

**SURREY COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**DATE: 8 FEBRUARY 2019**

**LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER**

**SUBJECT: COMPANY ENGAGEMENT & VOTING**



**SUMMARY OF ISSUE:**

This report is a summary of various Environmental Social & Governance (ESG) issues that the LAPFF, Robeco and Surrey Pension Fund have been involved in, for the attention of the Pension Fund Committee.

**RECOMMENDATIONS:**

It is recommended that the Pension Fund Committee:

1. Notes the main findings of the report; the outcomes achieved for quarter ending 30 September 2018 by Robeco and LAPFF, by engaging with multinational companies on various Environmental, Social and Governance Issues (ESG).
2. Notes the findings from Surrey Pension Fund's share voting process for the quarter ending 31 December 2018.

**REASON FOR RECOMMENDATIONS:**

In accordance with The Fund's Investment Strategy Statement, The Pension Fund Committee must review and approve all working documents produced for the Pension Fund.

**DETAILS:**

**Background**

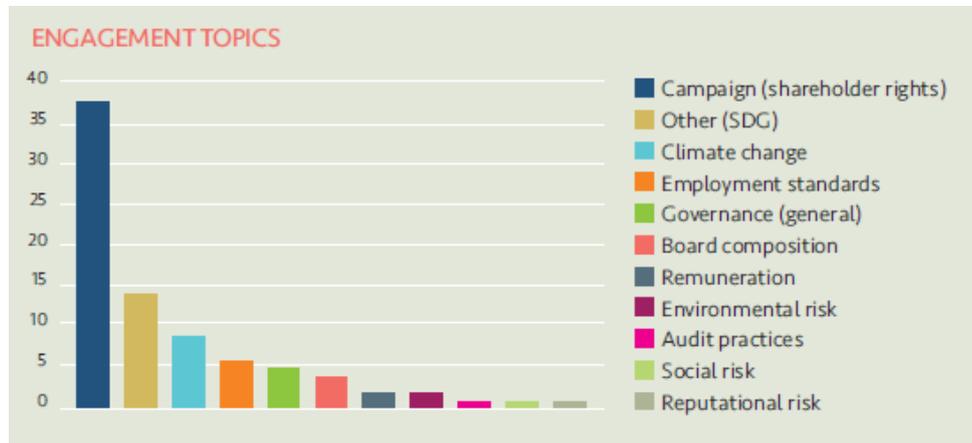
1. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including Border to Coast Pensions Partnership (BCPP). Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.
2. Robeco is an international asset manager, also carrying out independent research on various ESG issues, which can contribute to a company's investment strategy. By providing regular sustainability reports, it reinforces the fact that good corporate governance and social responsibility can enhance the long-term risk-return profiles of our investment portfolios. Robeco has been appointed to provide voting and engagement services on behalf of BCPP.
3. The informed use of shareholder votes, whilst not a legal duty, is a

responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this particular field.

- The Surrey Pension Fund has been with Minerva Analytics (formerly Manifest) since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva Analytics has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS).

### **Outcomes Achieved through Company Engagement**

The LAPFF had engaged with 63 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 30 September 2018.



### **LAPFF Engagement Outcomes**

- General Electric - Co-signed a letter to the CEO, to reconsider the acquisition of a stake in a coal plant in Kenya. The LAPFF is of the view that it will be at odds with the Company's positioning on climate change and the Paris Agreement
- BP – Collaborative engagement continued with one of the regular meetings with investors and senior BP staff, as part of the Climate Action 100+ initiative.

In 2018, BP set a goal of a methane leakage rate of 0.2% which sets an industry standard. LAPFF asked about the focus on methane emission control in the US and promoting methane management beyond the company's direct impact.

The Forum also asked about the ambition and scale of the company's plans for Electric Vehicle charge points, where BP had recently purchased the UK's largest electric vehicle charging company, Chargemaster.

- Ford Motor Company – In light of the US administration's proposal to roll back federal standards for car fuel efficiency, the Forum continued dialogue with the company on vehicle greenhouse gas emission standards, in the context of

the Climate Action 100+ requests on emission reduction and enhanced disclosure.

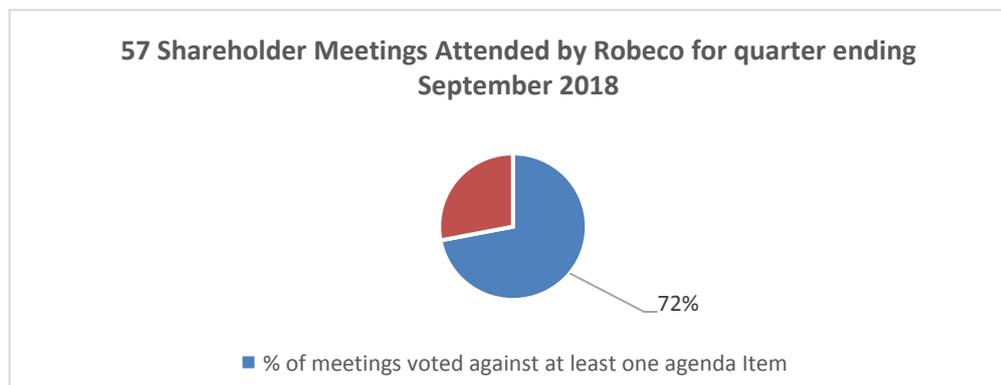
- 8. Rio Tinto - LAPFF joined other members of the Institutional Investors Group on Climate Change (IIGCC) to follow up the Company’s progress in disclosing more information subsequent to the shareholder resolution at this year’s AGM on membership of trade bodies and lobbying practices.

It was noted that Rio has sold all its coal operations, but still relies on coal as an energy source in Mongolia and South Africa.

- 9. Unilever - The Forum was interested to know how the Economic, Social and Governance (ESG) components are balanced within the Roundtable on Sustainable Palm Oil (RSPO) and discussed how the Sustainability component can be more integrated within the work of RSPO.

**Robeco Engagement Outcomes**

Robeco had voted at 57 shareholder meetings, voting against at least one agenda item in 72% of cases during the quarter ending 30 September 2018.



**Engagement on Environmental Social & Governance (ESG) Issues in the Auto Industry**

Reason for Engagement

- 10. In recent years there have been a number of cases of vehicles being recalled by manufacturers and experts suggest this high volume will continue. In 2016, 20% of all cars in services were recalled in US, while between 2009 and 2013 Toyota had recalled 9m cars globally. Reasons for this trend include;
  - The growing level of complexity of vehicles and an increased number of electronics provided by multiple parties in the supply chain.
  - Global carmakers have cut between a third and a half of their employees in their quality management divisions since the financial crisis.

Engagement Outcome

- 11. Robeco engaged with Bayerische Motoren Werke (BMW) amongst other key stakeholders during 2018 on the issue of product quality in the automotive industry. Their findings through engagement in the automotive industry is summarised below

- Some car-makers have zero-defect ambition. Although may not be achieved in practice, quality targets are set at each stage of production highlighting attention to detail in product quality
- A more surprising finding was that companies manufacturing most reliable vehicles (lowest defect rates) did not have a lower incidence of recalls. Over the past few years, premium car makers were seen as more likely to voluntarily recall vehicles, due to non-compliance with air quality and carbon emissions regulations. This is to ensure customer expectations are continually met.
- In Robeco's engagement with companies over the next few years they are encouraging them to increase their disclosures on product quality and recalls data.

### **Engagement on Reducing Global Waste**

#### Reason for Engagement

12. At current rates of population growth, global waste generation is estimated to rise to 2.2bn tons per year by 2025. All businesses are legally obliged to safely manage and dispose of their waste, and tightening environmental legislation will directly affect businesses.

There is now a global trend of companies, moving from waste management to a more circular principle of resource recovery. Improving and tracking resource recovery will reduce costs of waste management, and also allow communication to be easily accessible to stakeholders.

#### Engagement Outcome

13. Robeco has begun to engage with 12 small/ mid-cap companies operating in solar energy, industrial waste management, and technology. The core objective of this engagement is to improve the companies' quantitative reporting on how they contribute to the United Nations' Sustainable Development Goals (SDGs), more specifically Number 12.

*SDG 12: No. 12 - 'Responsible Consumption and Production'. 'By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment'*

14. Robeco had created performance indicators which would quantify to what extent the companies are contributing to SDG 12. Robeco will then make recommendations to each company on how it can improve its performance based on those indicators, and measure their progress during the end of the engagement program in 2021.

### **Surrey Share Voting**

15. The table below shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the quarter. Surrey voted against management on 16.81% of the resolutions

for which votes were cast during quarter ending 31 December 2018, compared to 2.46% by the Average Shareholder.

16. All resolutions in the Sustainability category related to requests at UK companies for an authority to make political donations to political parties and organisations and to incur political expenditure. Surrey voted against the request at Associated British Foods plc as the Company had reported it had incurred political expenditure to the approximate value of £5,000 during the year.

#### Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	15	1	6.67%	1.36%
Board	67	4	5.97%	2.47%
Capital	16	2	12.5%	1.91%
Corporate Actions	3	0	0.00%	0.17%
Remuneration	13	10	76.92%	4.79%
Shareholder Rights	2	2	100%	2.86%
Sustainability	3	1	33.33%	2.60%
Total	119	20	16.81%	2.46%

#### **CONSULTATION:**

- The Chairman of the Pension Fund has been consulted and fully supports the conclusions of the report.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

- There are no risk related issues contained within the report.

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

- There are no financial and value for money implications.

#### **DIRECTOR OF FINANCE COMMENTARY**

- The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

- There are no legal implications or legislative requirements

#### **EQUALITIES AND DIVERSITY**

- The Company Engagement Review does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

#### **OTHER IMPLICATIONS**

- There are no potential implications for council priorities and policy areas.

#### **WHAT HAPPENS NEXT**

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

#### **Contact Officer:**

Mamon Zaman, Senior Accountant

#### **Consulted:**

Pension Fund Committee Chairman

#### **Annexes:**

Company Engagement Annex 1 - LAPFF  
Company Engagement Annex 2 - Robeco

#### **Sources/background papers:**

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