

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 12 JUNE 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, its Company Engagement policy, and SDG alignment with its external provider Minerva Analytics.
- Commending the outcomes achieved for quarter ending 31 March 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2020.

REASONS 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.
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 36 companies on issues such as Climate Change, Community Engagement and the Just Transition during the Quarter Ending 31 March 2020.

The Forum undertook 55 engagements with 36 companies over the quarter

Company	Collaboration	Activity	Topic	Outcome	Position Engaged	Domicile
AIA GROUP LTD		Sent Correspondence	Climate Change	Dialogue	Chairperson	HKG
ALLIANZ SE		Sent Correspondence	Climate Change	Dialogue	Chairperson	DEU
ALPHABET INC		Resolution Filed by Member/Received Correspondence	Employment Standards	Dialogue/Change In Process	Chairperson	USA
AMAZON.COM INC.		Alert Issued	Human Rights	Dialogue	Specialist Staff	USA
ANGLO AMERICAN PLC		Received Correspondence	Human Rights	Dialogue	Chairperson	GBR
ANZ-AUSTRALIA & NEW ZEALAND BANK		Meeting	Climate Change	Dialogue	Chairperson	AUS
ARCELORMITTAL SA		Sent Letter	Climate Change	Substantial Improvement	Specialist Staff	LUX
AVIVA PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
AXA		Sent Correspondence	Climate Change	Dialogue	Chairperson	FRA
BARCLAYS PLC		Meeting	Climate Change	Change In Process	Chairperson	GBR
BERKSHIRE HATHAWAY INC.		Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
BHP GROUP PLC	CA100+	Meeting	Climate Change	Small Improvement	Specialist Staff	GBR
BLACKROCK INC		Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
CHEVRON CORPORATION		Received Correspondence	Climate Change	No Improvement	Specialist Staff	USA
CHIPOTLE MEXICAN GRILL INC		Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
CRH PLC		Received Correspondence	Climate Change	Moderate Improvement	Chairperson	IRL
DELTA AIR LINES INC		Resolution Filed by Member/Meeting	Climate Change	Dialogue	Chairperson	USA
DOMINO'S PIZZA INTERNATIONAL	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
FRASERS GROUP PLC		Received Correspondence	Governance (General)	No Improvement	Exec Director/CEO	GBR
HSBC HOLDINGS PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR

LEGAL & GENERAL GROUP PLC		Meeting	Climate Change/ Audit Practices	Dialogue/ Substantial Improvement	Chairperson	GBR
LLOYDS BANKING GROUP PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
MARKS & SPENCER GROUP PLC		Meeting	Environmental Risk	Small Improvement	Specialist Staff	GBR
MCDONALD'S CORPORATION		Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
MUENCHENER RUECK AG (MUNICH RE)		Sent Correspondence	Climate Change	Dialogue	Chairperson	DEU
NESTLE SA		Meeting	Governance (General)	Dialogue	Chairperson	CHE
PRUDENTIAL PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
RESTAURANT BRANDS INTERNATIONAL INC	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	CAN
RIO TINTO GROUP (GBP)		Meeting	Climate Change	Moderate Improvement	Chairperson	GBR
STANDARD CHARTERED PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
THE BOEING COMPANY		Received Correspondence	Governance (General)	No Improvement	Chairperson	USA
TOTAL SA	CA100+	Sent Correspondence	Climate Change	Dialogue	Chairperson	FRA
NATIONAL GRID PLC		Sent Correspondence	Climate Change	Dialogue	Specialist Staff	GBR
VALE SA		Received Correspondence	Human Rights	Dialogue	Chairperson	BRA
WENDY'S INTERNATIONAL	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	GBR
YUM! BRANDS INC.	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA

5. Barclays & ANZ Bank (Climate Lending) – Met with Barclays chair on its response to setting targets for the provision of financial services to energy companies not in line with the Paris Agreement.
6. Insurance Companies (Climate Change) – LAPFF wrote to 11 insurance providers on how well they incorporate climate change into their underwriting activities. 6 of the companies so far have agreed to meetings.
7. Delta Airlines (Climate Change) – Called company representatives and asked why the company has not reported on any electric flight capabilities in scenario planning or in its R&D up to 2050.
8. Nestle (Sustainability) – Attended an investor roundtable to discuss its renewable energy initiatives and voiced its concerns on the issue of greenwashing. The LAPFF has further requested a follow up one-to-one meeting.

Robeco Engagement Outcomes

9. Robeco had voted at 107 shareholder meetings, voting against at least one agenda item in 70% of cases during the quarter ending 31 March 2020.

Engaging for a Positive Impact on the SDGs

Reason for Engagement

10. Over the past 3 years, the Active Ownership Team at Robeco had taken steps to enhance its understanding on the impact of its engagement on the SDGs.
11. Robeco’s SDG Framework identifies a company’s impact on the SDGs by analysing what it produces, how it produces it, and whether the company has been involved in controversies.
 - Sector-specific SDG indicators measure the positive or negative impact as percentage of revenue from products and services.
 - The second step assesses how the company’s business conduct contributes.
 - The final assessment examines whether the controversies are

structural and systemic or isolated incidents, and what was management's response to them.

Engagement Outcomes

12. In 2019, 14 out of 19 engagement themes were linked to a relevant SDG. Under three of these themes (climate action, the social risks of sugar, and ESG challenges in the auto industry), we are engaging on enhancing companies' contributions to the SDGs through their products. The remaining engagement themes focus on corporate business conduct as the main means of either creating a positive impact or working towards mitigating adverse impacts.

Reducing Global Waste

Reason for Engagement

13. 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.
14. 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 Update

15. The initial results have varied across companies involved in the engagement programme.
- Regional discrepancies have played a role in this, where Chinese firms underperform in terms of public disclosures and North American companies with international exposure disclose more on waste management efforts
 - Inclusion of management KPIs enhances the alignment of management incentives and sustainability performance
 - International certifications have been shown to bolster the sustainability of a company's operations.

Surrey Share Voting

- 16. Due to an internal administrative error within Minerva’s voting services, the Fund was informed that its voting service had been switched off without its consultation, between December 2019 and March 2020. Minerva have offered their apologies for this error and are investigating its cause.
- 17. This service issue has now been resolved from April 2020 but as the voting service was not live during quarter ending March 2020, there is no voting activity during that timeframe. The Fund will be able to report its voting activity again in the September Committee.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 20. There are no financial and value for money implications.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

- 21. 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

- 22. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

- 23. 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

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

WHAT HAPPENS NEXT

- 25. 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:

None.

Sources/background papers:

1. LAPFF Quarterly Engagement Report QE 31 March 2020
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
 2. Robeco Active Ownership Report QE 31 March 2020
https://www.bordertocoast.org.uk/?d1m_download_category=engagement
-