

SURREY PENSION FUND COMMITTEE REPORT



SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, SENIOR LGPS OFFICER

SUBJECT: COMPANY ENGAGEMENT & VOTING UPDATE

SUMMARY OF ISSUE:

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting carried out on behalf of the Surrey Pension Fund (Fund) by Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP). Also included is the direct voting record for the Fund over the period.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Acknowledges the outcomes achieved for quarter ended 30 September 2024 by LAPFF and Robeco through their engagements.
2. Note the direct voting by the Fund in the quarter ended 30 September 2024.

REASON FOR RECOMMENDATIONS:

The Fund is required to fulfil its fiduciary duty to protect the value of the Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities in Responsible Investment (RI) as well as how it exercises its influence through engaging as active shareholders.

DETAILS:

Background

1. The informed use of shareholder votes, whilst not a legal duty, is an implicit fiduciary duty. Such a process is strengthened by the advice of a consultant skilled in this field and this has been provided to the Fund by Minerva Analytics covering voting and the whole spectrum of responsible investment.
2. Minerva Analytics has assisted in ensuring the Fund's RI and voting policies reflect the most up-to-date standards and that officers learn of the latest developments and can reflect these in the Investment Strategy Statement (ISS). Minerva operates a customised voting policy template on behalf of the

Fund and provides bespoke voting guidance in accordance with the Fund's policies.

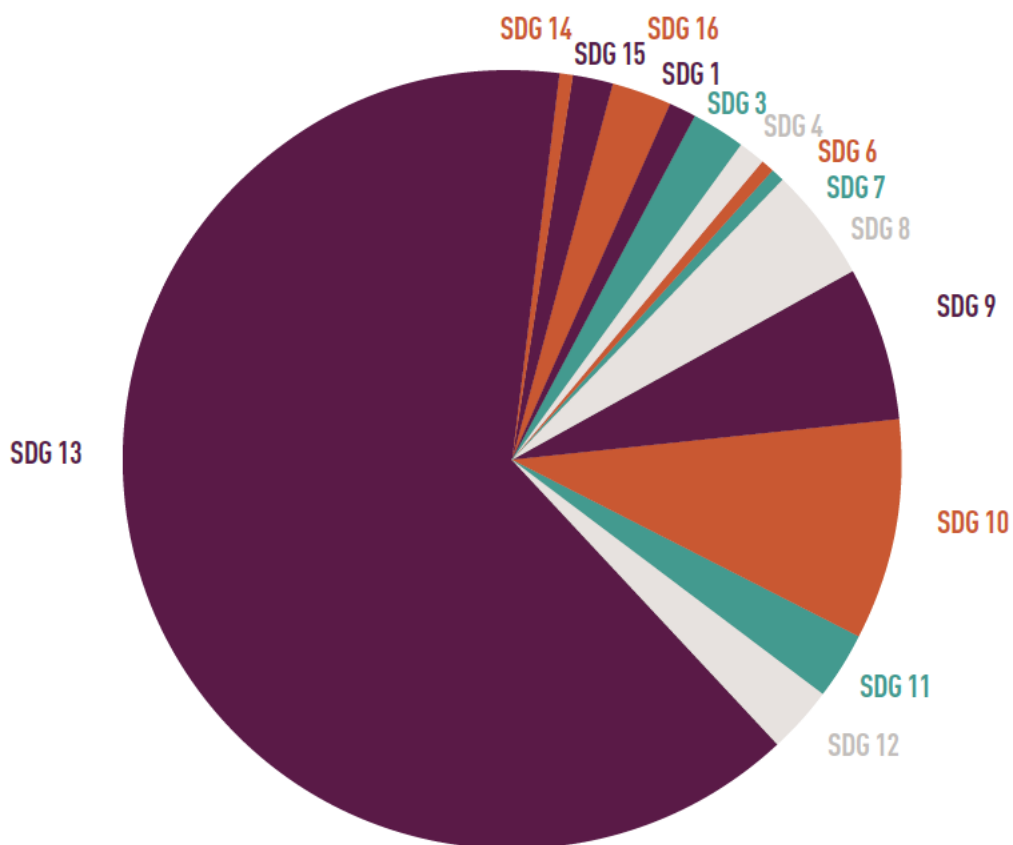
3. LAPFF, of which the Fund is a member, is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) funds and UK Pension Pools. Its aim is to engage with companies to promote the highest standards of corporate governance and responsibility. As a member the Fund enhances its own influence.
4. BCPP has appointed Robeco as its voting & engagement provider.

LAPFF Engagement

5. The LAPFF Quarterly Engagement Report for the quarter ended 30 September 2024 can be found at the link below. Highlights this quarter include sectoral engagements with key companies in aviation, steel, and cement to explore sustainable innovations, letters to FTSE 100 companies advocating for Paris-aligned climate transition plans and a 'say on climate' vote and initiating of engagement with companies on the use of zero-hour contracts.

[LAPFF-QER-Q3-2024-1.pdf](#)

6. The chart below shows LAPFF engagement over the quarter in relation to the UN Sustainable Development Goals (SDGs). The most significant SDG addressed was 13, Climate Action, which included 76 letters from the Climate Transition Plan (CTP) initiative.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	8
SDG 9: Industry, Innovation, and Infrastructure	11
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	5
SDG 13: Climate Action	111
SDG 14: Life Below Water	1
SDG 15: Life on Land	3
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

Steel company engagement

7. Insight into the steel sector was provided by engagements with SSAB and ThyssenKrupp. Ahead of the meetings it was noted that SSAB has a low Carbon Disclosure Project (CDP) rating of D, and ThyssenKrupp an A.
8. SSAB's plans demonstrate its desire to improve its rating with commitments to green steel and recycled steel for which the melting is done using an electric arc furnace with fossil fuel free electricity.
9. ThyssenKrupp also has plans to produce "green steel" by Direct Reduction of Iron (DRI) from green hydrogen, which will be sourced externally. Initially the DRI will run from unabated methane and will then switch to green hydrogen.
10. More steel company engagements are planned and LAPFF intends to explore why less strategically credible (i.e. fossil fuel dependent) routes to net zero still seem to achieve a higher CDP rating than SSAB.

Airline engagement

11. Airlines account for approximately 2% of global CO2 emissions and this quarter LAPFF met with Ryanair. Ryanair's emissions are 99% from fuel.
12. The Ryanair team were knowledgeable on methods and options for decarbonisation with a lot of supporting detail. Ryanair has a target of using 12% Sustainable Aviation Fuel (SAF) by 2030, which compares to a UK Government target of 10% and EU target of 5%. That is in addition to emissions reduction from newer aircraft and engines, which are more fuel efficient.
13. Biomass derived SAF has limits around land-use and crop displacement and hydrogen-based fuels are not expected to be widely available until after 2050, requiring a redesign of aircraft. Hydrogen-based fuels have much less mass per unit of energy, but require much larger volume than kerosene, and thus a larger wing space. The International Air Transport Association (IATA) has chosen Trinity College Dublin as the certification body for all new SAF pathways. Engagements will continue with other airlines and fuel providers.

Robeco Engagement

14. This quarter Robeco voted at 169 shareholder meetings, voting against at least one agenda item in 52% of cases. The Robeco report for Q3 2024 can be found by following the link below.

[Robeco-Public-Engagement-Report-2024-Q3.pdf](#)

15. The themes covered this quarter by Robeco engagement include hazardous chemicals and sovereign engagement with Australia, along with the usual section for proxy voting.

16. A new engagement theme on 'Hazardous chemicals' was launched this quarter. It will focus on addressing the pollution caused by the production and use of per- and polyfluoroalkyl substances (PFAS), the 'forever chemicals' which are extremely hazardous for human health and stay in the biosphere forever.
17. In 2021, Robeco initiated a collaborative engagement with the government of Australia to support its climate policy transition away from coal. As a part of the Paris Agreement, each country must submit emissions reduction targets known as Nationally Determined Contributions (NDCs). Australia's second NDCs are due in 2025, and the target-setting process for 2035 is in discussion. All countries will pledge new targets ahead of COP30 in Brazil in 2025.

Border to Coast Engagement

18. In collaboration with Royal London Asset Management (RLAM) and with the support of the London School of Economics, BCPP is engaging four UK banks on the integration of Just Transition into their net zero plans. During the quarter meetings with NatWest Bank, HSBC Bank and Barclays Bank were held to discuss their new 'Investor expectations on Just Transition for Banks'. These expectations are being used to direct the engagement and will form the basis of their assessment of emerging Bank plans. HSBC and Barclays are making good progress.
19. BCPP is chairing the IIGCC's new Working Group on Just Transition, which launched in October. The working group will look at integrating just transition into the IIGCC's Net Zero Investment Framework (NZIF), a popular resource that investors use to develop strategies and plans to achieve net zero emissions, including BCPP. The group will also pilot engagement with an Indian bank to explore just transition integration in an emerging markets context. BCPP will be joined by LGPS Central, Robeco, RLAM and Schrodgers to pilot the engagement.
20. In partnership with RLAM, BCPP has also been engaging UK water utilities to improve practice and encourage a faster pace of change. Specific areas of focus include sewage pollution, water leakage, climate change mitigation and adaption, nature-based solutions and biodiversity, affordability, and antimicrobial resistance.
21. Border to Coast is leading the engagement with Yorkshire Water and Northumbrian Water on behalf of the collaboration and is supporting the engagement with United Utilities. They have written to Yorkshire Water and Northumbrian Water to share their assessments, areas of improvement since 2023, and continued weakness, and have requested a meeting to discuss. They also joined a meeting with United Utilities to discuss its reassessment

and raise place-based concerns, including sewage discharge and infrastructure investment at Lake Windermere.

22. BCPP has joined two of the engagement programmes within the Good Work Coalition of investors. 1) Living Wage, engaging with retail companies to pay the real living wage to directly employed and third-party staff, and 2) Racial Inequity - engaging with food companies to publish their ethnicity pay gap and strategies to address such gaps.

Surrey Share Voting

23. The full voting report produced by Minerva is included in Annexe 1. In a quiet quarter the Fund was entitled to vote at 5 meetings on 91 resolutions, with the majority of these in Europe. The table below shows the resolution category, and contentious resolutions voted during the quarter as produced by Minerva.

Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% Against Management	% All Votes Against Management
Audit & Reporting	12	2	16.67%	12.50%
Board	63	10	15.87%	62.50%
Capital	7	0	0.00%	0.00%
Remuneration	6	4	66.67%	25.00%
Shareholder Rights	2	0	0.00%	0.00%
Sustainability	1	0	0.00%	0.00%
Total	91	16	17.58%	100.00%

24. Surrey voted against management on 17.58% of the resolutions for which votes were cast during 2024 Q3 compared with general shareholder dissent of 4.34%. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings.

25. During Q3 2024, all 91 resolutions voted on were filed by management with no shareholder-proposed resolutions available. This compares to 58 shareholder-proposed resolutions voted on during the previous quarter.

26. The UK Corporate Governance Code recommends boards take action where 20% or more of votes are cast against the board recommendation on a resolution. One resolution where Surrey voted against management concerned remuneration at Richemont and received shareholder dissent of 23.65%.

BCPP Responsible Investment

27. Annexes 2, 3, 4 & 5 provide a high-level overview of ESG performance for Global Equity Alpha, UK Equity Alpha, EM Equity Alpha and Listed Alternatives using a variety of measurements. The reports highlight specific examples which provide insight into how ESG integration works in practice.

CONSULTATION:

28. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

29. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

30. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

31. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

32. There are no equality or diversity issues.

OTHER IMPLICATIONS:

33. There are no other implications.

NEXT STEPS:

34. The following steps are planned:

- a) The Pension Fund will continue to monitor the progress of the voting and engagement work carried out by BCPP, LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Surrey Voting Report (Minerva) Q3 2024 - Annexe 1
2. BCPP ESG Global Equity Alpha Q3 2024 - Annexe 2
3. BCPP ESG UK Equity Alpha Q3 2024 - Annexe 3
4. BCPP ESG Emerging Markets Equity Alpha Q3 2024 - Annexe 4
5. BCPP ESG Listed Alternatives Q3 2024 – Annexe 5

Sources/Background papers:

None