

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 13 MARCH 2020****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: COMPANY ENGAGEMENT & VOTING****SUMMARY OF ISSUE:****Strategic objectives****Investment**

This report is a summary of various Environmental Social & Governance (ESG) issues that the Surrey Pension Fund, Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in, for the attention of the Pension Fund Committee. The Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide BCPP's voting and engagement services so act's in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 12 partner funds within the Pool.

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;

- Continuing to enhance its own Responsible Investment Approach
- Commending the outcomes achieved for quarter ending 31 December 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 December 2019.
- Noting the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 31 December 2019.

REASON FOR RECOMMENDATIONS:

In accordance with The Fund's Mission Statement, as well as its Investment Strategic Objectives, the Fund is required to fulfil its fiduciary duty to protect the value of the Pension Fund, to meet its pension obligations. Part of this involves consideration of its wider responsibilities in Responsible Investment as well as how it exercises its influence through engaging as active shareholders.

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. By
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.
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 35 companies on issues such as Climate Change, Community Engagement and the Just Transition during the Quarter Ending 31 December 2019.

35 Companies engaged over the quarter in 50 engagements

Company/ Index	Activity	Topic	Outcome
Alphabet	Sent letter	Human Rights	Dialogue
Amazon	Resolutions co-filed by members	Human Rights/ Governance	Dialogue
Anglo American	Meeting	Climate Change/ Governance	Dialogue
ANZ Bank	Meeting	Climate Change/ Governance	Dialogue
ArcelorMittal	Meeting	Climate Change	Substantial Improvement
BHP	Meeting	Human Rights	Dialogue
Boeing	Sent letter	Governance (safety)	No Improvement
BP	Meeting	Governance	Small Improvement
British American Tobacco	Meeting	Social Risk (health)	Small Improvement
Charles Schwab	Meeting	Governance	Awaiting Response
Charter Communications	Resolution co-filed by members	Governance	Dialogue
Chevron	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Chipotle Mexican Grill Inc	Meeting	Environmental Risk	Small Improvement
Citigroup	Resolution co-filed by members	Climate Change/ Governance	Dialogue
EasyJet	Sent letter	Employment Standards	Awaiting Response
Eli Lilly	Resolution co-filed by members	Governance	Dialogue
Honeywell	Resolution co-filed by members	Governance	Dialogue
Marks & Spencer	Sent letter	Employment Standards	Awaiting Response
McDonalds	Sent letter	Remuneration	Dialogue
National Grid	Meeting	Climate Change	Substantial Improvement
Pepsico	Received letter	Environment (plastics)	Moderate Improvement
Phillip Morris	Meeting	Governance (tax)	Small Improvement
Reach	Meeting	Reputational Risk	Moderate Improvement
Rio Tinto	Sent letter	Employment Standards	Awaiting Response
Royal Dutch Shell	Sent letter	Audit Practices	Dialogue
Ryanair	Meeting	Governance/ Employment Standards	Small Improvement
Sainsbury	Meeting	Climate Change/ Environment	Small Improvement
Severn Trent	Received letter	Governance	Small Improvement
Smith & Nephew	Sent letter	Employment Standards	Awaiting Response
Southern Company	Received letter	Climate Change	Substantial Improvement
Suzano	Meeting	Climate Change	Small Improvement
Total	Meeting	Governance (corruption)	Dialogue
Vale	Meeting	Human Rights	No Improvement
Vodafone	Sent letter	Employment Standards	Awaiting Response
Walt Disney Company	Resolution Filed	Governance	Dialogue

5. National Grid (Climate Change) – At a meeting with National Grid, LAPFF and other Climate Action 100+ investors sought more granularity on climate targets, as well as enhanced TCFD disclosure. The Chief Executive announced a new carbon sensitivity analysis for its plans to be carbon neutral by 2050.
6. Arcelor Mittal (Climate Change) – LAPFF along with other Climate Action 100+ investors held a teleconference with the company, to press on setting science based emission targets as well as publishing membership of trade bodies. In December, Arcelor announced publicly it would publish its trade body memberships in its next Climate Action report, due in 2020.
7. BP (Climate Change) – Met with CEO to discuss developments in assessing and disclosing the alignment of Capital Expenditure in line with the Paris Agreement.
8. Sainsburys (Sustainability) – LAPFF Vice-Chairman met with senior executives to discuss its plans to improve its supply chain sustainability, give the wide range of risks that the business faces; including environmental risks to supply chains to legislation on plastic packaging. The Company detailed steps it had taken forward including cutting single use plastic by 50% and reporting in line with the Taskforce for Climate Related Financial Disclosures (TCFD).

Robeco Engagement Outcomes

9. Robeco had voted at 98 shareholder meetings, voting against at least one agenda item in 57% of cases during the quarter ending 31 December 2019.

Social Impact of Artificial Intelligence

Reason for Engagement

10. The benefits of Artificial Intelligence (AI) are wide ranging and include increased efficiency, scale and speed of decision making. It has also contributed to social good; early diagnosis of diseases, predicting natural disasters and identifying victims of online exploitation.
11. With the rapid advancement of and growing efficiency of AI, the governance principles associated with it is being outpaced by its development and application. Some of the social risks associated with its development include;
- Threatening civil rights in surveillance, health care & freedom of expression; its application in socially sensitive areas such as education, health, policing and criminal justice. They can be applied without contextual knowledge and informed consent, thus threatening civil rights and liberties.
 - Detrimental impact on societies and companies as a result of its development, leading to potential job losses.
 - Unconscious bias; the data used in its design could encode biases especially in safety critical systems such as facial recognition technology.

Engagement Objective

12. In the fourth quarter of 2019, Robeco launched a 3 year engagement project focusing on the risks associated with AI and its social impact. Robeco will engage with companies in the Information and Communication (ICT) sector, both those that develop AI and those who use it in their core business models. Companies under engagement include Amazon, Facebook, Apple, Visa and Microsoft, amongst others. The Engagement Objectives include;
- Policy guidelines for AI
 - Impact assessment on products and services
 - Adequate board oversight
 - Integrating human rights considerations into product development
 - Responsible lobbying and stakeholder engagement
13. Future progress will be monitored on this engagement project.

Climate Change and well-being in the Office Sector

Reason for Engagement

14. 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 Progress

15. All companies under engagement have progressed in the five initial objectives of the project;
- Climate Change management; all companies progressed well, in terms of integrating sustainability into their corporate strategies, setting net-zero policies on building construction as well as making existing buildings reusable.
 - Licence to operate; most companies increased building certifications for their offices, during construction and operation, as well as using energy efficient benchmarking in their buildings.
 - Environmental management systems (EMS); most companies showed an increase in their floor area covered by energy consumption monitoring.
 - Reducing energy consumption and carbon emissions; all the companies under engagement committed themselves to greenhouse gas reduction and have made significant progress in reaching their goals.
 - Health & wellbeing; one company improved percentage of employees covered by health & safety checks as well as mental health checks. Another company became a champion of a healthy building certification system using this to support healthy building design and operational practices across six million square feet of its portfolio

Fund Manager Engagement

16. Legal & General Investment Management (LGIM) - LGIM have provided policy updates in their most recent ESG Impact Report, highlighting key areas of engagement on a policy level on issues such as;
- The Financial Reporting Council's prohibition of audit firms providing almost any non-audit work to their audit clients

- Addressing key areas of reform in the UK Stewardship Code, including what the code covers, signatory disclosure and enforcement & oversight
- Monitoring and supporting the European Commission's Action Plan on Sustainable Finance, specifically the EU Taxonomy. It classifies sustainable activities for all actors in the financial system, with the aim to stop 'greenwashing'

Surrey Share Voting

17. 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 was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 3.07%, Surrey opposed management on 18.85% of resolutions.

18. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	14	1	7.14	1.03
Board	66	7	10.61	2.42
Capital	21	2	9.52	2.12
Corporate Actions	2	0	0.00	1.33
Remuneration	13	9	69.23	9.40
Shareholder Rights	3	3	100.00	6.20
Sustainability	3	1	33.33	4.60
Total	122	23	18.85	3.07

Shareholder Proposed Resolutions/ Management Resolutions

19. No shareholder proposed resolutions was successful during the Quarter and no management resolutions were defeated.
20. The shareholder proposal requesting BHP suspend membership of industry associations considered to be inconsistent with the goals of the Paris Agreement was conditional on the proposal requesting an amendment to the BHP Ltd constitution passing. The constitution amendment proposal was classified as a special resolution and required a 75% vote in favour to pass.
21. The proposed amendment to the Constitution of BHP Group Limited would have allowed resolutions to be put forward, without the level of limitations, thresholds and regulatory oversight required in other jurisdictions.
22. As the proposal was not successful, receiving 14.05% votes in favour, the industry association resolution was withdrawn at the AGM

Company	Shareholder Proposals	Surrey Vote	% For
BHP Group plc	To request an amendment to the constitution of BHP Group Ltd regarding how the powers of the directors should be exercised	For	14.05%
BHP Group plc	To request that BHP Group Ltd suspends memberships of industry associations considered to be inconsistent with the goals of the Paris Agreement	For	Withdrawn
Cisco Systems Inc	To request that the Board of Directors adopt a policy to require that the Chairman of the Board be an independent member of the Board	For	28.49%

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

26. 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

27. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

28. 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

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

WHAT HAPPENS NEXT

30. The Pension Fund continue to monitor the progress of the voting and 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:**Sources/background papers:**

1. LAPFF Quarterly Engagement Report QE 31 December 2019
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
 2. Robeco Active Ownership Report QE 31 December 2019
https://www.bordertocoast.org.uk/?dlim_download_category=engagement
 3. LGIM Q4 ESG Impact Report 2019
 4. The European Commission, Action Plan on Sustainable Finance, December 2019
https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance_en#documents
 5. The European Commission, The European Green Deal Investment Plan and Just Transition Mechanism, January 2020
https://ec.europa.eu/info/publications/200114-european-green-deal-investment-plan_en
-