ESG Viewpoint

Living wage in the retail sector

February 2021

2020 update

- As retailers dealt with the devastating consequences of Covid-19, from widespread furloughing and redundancies to employee safety concerns, the case for improved employee benefits continued to grow momentum.
- We broadened engagements with our Living Wage focus companies to understand how they were operating through the pandemic, with a particular focus on employee welfare.
- While we saw many instants of positive change, such as temporary wage increases and one-time bonuses, we continue to encourage companies to make these changes permanent.
- During the year ahead, as well as engaging on wages and improved disclosure thereof, we will look to expand into topics such as freedom of association and collective bargaining.

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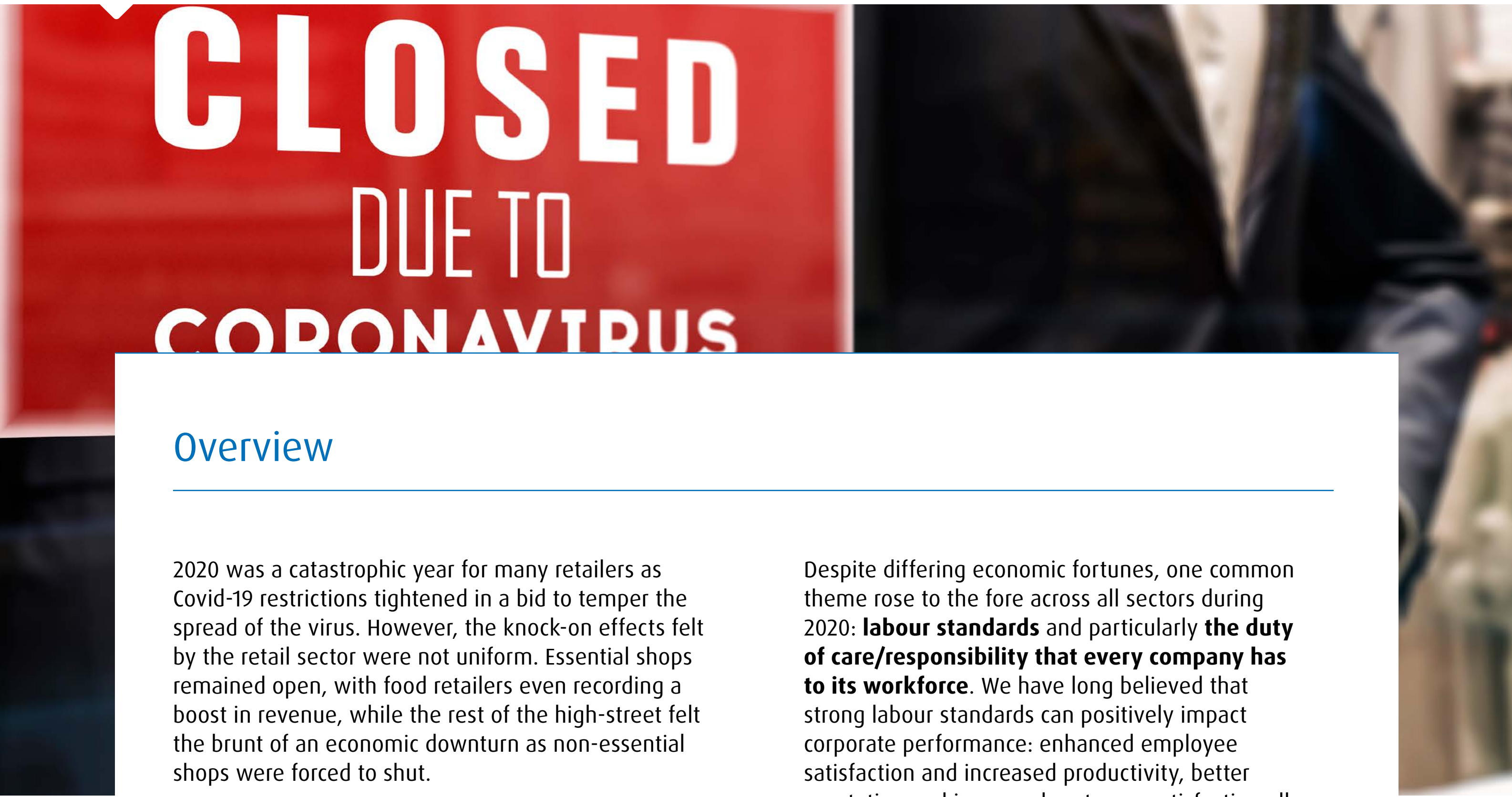

Overview

2020 was a catastrophic year for many retailers as Covid-19 restrictions tightened in a bid to temper the spread of the virus. However, the knock-on effects felt by the retail sector were not uniform. Essential shops remained open, with food retailers even recording a boost in revenue, while the rest of the high-street felt the brunt of an economic downturn as non-essential shops were forced to shut.

Within the UK:

7,834

outlets closed their doors permanently in the first half of 2020...

...Up 115%

on the first half of 2019, as shoppers switched to buying online[1]

Despite differing economic fortunes, one common theme rose to the fore across all sectors during 2020: **labour standards** and particularly **the duty of care/responsibility that every company has to its workforce**. We have long believed that strong labour standards can positively impact corporate performance: enhanced employee satisfaction and increased productivity, better reputation and increased customer satisfaction all point to a healthier bottom line. Early evidence suggests that companies that better managed their human resources before and during the pandemic outperformed those that did not.[2]

For key workers who continued to work through widespread lockdowns, health and safety considerations were paramount. While we saw some companies provide one-off bonuses and temporary wage increases amongst workers on the shop floor, they remained just that – a short-term fix. Employees deserve to be paid a fair wage and the work carried out during 2020 serves to add further fuel to the fire of the living wage debate.

Interested in learning more? Keep on scrolling or click the quick links.

- Our 2020 engagement on living wages and labour standards
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- Our engagement progress
- Collaborative initiatives
- What will 2021 bring?

Click here to discover what Living Wage is

[1] The Guardian, 2020
[2] See e.g. How ESG linked stocks outperformed in 2020 and A crisis is an ideal time to raise pay

Our 2020 engagement on living wages and labour standards

In early 2019, we started an engagement programme around the payment of a living wage to workforces in the retail sector. Our focus companies were selected on the basis of being large (>50,000 employees) retailers, chosen to represent five we judged as leaders on environmental, social and governance (ESG) issues and five laggards, based on an initial analysis of public information.

This approach resulted in ten companies to focus on:

Walmart, **Tesco**, **Dollar Tree**, **Dollar General**, **Sysco**, **Costco**, **Loblaw**, **George Weston**, **Fast Retailing**, and **CECONOMY**.

Our efforts concentrated on raising awareness on the living wage, understanding companies' positions on wage levels in their own operations, and encouraging enhanced disclosure on wage levels. Of the companies receptive to engagement, all supported the need to pay appropriate wages, though interpretation varied as to what this meant in practice. While all companies assured us that they regularly assess wage levels, they also made it clear that the main criteria for pay decisions were inflation and pay rates at competitors. We also found the overall level of workforce disclosure by the retailers we engaged to be very poor[4], and made this a particular focus area for our 2020 engagement objectives.

> Our engagement revealed that interpretation as to what paying appropriate wages means in practice varies.

As the Covid-19 pandemic unfolded, we expanded the scope of our engagement with the 10 focus companies beyond wages to include broader social themes, including:

- Occupational health and safety, including the provision of protective gear,
- Paid sick leave considerations, and its continuation beyond the pandemic,
- Support of staff who are impacted by childcare closures,
- Pay premiums for customer-facing roles,
- The provision of mental health support, plus at a later stage, the conversations also included
- Discussions around managing redundancies mindfully.

[4] So far, only Walmart discloses workers' wage levels, focusing on its US shops.

Engagement at a glance

Our interactions with living wage project focus companies, Jan 2019 to Dec 2020

Issuer	Total number of interactions*	Number of interactions with a living wage/social focus
Costco Wholesale Corp	11	8
Dollar General	16	16
Dollar Tree	9	8
Sysco	10	8
Walmart	11	6
Tesco	27	17
Fast Retailing	5	5
George Weston Ltd	10	4
Loblaw	15	6
CECONOMY	4	4

Engagement is critical to our investment process and to fulfilling our fiduciary duty as active stewards of capital.

*Interactions = emails, calls, video conferences, meetings

Engagement progress

Overall, we were pleased by the response to the pandemic by our focus companies. Health and safety measures were put in place across all the food retailers including enhanced cleaning protocols, PPE for staff and plexiglass screens at checkout. Companies stepped up their employee support, with the vast majority guaranteeing paid sick leave and online mental health support.

Our engagement calls also highlighted a sense of togetherness, with examples of leadership encouraging a culture of flexibility and extending grace, e.g. to those dealing with childcare issues.

From a wage perspective, we saw increased hourly wages or one-time bonuses universally for key workers. However, our engagement is ongoing to keep these pay rises in place permanently. We also continue to engage on the topic of workforce disclosure. Other than Tesco and (newly in 2020) Fast Retailing, it has been disappointing to see that none of the remaining focus companies have committed to completing the Workforce Disclosure Initiative (WDI) survey.

Within supply chains, we have seen both positive and negative reports. Despite facing severe restrictions as a non-essential clothing retailer, Fast Retailing continued to enhance their oversight of supply chain risks from both a financial and worker safety standpoint[5], including overall enhanced transparency. In contrast, there were reports of Asda (Walmart subsidiary) reneging on clothing supplier contracts, despite record food sales[6].

Examples of strong company practices included:

- We had several high-level dialogues with Sysco, confirming continuous bonus pay, and service adjustments to support their customers in adjusting to new safety measures.
- Tesco: A posterchild of proactive, direct investor dialogue and sharing information. Tesco also gave permanent jobs to 16,000 staff taken on in Q2 peak pandemic hiring[7].
- Fast Retailing: No relationship with suppliers was ended because of Covid-19, and the company embarked on multi-stakeholder cooperation to support partner manufacturers[8].
- Dollar General announced that they will be compensating their frontline staff for hours lost to receive the Covid-19 vaccination[9].

Disappointing responses in 2020 included:

- One corporate insisted on maintaining their anti-unionisation practices in some parts of their business, neglecting international labour standards.
- No responses from Costco Wholesale Corp, George Weston Ltd or CECONOMY to our repeated outreach.
- Still very little disclosure on workforce issues, wages, or along initiatives such as the WDI, which is widely supported by the investor community.

[5] Fast Retailing, 2020
[6] BBC, 2020
[7] Tesco, 2020
[8] Fast Retailing, 2020
[9] Dollar General, 2021

Collaborative initiatives

To increase our voice, share ideas and enhance strategies with other like-minded investors, we joined two collective investor initiatives promoting the payment of living wages: Platform Living Wage Financials (PLWF) and ShareAction's Good Work Coalition.

Platform Living Wage Financials (PLWF)

The PLWF is a coalition of 15 financial institutions that engage and encourage investee companies to address the non-payment of living wages in global supply chains, focusing on the garment, footwear, agriculture, food and retail sectors. To monitor progress, the PLWF members annually assess investee companies based on a proprietary living wage assessment methodology[10]. These assessments aim to identify potential for improvement for different companies. During 2020, assessments were carried out on five of our focus retail companies: Dollar General, Dollar Tree, Loblaw, Tesco, and Walmart.

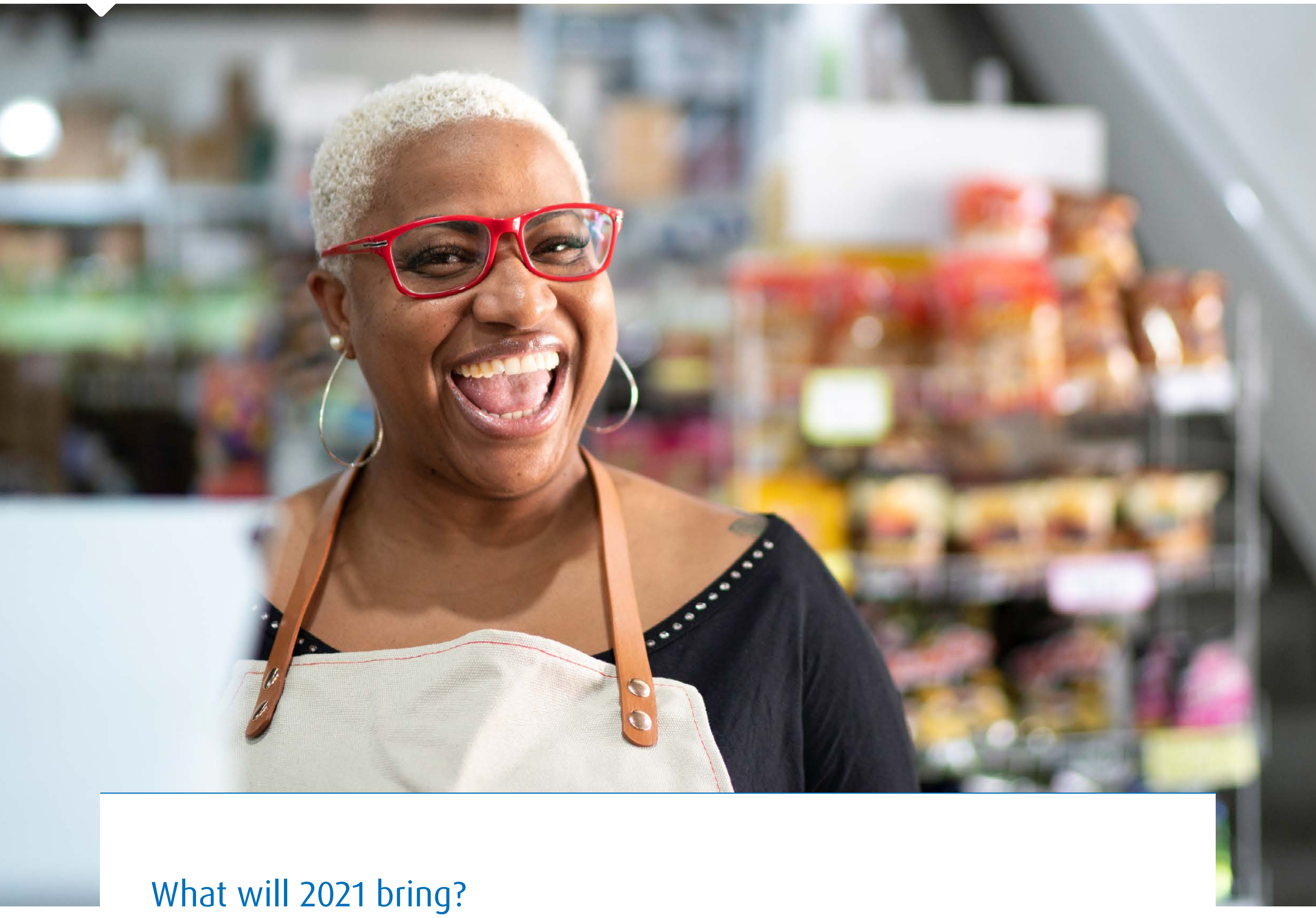
On a scale of five stages from 'embryonic' to 'leading'[11], all four North American retailers are in the lowest category. These companies generally do not recognise the importance of the payment of living wages, nor act to enable this. Tesco ranked highest, falling into the 'maturing' category. These companies recognise that the right to earn a living wage is a salient issue and usually have formal processes in place to address it. No retailers are to be found in the two highest-ranking categories.

[11] Platform Living Wage Financials, 2021
[12] The five stages are: embryonic, developing, maturing, advanced, leading.

Good Work Coalition

Recently rebranded from the Living Wage Coalition, ShareAction's Good Work Coalition now has an expanded remit. While still primarily focused on the payment of living wages within FTSE100 companies, the coalition also engage on topics such as living hours – providing security of hours alongside a real living wage – and responsible redundancies.

Over the course of 2020, the coalition sent 52 collaborative letters to companies on the topics of living wage, insecure work, responsible redundancy and gender pay-gaps. ShareAction also asked 40 AGM questions and met with 14 companies. The Living Wage Foundation saw 7 new FTSE100 Accreditations, with Reckitt Benkiser, Barratt Developments, Rightmove, Severn Trent, BP, Phoenix Group accredited as Living Wage employers. This brought the total number of living wage accredited employers within the FTSE100 to 42 at the close of the year.



What will 2021 bring?

Our evaluation of 2020's engagement efforts and results have concluded in some adjustments to our 2021 living wage engagement focus:

- We will drop four companies from our original engagement list of ten. These are: Costco Wholesale Corp, George Weston Ltd and CECONOMY. The main reason is a continuous lack of responsiveness.
- Thematically we will focus on:
  - Wages, and encouraging a commitment to living wage in direct operations
  - Employee engagement, with a focus of aligning Code of Conducts (CoC) and Supplier CoC with international labour standards, including committing to freedom of association and collective bargaining
  - Enhanced transparency, including improved disclosure on workers' wages

We will also continue our partnership with PLWF and extend our work beyond the retail sector into garments and apparel. In addition, as part of the ongoing membership of the Good Work Coalition, we will continue engagement into the larger universe of FTSE350 companies as we hope to see further living wage accreditations, as well as expand our dialogue into topics such as living hours and responsible redundancies.

Responsible Investment – a glossary of terms

Its wide-ranging nature means that responsible investment involves a host of associated language and jargon. Here we explain some of the most commonly used terms.

Active ownership

Discharging responsibilities as investors and owners in a company through engagement and voting to influence the management of environmental, social and governance (ESG) issues.

Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

Environmental, Social and Governance (ESG)

A framework that breaks the broad concept of sustainability down into these 3 key issues.

Engagement

Entering dialogue with companies after investment, to support and encourage positive change in the management of key ESG issues.

Proxy voting

Exercising the right to vote on resolutions at company shareholder meetings. It compliments engagement as a key tool for influencing change.

Sustainable Development Goals (SDGs)

The 17 goals set by the United Nations in 2015 are a global framework for achieving a better and more sustainable future. They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity and peace and justice. The UN is targeting completion of all 17 interconnecting goals by 2030.

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* https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship Code_Final2.pdf, p. 4. The Investment Association reserves the right to review its alignment with the FRC definition at any time.

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