

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 12 MARCH 2021****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 acts in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 11 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
- Applauding the outcomes achieved for quarter ending 31 December 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 December 2020.
- Support the Say on Climate Initiative and approve Officers to work with Fund Managers and BCPP in adopting the actions
- Support the Impacting Investing Principles for Pension Schemes

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.

Background

1. 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.
2. 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).
3. 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
4. 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.

Outcomes Achieved through Company Engagement

LAPFF Engagement Outcomes

The LAPFF had engaged with 145 companies on issues such as Climate Change, Human Rights and the Just Transition during the Quarter Ending 31 December 2020.

5. Auto Industry (Climate Action) – The LAPFF wrote to 6 vehicle manufacturers on how they are approaching the challenge of electrifying their fleets in line with the UK's ban on petrol/ diesel cars by 2030. BMW has openly set science-based targets for its Scope 1 & 2 emissions but has yet to set such targets for Scope 3 emissions. The company assured LAPFF that it is ready to meet a rise in demand for electric vehicles and that its own operations will be carbon neutral by next year by offsetting its carbon emissions in a number of ways. LAPFF has meetings organised for early 2020 with two other vehicle manufacturers to discuss these issues. LAPFF hopes to get manufacturers that haven't already, to set science-based targets for their scope 3 emissions and also wants to ensure that these companies are set up sufficiently to deal with the electrification of their fleets.
6. Standard Chartered (Climate Change) – LAPFF met with Standard Chartered to seek evidence of progress in the period to 2030 against the company's net zero targets. On progress to 2030, Standard Chartered has committed to net-zero emissions across its global properties by 2030 by sourcing energy from

renewable sources and pursuing energy efficiency measures. For scope 3, the company is working with clients to measure, monitor and reduce emissions in order to ensure alignment of the portfolio with Paris goals.

7. Investors for Opioid and Pharmaceutical Accountability (IOPA) – Forum representatives also regularly attend IOPA meetings and have flagged shareholder resolutions stemming from the initiative, both addressing the Opioid epidemic in the US as well as engaging with the companies on their approach to COVID-19.
8. BAE Systems (Human Rights) – The LAPFF met with BAE and found that at the moment the company appears to continue to focus on staff issues as its primary social indicator of performance, but doesn't acknowledge the human rights implication of its arms contracts. The LAPFF feels that continuation of this engagement is necessary and would consider engaging with government Post-Covid.

Robeco Engagement Outcomes

9. Robeco had voted at 1030 shareholder meetings, voting against at least one agenda item in 37% of cases during the quarter ending 31 December 2020.

Net Zero Carbon Emissions

Reason for Engagement

10. Robeco had begun a new engagement programme following the introduction of the new Net Zero Company Benchmark by Climate Action 100+. The aim of the programme is to encourage companies to begin a smooth decarbonization journey and thereby ensure their long-term license to operate. The programme focuses on both the energy producers as well as consumers, who are both essential for the transition.

Engagement Objectives

11. Robeco's Engagement Objectives cover the areas below;
 - Seeking to understand how companies view the transition, and what their main challenges are
 - They will inform the companies of their expectation to have strategies in place to decarbonise their business and the products they sell
 - Calling on companies to make science based commitments to climate action, ensure a just transition and improving disclosure on emissions-related metrics

Biodiversity Loss

Reason for Engagement

12. Biological diversity is the infrastructure which supports all life on Earth, underpinning the stock of natural capital and allowing societies and ecosystems to thrive. However, biodiversity is declining faster than at any other time in human history. Land use change, the overexploitation of

resources, ocean acidification and pollution are key drivers of biodiversity loss. Global warming is further accelerating the extinction of species and leading to rapid changes in ecosystems.

13. The three-year engagement program focuses on biodiversity loss driven by deforestation caused by production of five high-risk soft commodities: cocoa, natural rubber, soy, beef, and tropical timber and pulp. These commodities collectively account for more than half of tropical deforestation-related greenhouse gas emissions.

Engagement Objectives

14. Robeco's engagement dialogue covers companies whose production processes rely heavily on these commodities, encompassing different sectors such as consumer staples, consumer discretionary, healthcare and materials. The programme is centred around 5 key engagement objectives;
 - Committing to a zero-deforestation policy and monitoring suppliers' compliance.
 - All soft commodities within the scope of the engagement program are produced in highly biodiverse, carbon-rich ecosystems. The second engagement objective focuses on companies' efforts to carry out a biodiversity impact assessment of their own operations and supply chains. This would allow them to account for biodiversity-related externalities and incorporate them in their decision-making processes.
 - Thirdly, encouraging companies to get involved in restoration and conservation projects at a landscape level. including in and around protected areas. For example, adopting more circular economy principles in their production cycles.
 - Fourthly, companies should provide clear reporting around the relevant topics and what progress has been made.
 - Lastly, focusing on the livelihoods of the communities where these commodities are being produced. By ensuring that farmers can earn a living from selling their produce, there is a lower incentive for them to expand their croplands or ranches to increase their production volumes, further converting and deforesting land.

Surrey Share Voting

15. 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.

16. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	30	2	6.67%	0.86%
Board	115	10	8.70%	2.24%

Capital	48	5	10.42%	2.03%
Corporate Actions	8	2	25.00%	0.91%
Remuneration	27	11	40.74%	8.17%
Shareholder Rights	14	7	50.00%	1.57%
Sustainability	6	4	66.67%	7.56%
Total	248	41	16.53%	2.71%

Shareholder Proposed Resolutions/ Management Resolutions

17. Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change and often attract relatively high levels of votes against management.
18. Two of the high dissenting resolutions Surrey voted against management recommendation on were remuneration report approvals (Ferguson plc and MJ Gleeson Group plc) and two were shareholder proposals (BHP Group plc and Cisco Systems Inc). Despite best efforts, no management-proposed resolution was defeated, and no shareholder proposed resolution was successful for the QE 31 December 2020.

Impact Investing Principles for Pensions

19. The Impact Investing Principles for Pensions are set of Principles designed to assist pension schemes navigate and respond to the significant shift in understanding of environmental, social and governance (ESG) risks and opportunities. The Principles were designed by the Impact Investing Institute as well as Pensions for Purpose.
20. The Impact Investing Institute is an independent, non-profit organisation, which brought together two influential initiatives: the Government's Taskforce for Growing a Culture of Social Impact Investing in the UK and the UK National Advisory Board on Impact Investing. Impact Investing Institute was launched in 2019 with a simple mission: to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally. We want to see more capital contributing to the well-being of people and the planet – as set out in the United Nation's Sustainable Development Goals.
21. Pensions for Purpose is a professional investment member network focused on directing capital towards sustainable and impact investments. The network brings influencer members (consultants, legal firms and asset managers) and affiliate members (pension funds and other institutional asset owners) together to find investable solutions to find investable solutions which align with the environment and society.
22. A commitment to the Principles ensures that the Fund continues to progress in its Commitment to the SDGs and integrating them through multiple aspects of its Investment Strategy, including through Engagement as well as Impact Investing.

Say on Climate Initiative

23. The Say on Climate Initiative was designed to address the issue that both investors and companies have, as of yet, not made significant enough progress to manage the low carbon transition. There is a growing recognition that every company should publish Climate Transition plans, and investors should do more to hold companies to account. The Fund's collaborative engagement forum, the Local Authority Pension Fund Forum has also publicly supported this initiative. Asset owners should take the following actions to ensure their asset managers are actively seeking to secure annual shareholder votes on company climate transition action plans as standard;

- Publicly endorse this concept your voice will help to ensure asset managers and companies realise this is increasingly recognised as good practice,
- Adopt this practice in your investment policy to set a clear expectation that asset managers will vote to ensure companies adopt this practice,
- Write to your asset managers to formally ask them to update their own policies accordingly, and reflect this approach in your Investment Management Agreements,
- Hire climate-competent investment consultants to ensure your advice includes an assessment of whether asset managers have adopted this practice and their wider voting record on climate resolutions.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY:

27. 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:

28. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY:

29. 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.

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:

Annexe 1 – Impact Investing Principles for Pension Schemes

Sources/background papers:

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

This page is intentionally left blank