

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 20 DECEMBER 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;

- Commending the outcomes achieved for quarter ending 30 September 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 September 2019.
- Noting the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 30 September 2019.
- Supporting the work carried out by Climate Action 100+ in their engagement on ESG issues, and Darwin on their strong Environmental Credentials

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).

Outcomes Achieved through Company Engagement

LAPFF Engagement Outcomes

The LAPFF had engaged with 108 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 30 September 2019.

108 Company engagements over the quarter including the following meetings, voting alert submissions and filing of shareholder resolutions

Company	Activity	Topic	Outcome
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BAE SYSTEMS PLC	Meeting	Human Rights	No Improvement
CENTRICA PLC	Meeting	Climate Change	Substantial Improvement
GENERAL MOTORS COMPANY	Meeting	Environmental Risk	Small improvement
GLENCORE PLC	Meeting	Audit Practices	Small Improvement
NATIONAL GRID PLC	AGM	Climate Change	Substantial Improvement
PETROBRAS-PETROLEO BRASILIERO	Meeting	Reputational Risk	Moderate Improvement
RYANAIR HOLDINGS PLC	Alert Issued	Governance (General)	
SOUTHERN COMPANY	Meeting	Climate Change	Change in Process
SPORTS DIRECT INTERNATIONAL PLC	Alert Issued	Governance (General)	
WALT DISNEY	Resolution filed	Climate Change	Dialogue

SUBSTANTIAL IMPROVEMENTS: Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. National Grid is joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company.

5. BAE Systems, Boeing, Lockheed Martin (Defence Companies) – The LAPFF contacted 9 Defence Companies, of which the LAPFF held meetings with the 3 companies mentioned above. The initial objectives of this engagement is to ascertain if defence companies have increased their scope for building leverage in setting or influencing contract terms with national governments as well as recognising the populations affected by their products as one of their stakeholder groups.
6. Glencore, Shell, ENI, Petrobras and Total (Anti-Corruption) – Held meetings with so far with ENI and Petrobras to clarify the extent of the corruption allegations currently made against them. The Petrobras engagement centred around the Car Wash Investigation, a money laundering scandal that found that executives at Petrobras had accepted bribes in return for awarding contracts to construction firms. This outcome led to Petrobras' writing off US\$2,527 million of capitalised costs for overpayment to contractors and suppliers. Moreover, given the role of state parties in corruption cases, these distinctions might be highly relevant and will be explored in the remainder of the engagements.
7. Arcelor Mittal (Climate Change) – Met with senior executives in July at Arcelor Mittal, the largest steel manufacturer in the world following the company's first Climate Action report to discuss its Climate related targets.

LAPFF & London Mining Network – BHP Stakeholder Engagement Meeting with Community Representatives

8. The LAPFF, in association with the London Mining Network, held a stakeholder engagement meeting with representatives of communities in Brazil, Chile and Colombia affected by the operations of mining company BHP. The London Mining Network pays for community representatives to attend the BHP AGMs to allow those communities affected by mining operations to have a voice at the company meetings.
9. The objective will be that this will be the first of more events connecting community members with investors to foster better human rights protections as a means of creating more sustainable shareholder returns.
10. Three community speakers were in attendance; including, an indigenous Wayuu man, the highest authority in his community, one of the communities affected by the Cerrejon coal mine. A community lawyer working with the Movement of People Affected by Dams, a grassroots social movement (rather than an NGO) made up by communities affected by dams in Brazil. Lastly, a representative from a network of over 40 community-based organisations and NGOs which has spent over 10 years advising and working with hundreds of affected communities about the best ways to mitigate the impacts of the mining industry in Latin America

Climate Action 100+ Progress Report

11. Climate Action 100+, is a five-year initiative to ensure the world's largest corporate greenhouse gas (GHG) emitters, take action in aligning themselves with the Paris Climate Agreement. With over 370 investor signatories, the initiative holds approximately \$35 trillion assets under management.
12. Climate Action 100+ engages with 161 focus companies, which account for over 80% of corporate GHG emissions, across 6 sectors which are systemically important to the low carbon transition. 2018 reported GHG emissions have been shown below, based on information submitted to the Carbon Disclosure Project (CDP), including reported scope 1, 2 & 3 emissions.

Sector	Oil & Gas	Mining & Metals	Transportation	Industrials	Electric Utilities	Consumer Products
2018 reported GHG Emissions (Gigatonnes)	8.8	3.6	4.6	4.1	2.8	6.0
Market Cap (\$bn) (Bloomberg, June 2019)	2,410	530	1,119	829	1,476	1,780

Current Engagement Progress by Sector

13. Oil & Gas

- Equinor, BP, Shell have made the most significant progress in aligning strategies with Paris Agreement
- 85% of focus companies have assigned board oversight for Climate Change
- However, 92% hold membership with industry associations that take positions on climate in conflict with their internal position.
- 62% of focus companies have set long-term emissions targets, of at-least limited scope
- However, 79% are considered to have a significant amount (40%+) of potential capital expenditure that would not be needed in a 2 Degree Scenario (IEA B2DS)

14. Mining & Metals

- Arcelor Mittal, BlueScope Steel, POSCO and Thyssenkrupp made the most significant progress in aiming to become carbon-neutral
- 61% of focus companies have assigned board oversight for Climate Change, the lowest of all sectors
- However, 91% hold membership with industry associations that take positions on climate in conflict with their internal position.

- 52% of focus companies have set long-term emissions targets of at-least limited scope, although none have committed to a science based target (SBT)
- 43% of focus companies are signed on as supporters of the Taskforce for Climate Related Financial Disclosures (TCFD)

15. Transportation

- Volkswagen and Maersk made the most significant progress to commit to becoming carbon neutral
- 81% of focus companies have assigned board oversight for Climate Change
- However, 88% hold membership with industry associations that take positions on climate in conflict with their internal position.
- 81% of focus companies have set long-term emissions reduction targets, with 31% at least committed to a science based target (SBT)
- The table below projects what the automobile industry’s required energy mix should be when aligned with International Energy Agency’s Beyond 2 Degree Scenario (IEA B2DS) against current levels and planned levels

Planned versus required technology mix for automobile companies by 2024

Auto Focus Companies Technology Mix (13 companies)	Required 2024 Technology Mix for B2DS Alignment (%)	Planned 2024 Technology Mix of Auto Companies (%)	Actual 2019 Technology Mix of Auto Companies (%)
Automobiles Electric	9%	3%	1%
Automobiles Hybrid	19%	6%	4%
Automobiles Internal Combustion Engine	72%	91%	95%

16. Industrials

- HeidelbergCement, Saint Gobain and CRH have made the most significant progress in setting science based targets
- 73% of focus companies have assigned board oversight for Climate Change
- However, 96% hold membership with industry associations that take positions on climate in conflict with their internal position.
- 69% of focus companies have set long-term emissions reduction targets, while 31% have at least committed to a science based target (SBT)
- 35% of focus companies are signed on as supporters of TCFD

17. Electric Utilities

- A number of companies, including EDF, Centrica, Southern Company have committed to becoming carbon neutral by 2050
- 74% of focus companies have assigned board oversight for Climate Change
- However, 97% hold membership with industry associations that take positions on climate in conflict with their internal position.
- 81% of focus companies have set long-term emissions reduction

targets, while 18% have at least committed to a science based target (SBT)

- The table below projects what the utilities industry's required energy mix should be when aligned with International Energy Agency's Beyond 2 Degree Scenario (IEA B2DS) against current levels and planned levels

Utilities Technology Mix

Utilities Focus Companies Technology Mix (31 companies)	Required 2024 Technology Mix Required for B2DS Alignment (%)	Planned 2024 Technology Mix of Utilities Companies (%)	Actual 2019 Technology Mix of Utilities Companies (%)
Utilities Renewables	17%	13%	10%
Utilities Gas	24%	31%	32%
Utilities Coal	28%	29%	29%
Utilities Hydro	19%	9%	9%
Utilities Nuclear	9%	15%	15%

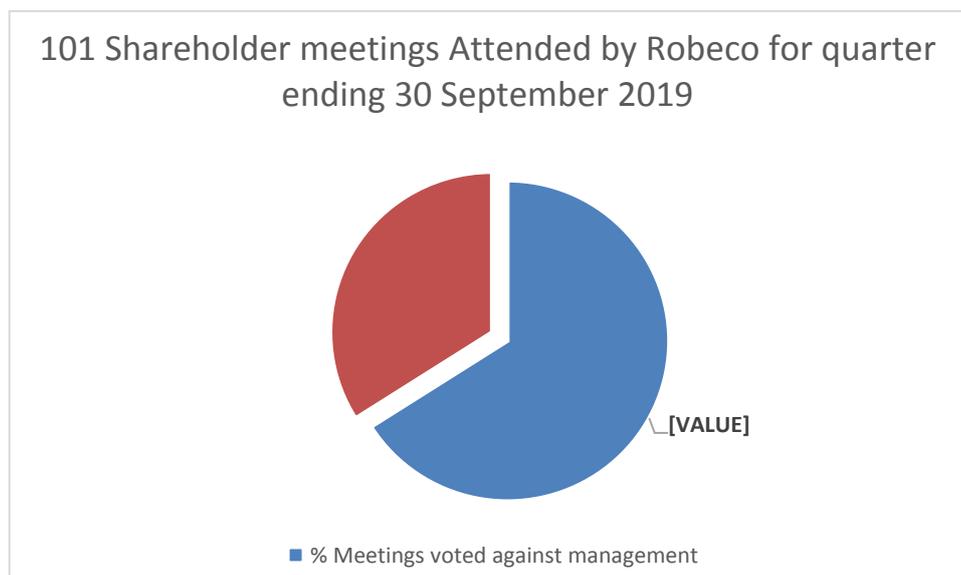
Source: 24, August 2019

18. Consumer Products

- 93% of focus companies have assigned board oversight for Climate Change
- However, 86% hold membership with industry associations that take positions on climate in conflict with their internal position.
- 86% of focus companies have set long-term emissions reduction targets, while 64% have at least committed to a science based target (SBT)
- 100% of focus companies in this sector report their emissions data to CDP

Robeco Engagement Outcomes

Robeco had voted at 101 shareholder meetings, voting against at least one agenda item in 66% of cases during the quarter ending 30 September 2019.



Reducing Global Waste

Reason for Engagement

19. The amount of solid waste that the world produces is expected to rise from the current 2 billion tons a year to 3.4 billion tons by 2050. The rate of growth in waste is more than twice as high as the rate of growth in the world's population, which is expected to rise to 10 billion by the same year.
20. Encouraging companies to conduct impact/ sustainability assessments on the positive/ negative effects of their products provides a more detailed understanding on how better to minimise waste streams. Formalised sustainability policies are heavily reliant on good governance, as it holds companies accountable to their own policies, which is why corporate governance is a primary objective of this engagement programme.

Possible Actions for Investee Companies in addressing United Nations' Sustainable Development Goal 12: Responsible Consumption and Production

- Implementing circular business models for optimal reuse, remanufacturing and recycling
- Understanding waste caused by design stage of products and services
- Extending responsibility to post-consumer stage of product life cycles

Engagement Outcome

21. The Engagement programme on 'Reducing Global Waste' has reached its halfway with a high level of responsiveness from companies to Robeco's feedback and how to improve disclosures. More updates will follow as the Engagement reaches its close.

Social Risks of Sugar

Reason for Engagement

22. Sugar contributes strongly to the current global obesity pandemic, given its presence in almost all packaged food or drinks. The economic costs of this pandemic are clear; USD 2 trillion annually, or nearly 3% of global GDP. It is estimated that obesity, along with smoking and armed violence, is one of the top three social burdens induced by humans. This is likely to continue to grow, with obesity estimated to affect almost half of the world's adult population by 2030.
23. There is an expectation for food and beverage companies to have a consistent approach between their health and wellness policies and any lobbying activities. Recent reports and articles raise concerns about the incongruence between the stated positions of companies and their lobbying practices.
24. An example being when the US Department of Agriculture and the US Department of Health and Human Services rejected their own expert panel's advice to limit consumption of sugary beverages and processed meats,

despite evidence of their harm to public health, in part as the result of industry influence

Engagement Outcome

Of the 8 companies during the engagement programme, Robeco have asked how they define their priorities for lobbying on nutritional-related issues. Ultimately, the objective is to know how the company uses lobbying and its membership in relevant trade associations to promote healthy products and address nutritional-related issues. This programme is also on-going and updates will be provided as the engagement progresses.

Engagement with Darwin Property Investment Management on ESG Credentials

1. Fund Officers and the Committee Chairman engaged with Darwin on how Environmental factors are taken into consideration when purchasing and redeveloping their caravan parks. Darwin have provided extensive detail on how they integrate Environmental factors into their strategy in Annex 1, including but not limited to;
 - Implementing wind catching roof designs which avoid extensive air conditioning and ventilation
 - Preserving natural habitat by employing insect/ adder hotels, squirrel/owl boxes, as well as avoiding the cutting of grass to create more natural environment for wildlife
 - As many trees as possible are retained as possible through careful design layout and contractor restrictions
 - Their development of their camp and caravan sites also actively promotes employment in rural areas, with the potential of longer term career progression within the Company.

Surrey Share Voting

2. 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 21.80 % of the resolutions for which votes were cast during quarter ending 30 September 2019, compared to 4.91% by the average shareholder.

Company Resolutions defeated through Voting against Management Resolutions

3. All resolutions voted on during the Quarter were proposed by management and no resolutions were defeated. This compares to 10 defeated management-proposed resolutions and two successful shareholder-proposed resolutions in the previous quarter.
4. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 4.91%, Surrey opposed management on 21.80% of resolutions.

Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	38	2	5.26	1.00
Board	122	13	10.66	4.73
Capital	58	9	15.52	4.04
Corporate Actions	2	0	0.00	0.03
Remuneration	23	15	65.22	13.35
Shareholder Rights	14	12	85.71	5.86
Sustainability	9	7	77.78	7.46
Total	266	58	21.80	4.91

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

4. 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

5. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

6. 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

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

WHAT HAPPENS NEXT

8. 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 Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

1. Company Engagement & Voting – Annex 1 (Darwin Environmental Credentials)

Sources/background papers:

1. LAPFF Quarterly Engagement Report QE 30 September 2019
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
 2. Robeco Active Ownership Report QE 30 September 2019
https://www.bordertocoast.org.uk/?dlim_download_category=engagement
 3. Climate Action 100+ 2019 Progress Report
<https://climateaction100.files.wordpress.com/2019/10/progressreport2019.pdf>
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