

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 7 JUNE 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 31 December 2018 by Robeco/ 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 March 2019
3. Notes the ESG outcomes achieved by Fund Managers
4. Reaffirms focus on ESG issues and the Fund's policy on engagement

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.

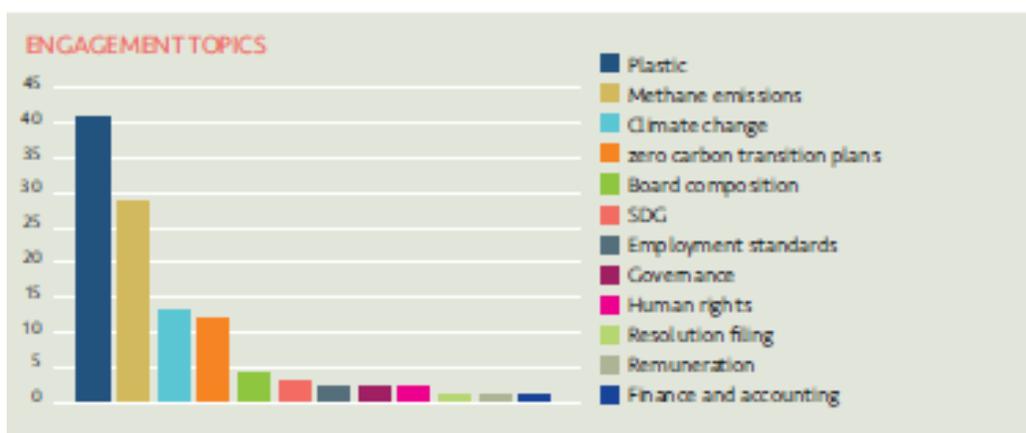
3. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this particular field.
4. 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).

BP Shareholder Resolution

5. Surrey Pension Fund, along with 57 other investors, co-filed the Climate Action 100+ shareholder resolution at BP (Annex 3). Seven of the co-filers are among BP's top 20 individual investors. The resolution directs BP to include in its Strategic Report, a strategy in line with the Paris Agreement (Annex 4), along with annual progress reporting.

Outcomes Achieved through Company Engagement

The LAPFF had engaged with 95 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 31 December 2018.



LAPFF Engagement Outcomes

6. Royal Dutch Shell – Published a joint statement with Climate Action 100+ lead investors on its commitment to reduce the Net Carbon Footprint by half by 2050. Milestones include linking targets to remuneration as well as alignment with the Taskforce for Climate Related Financial Disclosures' (TCFD) recommendations.
7. ExxonMobil – The LAPFF co-filed a shareholder resolution as part of the Climate Action 100+ engagement. The resolution called for the company to disclose short, medium and long term greenhouse gas targets aligned with

the Paris Agreement.

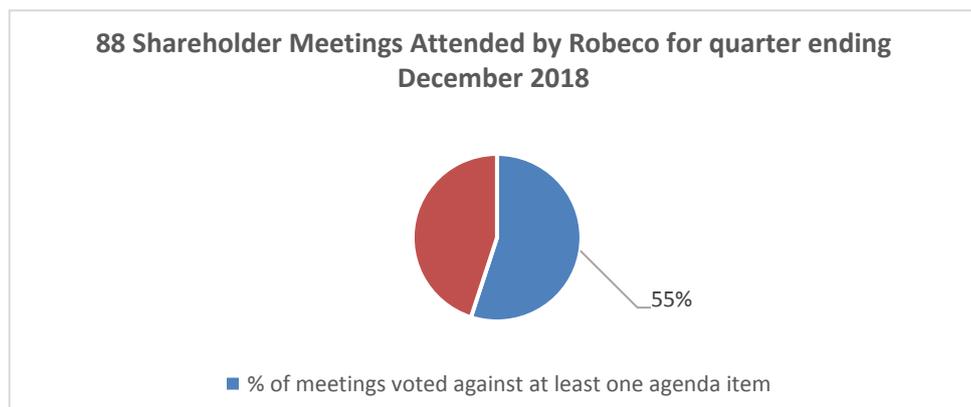
- 8. National Grid – A meeting with National Grid co-ordinated by Climate Action 100+ provided encouraging news that the group will look at a 1.5 degree scenario.

LAPFF joined other Climate Action 100+ investors in writing to a number of utility companies, urging them to accelerate decarbonisation by setting out transition plans to net-zero carbon economy. Signatories also called on companies to support the development of ambitious climate policy and ensure that their trade associations are aligned with this objective.

- 9. Nestle - In November, the Forum participated in a collaborative call with Nestle to discuss the company’s global packaging commitment and the related challenges of moving towards a more circular plastic economy.
- 10. PepsiCo – The Forum discussed with PepsiCo the issue of plastic packaging and pollution. The company discussed plans to solely use plastic that is biodegradable, compostable and recyclable by 2025.

Robeco Engagement Outcomes

Robeco had voted at 88 shareholder meetings, voting against at least one agenda item in 52% of cases during the quarter ending 31 December 2018.



Engagement on Climate Change and wellbeing in the Office Sector

Reason for Engagement

- 11. Robeco uses the Global Real Estate Sustainability Benchmark (GRESB) dynamic benchmark to engage with the companies in which we invest, aiming to improve the sustainability performance of the real estate sector. The benefits of sustainability in this industry include:
 - Reduced carbon emissions can lead to lower energy costs, where Landlords can then charge a premium for environmentally friendly buildings, leading to happier and healthier employees.
 - It would be easier to market such buildings, which tend to have higher occupancy rates. In a survey of 200 Canadian building owners, 38% of those reported that healthy buildings were worth at least 7% more than normal ones, while 46% said they were easier to lease out, and 28% said

that these buildings commanded higher rents. This indicates that Health and Wellbeing can be financially material to investments.

Engagement Outcome

12. All the companies under engagement have introduced employee satisfaction surveys. Most have implemented programs to improve satisfaction levels. Robeco will disclose the results in regular engagement updates.

Engagement on Food Security: How Investors can contribute to SDG2: Zero Hunger

Reason for Engagement

13. One of the most important factors contributing to food security is farm productivity. Food loss during crop cultivation and harvest presents an urgent challenge. Companies operating along the value chain have the ability to improve farming practices and productivity in developing countries.

Engagement Outcome

14. Robeco had identified sub-Saharan Africa, South and South East Asia as regions most vulnerable to food insecurity. Its research identified four main topics where a company can contribute to the agricultural industry:
 - Product portfolio and innovation management. Fertilizers, pesticides and seeds are sold by integrated agrochemical companies. These products can potentially support farmers in food insecure regions.
 - Pricing and intellectual property management. Agrochemical companies relying on direct revenue from seeds and waiving royalty fees can contribute to development of small farming.
 - Incorporating public-private-partnerships into business models. Potential solution is that agrochemical firms could engage with smallholder farmers, both as customers and by including them directly in the product development and breeding process of seeds.
 - More unilateral action between companies, NGOs, governments and academic bodies to improve food security in insecure regions

Border to Coast Pensions Partnership (BCPP)

Climate Change Working Party

15. Following the 2018 review of the Border to Coast Responsible Investment Policy, it was agreed to set up a working party to consider in depth the implications of climate change on its approach to investment. The objectives for the working Party were discussed, its scope and how best to collaborate.
16. The goals of the Climate Change Working Party over the next six months are shown below:
 - Improve understanding of climate change risks and opportunities

- Identify actions to improve investment outcomes. What does “good” look like in:
 - Risk analysis and integration into investment process
 - Engagement vs divestment / exclusion
 - Collaboration and influencing policy
 - Communication and education
- Develop a clear climate change strategy, including what we will and won’t do, success metrics and a list of the instruments and portfolio activities we will put to work in the next 1-2 years
- Develop a plan to help Pensions Committees to consider and manage climate change as part of strategic asset allocation decision-making

17. The second session held in March looked at risk identification and monitoring. BCPP invited Aon to present their approach to climate change and scenario modelling at this second session. Aon’s approach to scenario analysis differs from other methodologies as it also looks at the impact on a pension fund’s liabilities. It is important for pension funds to know what the impact could be on its liabilities and funding levels.

Recent and upcoming Climate Change sessions are summarised below:

- 5 June: The Role of Managers in respect of climate change risk, with a presentation from LGIM
- 23 July: Collaboration
- 9 September: Communication and Update to RI policy

Investor mining and Tailings safety initiative

18. Border to Coast has pledged its support to the Investor Mining & Tailings Safety Initiative. This calls for a new independent mine safety system to be implemented globally following the failure of a tailings dam, which burst on 25th January 2019 at the Córrego do Feijão Mine in Brumadinho, Brazil.

Engagement Outcomes by Fund Managers

19. Baillie Gifford – Regularly engage with CRH, a global materials group that produces cement and other building materials. It is estimated that 5% of total carbon dioxide emissions are produced by cement industry. CRH’s Business Strategy reflects this risk and incorporates reducing emissions into its KPIs, as well as director remuneration.
20. Western Asset Management – Vice Chairman met with Altria, questioning the significant increase in youth take-up on e-vapour products. Company gave example of where it has encouraged lower youth e-vapour consumption; removing most of the attractive sweet flavours (only kept menthol and mint), stopped shipping non-traditional flavours to retailers (can only be sold on internet) promoting a minimum age of 21 at the State and Federal government. They have also stopped advertising on social media.

21. LGIM – Requested to see detailed public clarification from Rio Tinto after it failed to put forward a shareholder resolution to disclose its policy on climate change. LGIM then had a follow up call pushing them to provide better disclosure in the future.
22. Ruffer – Met with the CEO of Wheaton Precious Metals to discuss its operations and the possibility of its mines collapsing. The CEO confirmed that none of its mines have the type of mining structure susceptible to collapse. There was further discussion on the possibility of increased regulation of mining activities in South America, taking into consideration the devastating impact a mine collapse can have on communities.
23. Franklin Templeton – Carries out scoring of ESG changes in countries of investment. Accompanied with economic analysis and scoring of Macro conditions, this enables them to price their assets accordingly.
24. Newton – Participated in a group engagement call with Colgate-Palmolive on how it can reduce its Scope 3 carbon emissions (product use and disposal) which accounts for 85% of its emissions. The company mentioned designing recyclable packaging, and also carrying out a water stress scenario analysis on its supply chain and the use of its products.
25. Aviva – Wrote to Burberry encouraging them to cease sourcing and using fur in their products. In June they met in person with the company and discussed the issue. They explained their approach and that this was under review. In September, Burberry announced they will begin phasing out the use of real fur products across all its ranges.
26. Majedie – Voted against various remuneration proposals over the quarter. An example being Telecom Italia's remuneration policy which includes the possibility of more than 24 months' severance payments, and also the potential to award discretionary bonuses.

Surrey Share Voting

27. 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 19.2 % of the resolutions for which votes were cast during quarter ending 31 March 2019, compared to 4.13% by the Average Shareholder.
28. All resolutions in the Sustainability category were proposed by shareholders and related to various ESG issues. Surrey supported all three proposals. One management-proposed resolution was defeated, and one shareholder-proposed resolution was successful during the Quarter.
29. The resolution to approve the remuneration report at Lonmin plc was defeated receiving 73.82% dissent, Surrey voted against its adoption. A shareholder proposal requesting the Walgreens Boots Alliance Inc Board produce a report on governance measures related to opioids passed receiving majority shareholder support – Surrey supported its adoption.

Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	23	3	13.04%	1.82%
Board	138	18	13.04%	2.27%
Capital	18	2	11.11%	3.83%
Corporate Actions	2	0	0.00%	0.11%
Other	1	1	100.00%	-
Remuneration	25	10	40.00%	8.20%
Shareholder Rights	9	5	55.56%	12.32%
Sustainability	3	3	100.00%	7.14%
Total	219	42	19.18%	4.13%

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

32. There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY:

33. 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:

34. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

35. 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:

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

WHAT HAPPENS NEXT:

37. 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:

Annex 1 – LAPFF Quarterly Engagement Report

Annex 2 – Robeco Active Ownership Report

Annex 3 – IIGCC Climate Action 100+ 2019 BP Shareholder Resolution

Annex 4 – BP Shareholder Resolution

Sources/background papers:

Border to Coast Stewardship Quarterly Q1 2019

Border to Coast Climate Change Working Party – Bulletin 1 – 20-3-19

Baillie Gifford – Multi Asset Stewardship Report 0219

Western Asset Management – Surrey ESG Engagement Report

LGIM – Corporate Governance 2019

Ruffer – 2019 Q1 Stewardship Activities

Franklin & Templeton – A Differentiated Approach to ESG Apr 18

Aviva Investors Responsible Investment in Action
