

**SURREY COUNTY COUNCIL**

**SURREY PENSION FUND COMMITTEE**

**DATE: 13 SEPTEMBER 2019**

**LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

**SUBJECT: COMPANY ENGAGEMENT & VOTING**



**SUMMARY OF ISSUE:**

This report is a summary of various Environmental Social & Governance (ESG) issues that the LAPFF, Robeco, Border to Coast Pensions Partnership (BCPP) 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:

Reaffirms that ESG Factors are fundamental to the Fund's approach, consistent with the Mission Statement through:

- Becoming a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD) with the objective to begin to report against its disclosures for the 2019/20 Annual Report.
- Commending the outcomes achieved for quarter ending 30 June 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2019.
- Noting the positive results achieved in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 30 June 2019.
- Supporting the work carried out by BCPP as well as its Climate Change working party in understanding Climate Change Risk, and the outcomes achieved by Fund Managers during the quarter ending 30 June 2019.

**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. 7 of the co-filers are among BP's top 20 individual investors. The resolution directed BP to include in its Strategic Report, a strategy in line with the Paris Agreement, along with annual progress reporting.
6. **UPDATE:** At BP's annual general meeting in Aberdeen on Tuesday 21 May 2019, 99.14 percent of shareholders voted for the binding climate change resolution filed by investors acting as part of the Climate Action 100+ investor initiative, and supported by the BP board. BP said it would make such disclosures later this year as well as in its annual report published around next April.
7. The resolution outcome emphasizes the effectiveness of collaborating with other institutional investors when engaging with companies and exercising shareholder power through voting. Climate Action 100+ have approximately 320 investor signatories, including BCPP, who collectively hold circa USD \$33 trillion assets under management.

#### **Task Force for Climate Related Financial Disclosures (TCFD)**

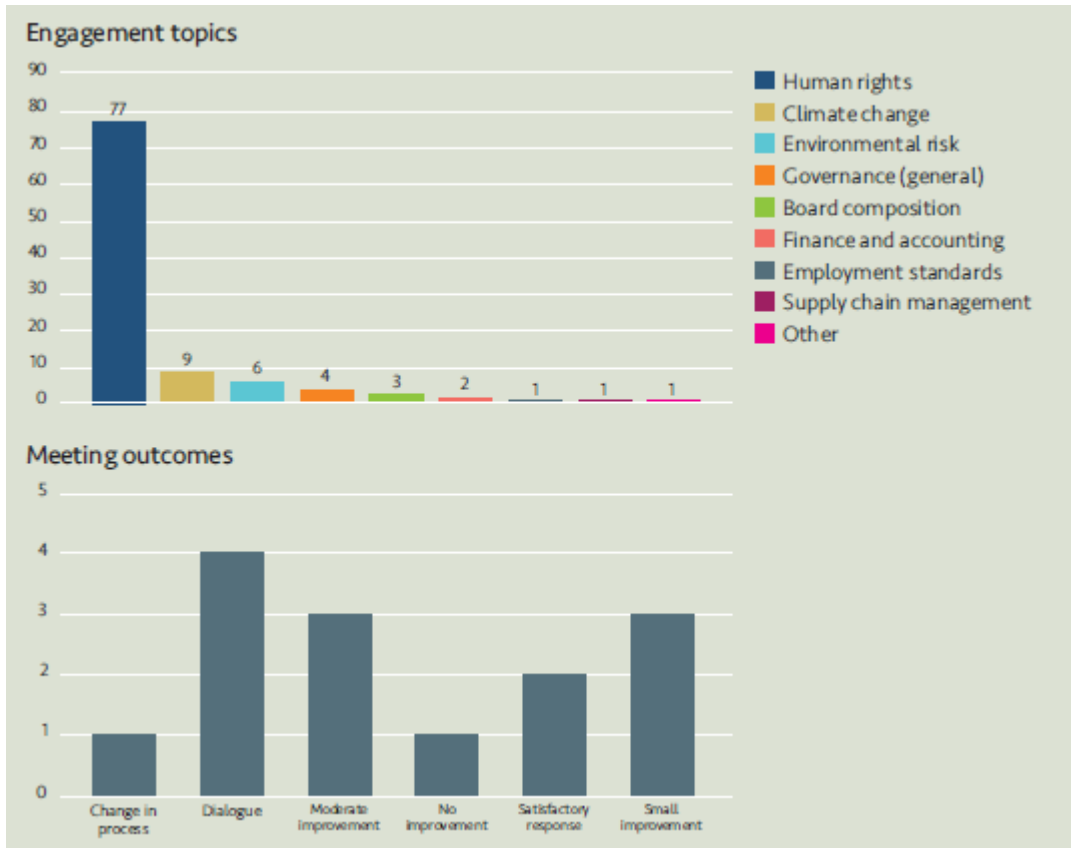
8. The Fund has recently become a supporter of TCFD, a body which encourages organisations to voluntarily report on climate related financial disclosures. The Fund will aim to provide Climate Related Disclosures for the 2019/20 Annual Report.

### Companies

Name ▾	Location	Region	Sector	Industry	Date
<a href="#">Surrey Pension Fund</a>	United Kingdom	Europe	Financial	Pension	June 2019

**Outcomes Achieved through Company Engagement**

The LAPFF had engaged with 104 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 31 March 2019.



**LAPFF Engagement Outcomes**

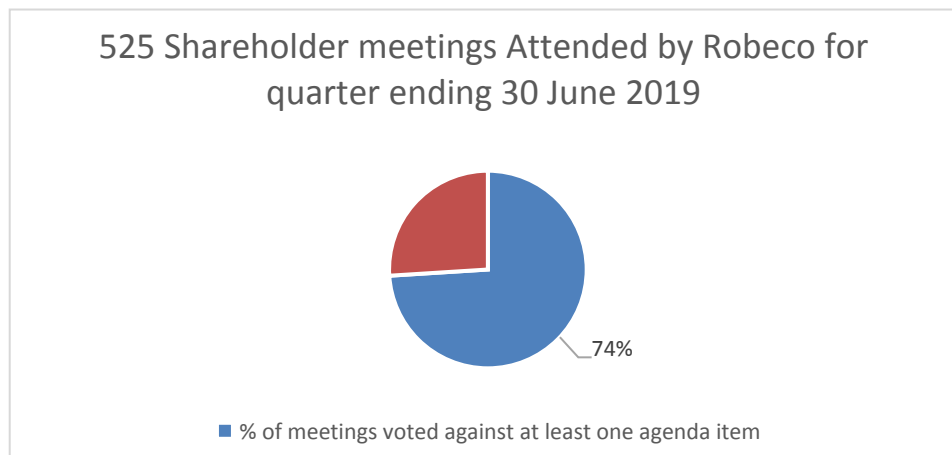
- Facebook, Google & Twitter – The LAPFF joined a number of institutional investors, alongside the New Zealand Super Fund to convince social media companies to strengthen controls to prevent the live streaming and distribution of objectionable content, such as the shootings that took place in Christchurch on Friday 15 March 2019.
- Response to EU Consultation on Remuneration Report – The LAPFF responded to a targeted consultation on standardising the presentation of

remuneration reports under the Shareholders' Rights Directive. Standardising the reporting format will also help shareholders to assess directors' remuneration, to what extent that remuneration is linked to the performance of the company and how the company implements its remuneration policy in practice. As such, the response is largely supportive of the proposed reporting framework.

11. Arcelor Mittal – Met with executives from the company and pressed on whether the company would be setting science-based targets in line with the Paris Agreement, given that a major aspect involved in the production of steel is burning fossil fuels
12. Climate Majority Project - LAPFF joined other coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. The institutional investor statement called for a transition away from carbon intensive energy production and for companies to devise economically attractive ways to achieve net zero targets. Central to this was recommendations on governance reforms companies should adopt to maintain focus on the overall goal of net-zero emissions.
13. Tailings Dams - The LAPFF joined the Church of England and other Institutional Investors in working with companies, investors, industry groups and industry experts to prevent further collapses of tailings dams, after the collapse of the Brumadinho tailings dam. The LAPFF will continue to look for way to bring community representatives at future meetings.

### **Robeco Engagement Outcomes**

Robeco had voted at 525 shareholder meetings, voting against at least one agenda item in 74% of cases during the quarter ending 30 June 2019.



### **Paying a Living Wage in the Garment Sector**

#### Reason for Engagement

14. Robeco joined the Living Wage Financials Platform in 2018, which has initiated an engagement program which aims to encourage support and monitor investee companies regarding their commitment to paying a living wage to workers in their supply chains. This is in line with the United Nation's Sustainable Development Goal 8;

15. *United Nation's Sustainable Development Goal 8: 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.'*

16. Benefits for Investee Companies in Paying a Living Wage:

- Improves productivity, lowers absenteeism, turnover rates and lowers recruitment/training costs
- Could improve efficiency of company production models, by working with supply chain in improving performance and identifying production efficiencies
- Positive impact on Company reputation as an intangible asset

#### Engagement Outcome

17. Engagement firstly on whether the company identifies living wage as a key issue, encouraging companies to increase transparency on wage data at supplier facilities. Robeco will then undertake a wage gap analysis, enabling companies to work with suppliers to calculate the cost of raising salaries to a living wage level

### **Environmental Challenges in the Oil and Gas Sector (3 Year Review)**

#### Reason for Engagement

18. At a time when there is a threat on tighter environmental legislation on a global level, Robeco launched a 3 year engagement program with 11 oil and gas companies to prompt companies on their energy transition plans.

#### Engagement Outcome

19. Of the 11 companies during the engagement program, 7 were closed successfully based on their progress on the objectives set at the start of the program. For 3 companies, Robeco felt unable to make sufficient progress and were closed unsuccessfully. For the remaining company, although it had not made sufficient progress there was a positive trajectory made in its energy transition.

- There is a marked difference between companies in Europe versus the US, in preparedness for a low-carbon energy transition. European companies have better engaged and are more successfully taking the necessary steps to limit their exposure to climate risk
- National companies have also been more difficult to engage, as state-owned oil companies tended to have less capital flexibility to respond to increased climate regulation

### **Border to Coast Pensions Partnership (BCPP)**

#### Climate Change Working Party

20. 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.

21. The goals of the Climate Change Working Party over the 6 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.

22. The session held on 5 June 2019, BCPP invited Legal & General Investment Managers (LGIM), to discuss the role of asset managers in managing climate change risk.

23. The Climate Group noted how climate change requires a holistic approach: divesting as a sector-wide strategy downplays the importance of all sectors. Given this, engaging with regulators, governments and across industries, as well as with individual companies who have an important part to play in the transition to a low carbon economy, was vital. In line with the third working party session on divestment vs engagement, the importance of an effective escalation process was also discussed, for example transparency of voting intentions, voting against resolutions and “naming and shaming”.

The last scheduled Climate Change session is summarised below;

- 9 September: Communication and Update to RI policy

### **Engagement Outcomes by Fund Managers**

24. Western Asset Management – Met with Republic of Kenya Treasurer, discussed the country's "Big 4 agenda" as the driver for its growth plans: 1) affordable housing 2) manufacturing 3) food security 4) health care. Went into detail on their plans to prepare for drought risks and move from subsistence to agribusiness

25. LGIM – Published second annual review of Climate Impact Pledge (Annex 3), engaging with 80 of the world's largest companies, to improve their strategies in relation to climate change.

Companies who scored low in the Climate Pledge last year and were cited as potentials for divestment, have re-engaged with LGIM to improve in this area to warrant reinvestment.

26. 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.
27. Newton – Was in discussion with PepsiCo, with a key positive from the meeting being that PepsiCo’s healthier ‘Everyday Nutrition’ range is used as a sales target for annual bonuses
28. Majedie – Voted against various remuneration proposals over the quarter. An example being Premier Oil because of the low executive shareholding levels relative to the company’s own shareholding requirement level of 250% of basic salary. Where this does occur, there is a risk that executives aren’t acting in the interests of true owners of the company.

### **Surrey Share Voting**

29. 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 20.27 % of the resolutions for which votes were cast during quarter ending 30 June 2019, compared to 4.65% by the average shareholder.

### **Company Resolutions defeated through Voting against Management**

30. 10 management-proposed resolutions were defeated, and two shareholder-proposed resolutions were successful during the Quarter.
- Governance/ Social - A resolution to approve the discharge of Bayer AG’s Management Board was defeated receiving 55.52% dissent, Surrey voted against the resolution. Shareholders had held concerns with Bayer’s mounting legal risks following its acquisition of glyphosate manufacturer Monsanto. In March of 2015, the World Health Organization surveyed the research on Monsanto’s Roundup herbicide (which contains glyphosate) and its cancer links and concluded the blockbuster herbicide is “probably carcinogenic to humans.”
  - Governance - At Mears Group plc the resolution to grant an authority to convene ordinary general meetings (other than AGMs) with a 14-day notice period was defeated after it received 69% support, below the 75% majority requirement, Surrey voted against the resolution.
  - Governance - Eight share issue authorities were defeated during the Quarter, six of which were due to the authority receiving an insufficient majority. Surrey voted against two defeated share issue authorities, both at Orange SA.
  - Environmental - A shareholder proposal requesting BP plc produce a report detailing how the Company’s strategy is aligned with the Paris climate accord passed receiving 97% support, Surrey supported its adoption.
  - Governance - Surrey also supported a successful shareholder proposal at Citigroup Inc which requested the threshold required to call special meetings to be lowered to 15% of outstanding shares.

31. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 4.65%, Surrey opposed management on 20.27% of resolutions.

Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	153	11	7.19	1.44
Board	767	93	12.13	4.16
Capital	269	39	14.50	3.92
Corporate Actions	18	1	5.56	1.19
Remuneration	115	63	54.78	9.20
Shareholder Rights	58	35	60.34	7.51
Sustainability	51	48	94.12	12.76
Total	1,431	48	20.27	4.65

**CONSULTATION:**

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

**RISK MANAGEMENT AND IMPLICATIONS:**

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

**FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

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

**DIRECTOR OF CORPORATE FINANCE COMMENTARY**

35. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

**LEGAL IMPLICATIONS – MONITORING OFFICER**

36. There are no legal implications or legislative requirements

**EQUALITIES AND DIVERSITY**

37. 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**

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

**WHAT HAPPENS NEXT**



39. The Pension Fund will 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 – LGIM's Climate Pledge

**Sources/background papers:**

- LAPFF Quarterly Engagement Report QE 31 March 2019
  - Robeco Active Ownership Report QE 30 June 2019
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