IR Magazine](#)

[Shell shareholders should oust chair, says influential adviser | Shell | The Guardian](#)

[Church of England to Vote Against Shell Chair on Climate Issues - Bloomberg](#)

[Church Commissioners to oppose entire Exxon board as investors lose patience with directors \(responsible-investor.com\)](#)

[Shell's upcoming AGM showcases the challenges for shareholder activism | Netzeroinvestor](#)

[Shell investors urged to vote against energy resolution at AGM | Corporate Secretary](#)

[Nest and London CIV to vote against Shell amid fossil fuel concerns - Pensions Age Magazine](#)

[Glencore investors advised to vote against climate progress report | IR Magazine](#)

[Glencore and Shell facing green backlash | This is Money](#)

[PIRC calls on investors to oppose Glencore climate report :: Environmental Finance \(environmental-finance.com\)](#)

[Shell facing tense clash on climate at AGM after year of record profits | The Independent](#)

[Over £20 BILLION in UK pension money is invested in Shell | This is Money](#)

[Oil giant Shell braces for shareholder revolt over climate plans \(cnbc.com\)](#)

[Glencore's shareholder opposition to climate report grows | Reuters](#)

[Clarity sought over Glencore emissions \(thetimes.co.uk\)](#)

[How investors voted on climate change at Big Oil AGMs - Capital Monitor](#)

[PIRC calls on investors to oppose Glencore climate report :: Environmental Finance \(environmental-finance.com\)](#)

[Shell 'in denial' about global transition, warns PIRC :: Environmental Finance \(environmental-finance.com\)](#)

**Audit**

[Regulator opens inquiry into EY's work at Made.com \(thetimes.co.uk\)](#)

**Strikes**

[JPMorgan AM divests UK's Royal Mail over worker strikes \(responsible-investor.com\)](#)

[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	Topic	Collaborative
AKAMAI TECHNOLOGIES INC	USA	Tax	
MONEYSUPERMARKET.COM GROUP PLC	GBR	Living Hours	Y
ON THE BEACH GROUP PLC	GBR	Remuneration	
BOOHOO.COM PLC	GBR	Employment Standards	
ITV PLC	GBR	Living Hours	Y
QUALCOMM INCORPORATED	USA	Tax	
CLP HOLDINGS	HKG	Human Rights	Y
BRITVIC PLC	GBR	Environmental Risk	Y
THE COCA-COLA COMPANY	USA	Social Risk	
MICROSOFT CORPORATION	USA	Tax	Y
OCADO GROUP PLC	GBR	Employment Standards	Y
JBS USA HOLDINGS INC -REDH	BRA	Employment Standards	
COMPASS GROUP PLC	GBR	Remuneration	
NEXT PLC	GBR	Employment Standards	
ARCELORMITTAL SA	LUX	Climate Change	
CISCO SYSTEMS INC.	USA	Tax	Y
SINGAPORE TELECOMMUNICATIONS	SGP	Governance	
TESCO PLC	GBR	Supply Chain Management	
SAINSBURY (J) PLC	GBR	Supply Chain Management	
OCADO GROUP PLC	GBR	Supply Chain Management	
KELLOGG COMPANY	USA	Public health	Y
NESTLE SA	CHE	Public health	Y
TESCO PLC	GBR	Public health	Y
PARAGON BANKING GROUP PLC	GBR	Remuneration	
UNILEVER PLC	GBR	Public health	Y
ANTOFAGASTA PLC	GBR	Climate Change	
SOFTCAT PLC	GBR	Board Composition	
ORSTED AS	DNK	Remuneration	
STARBUCKS CORPORATION	USA	Labour Rights	Y
FRESENIUS SE	DEU	Employment Standards	
KAMIGUMI CO LTD	JPN	Diversity, Equity and Inclusion	Y
LEGAL & GENERAL GROUP PLC	GBR	Climate Change	
NEXT PLC	GBR	Employment Standards	Y
HAMMERSON PLC	GBR	Governance (General)	
MARKS & SPENCER GROUP PLC	GBR	Supply Chain Management	
MERCEDES-BENZ GROUP AG	DEU	Environmental Risk	
BP PLC	GBR	Climate Change	
eBAY INC.	USA	Labour Rights	Y
MCDONALD'S CORPORATION	USA	Labour Rights	Y

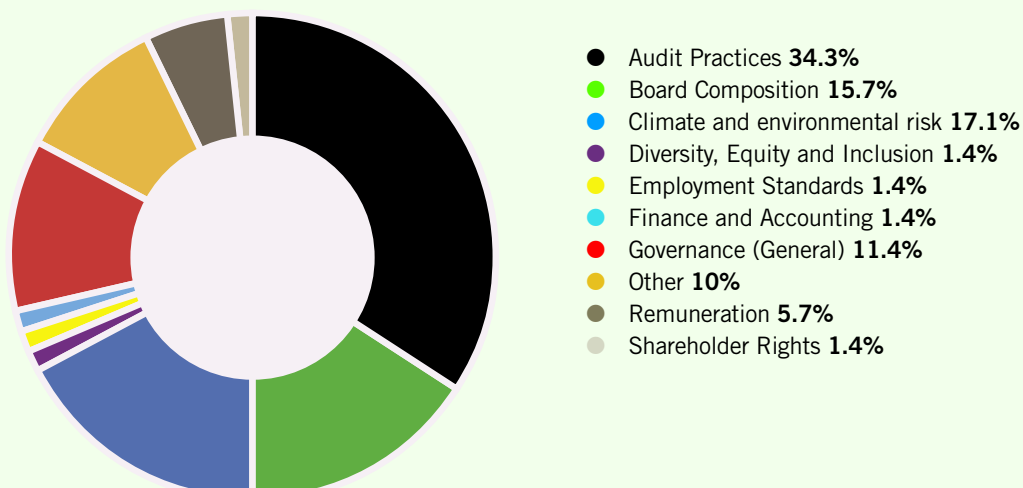
## Stakeholder Engagements

During the quarter we engaged with a wide range of stakeholders ranging from NGOs to media, investors and unions to gain their views on particular companies of interest. Below we summarise the topics and companies where we undertook stakeholder engagement.

Topic	Companies
Employment Standards	ITV PLC, NXP SEMICONDUCTORS NV, SEIKO EPSON CORP, NIKE INC.
Freedom of Association and Collective Bargaining	APPLE INC, STARBUCKS CORPORATION
Human Rights	BHP GROUP LIMITED, SHELL PLC, VALE SA
Health and Safety	ASOS PLC, CARREFOUR SA, INDITEX (INDUSTRIA DE DISEÑO TEXTIL) SA
Climate Change, Just Transition	IBERDROLA SA, STELLANTIS N.V.
Mergers and acquisitions	CK HUTCHISON HOLDINGS LTD, VODAFONE GROUP PLC

## Proxy engagement topics

Proxy engagements cover interactions with companies in relation to PIRCs voting recommendations for forthcoming meetings

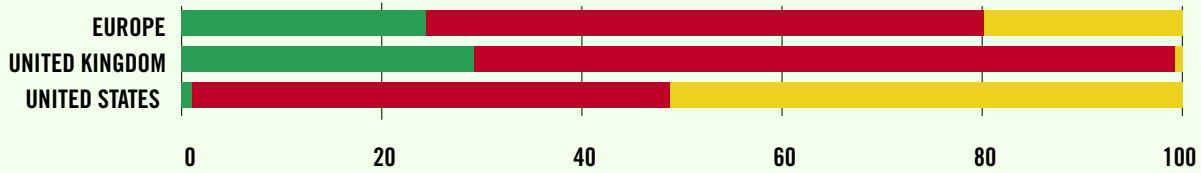


## Company

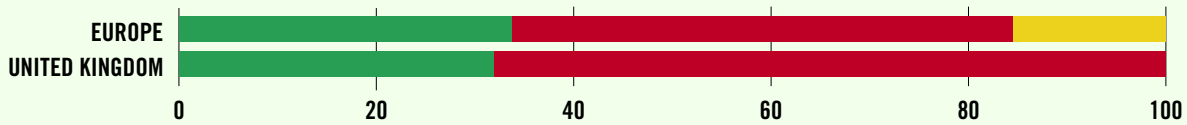
MELROSE INDUSTRIES PLC	SYNTHOMER PLC	BP PLC
BAKKAVOR GROUP PLC	TI FLUID SYSTEMS PLC	BARCLAYS PLC
BODYCOTE PLC	PRUDENTIAL PLC	INTERCONTINENTAL HOTELS GROUP PLC
INTERNATIONAL PUBLIC PARTNERSHIPS LTD	KELLER GROUP PLC	IMI PLC
TULLOW OIL PLC	COATS GROUP PLC	FIDELITY EUROPEAN TRUST PLC
HILL & SMITH PLC	ROLLS-ROYCE HOLDINGS PLC	ITV PLC
VANQUIS BANKING GROUP PLC	W.A.G PAYMENT SOLUTIONS PLC	GRAFTON GROUP PLC
ITHACA ENERGY PLC	SHELL PLC	DOMINO'S PIZZA GROUP PLC
INTERTEK GROUP PLC	ESSENTA PLC	TRITAX BIG BOX REIT PLC
M&G PLC	SPIRE HEALTHCARE GROUP PLC	LLOYDS BANKING GROUP PLC
A G BARR PLC	IMPAX ENVIRONMENTAL MARKETS PLC	RECKITT BENCKISER GROUP PLC
SPECTRIS PLC	HISCOX LTD	PHOENIX GROUP HOLDINGS
PETERSHILL PARTNERS PLC	ENDEAVOUR MINING PLC	HOWDEN JOINERY GROUP PLC
GLENCORE PLC	BALFOUR BEATTY PLC	TEMPLE BAR INVESTMENT TRUST PLC
4IMPRINT GROUP PLC	JOHN WOOD GROUP PLC	MONEYSUPERMARKET.COM GROUP PLC
NEXT PLC	CLARKSON PLC	STANDARD CHARTERED PLC
VESUVIUS PLC	HAMMERSON PLC	RIGHTMOVE PLC
GENUIT GROUP PLC	VIDENDUM PLC	PERSHING SQUARE HOLDINGS LTD
QUILTER PLC	NATIONAL EXPRESS GROUP PLC	TAYLOR WIMPEY PLC
VISTRY GROUP PLC	DERWENT LONDON PLC	AVIVA PLC
HGCAPITAL TRUST PLC	WITAN INVESTMENT TRUST PLC	RIT CAPITAL PARTNERS PLC
CENTAMIN PLC	LEGAL & GENERAL GROUP PLC	DRAX GROUP PLC
HILTON FOOD GROUP PLC	UNILEVER PLC	GSK PLC
ASTON MARTIN LAGONDA GLOBAL HOLDINGS PLC	MONDI PLC	ABRDN PLC
NETWORK INTERNATIONAL HOLDINGS PLC	HARBOUR ENERGY PLC	DIVERSIFIED ENERGY COMPANY PLC
BRIDGEPOINT GROUP PLC	DIRECT LINE INSURANCE GROUP PLC	STHREE PLC
WPP PLC	THE RENEWABLES INFRASTRUCTURE GROUP	BBGI GLOBAL INFRASTRUCTURE S.A.
COMPUTACENTER PLC	ST JAMES'S PLACE PLC	MAN GROUP PLC
INCHCAPE PLC	MORGAN SINDALL GROUP PLC	PLUS500 LTD
BANK OF GEORGIA GROUP PLC	HSBC HOLDINGS PLC	PERSIMMON PLC
DIGITAL 9 INFRASTRUCTURE PLC	TRAVIS PERKINS PLC	LONDON STOCK EXCHANGE GROUP PLC
TP ICAP GROUP PLC	JUST GROUP PLC	SERCO GROUP PLC



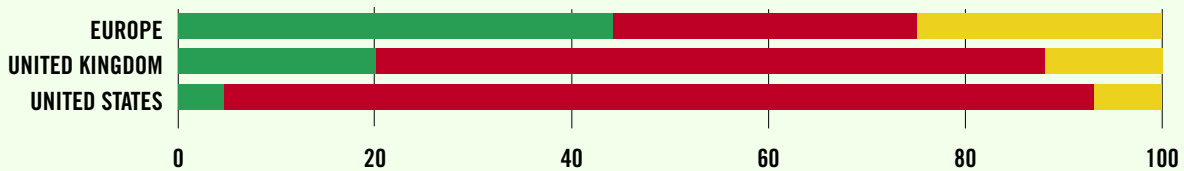
## Remuneration advisory (%)



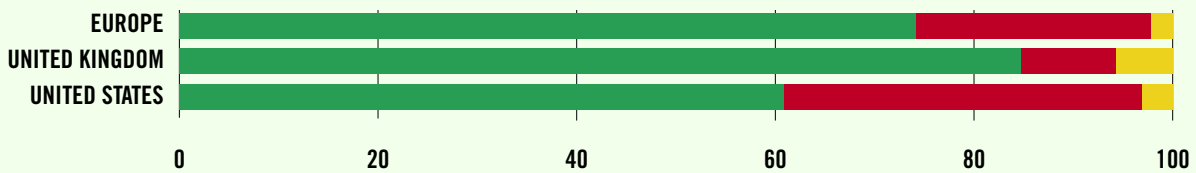
## Remuneration binding (%)



## Auditor appointments (%)



## Director elections (%)



■ For
 ■ Oppose
 ■ Abstain/Withdrawn

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