

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 10 DECEMBER 2021****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL****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 Environmental Social & Governance Factors are fundamental to the Fund's approach, consistent with the Mission Statement through;

- a) Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and Sustainable Development Goals alignment.
- b) Acknowledging the outcomes achieved for quarter ending 30 September 2021 by Robeco in their Active Ownership approach and the Local Authority Pension Fund Forum in its Engagement with multinational companies as at 30 September 2021.

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

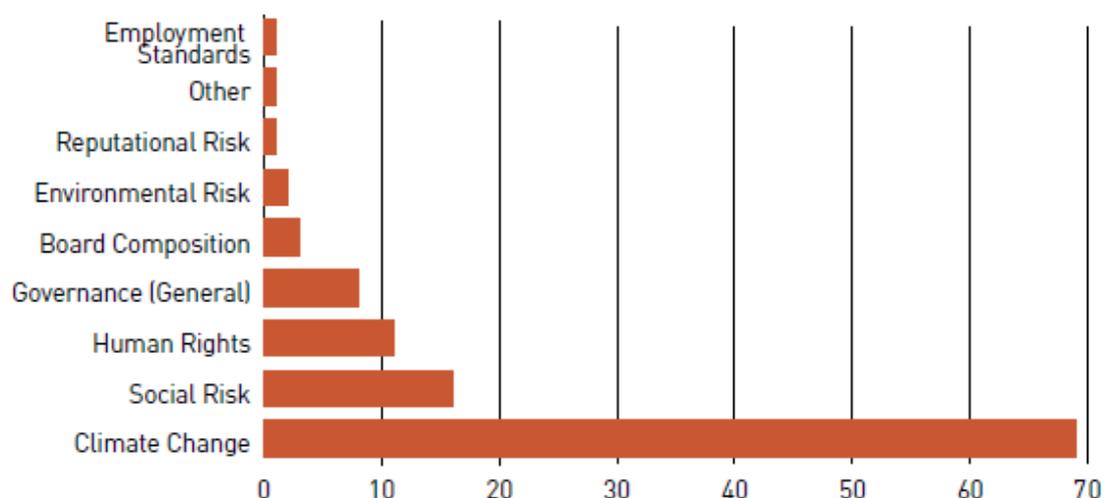
1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this particular 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.
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 82 companies on issues such as Climate Change, Human Rights and the Just Transition during the quarter ending 30 September 2021. LAPFF report is included in Annexe 1 which also details progress on all engagements. Some of the engagements from Q2 are included below.

ENGAGEMENT TOPICS



5. Rio Tinto – A meeting with Rio Tinto to encourage the company on

recognising the financial impacts of its social challenges. Also engaged with the staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM.

6. BHP – LAPFF had meeting with company's Indigenous Affairs representative to discuss cultural heritage law which aims to increase protections for Indigenous communities.
7. ArcelorMittal – A meeting was held with company representatives and other CA100+ investors to discuss progress. ArcelorMittal now has a groupwide emission intensity reduction target for 2030 of 25%, and 35% for Europe.
8. National Grid - LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a 'say on climate' resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company's net zero strategy, 2030 action plan, and progress against emission reduction targets.
9. SSE – A meeting with SSE who have a long-standing dialogue on ESG issues to discuss company's 'say on climate' resolution. SSE has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy.
10. HSBC – LAPFF met with HSBC to ascertain how they will assist clients to set and implement coal phase-out plan in line with the bank's own commitment. It was noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact.

Robeco Engagement Outcomes

11. Robeco had voted at 127 shareholder meetings, voting against at least one agenda item in 59% of cases during the quarter ending 30 September 2021.

Addressing food insecurity at its roots

Reason for Engagement

12. As the world is facing ever-growing pressure on global food system, with global population set to reach 9.7 billion by 2050 and demand for food projected to grow between 20% to 70%. As a result, food security has become a priority for sustainable development.

Engagement Objectives

13. As a responsible investor, Robeco launched an engagement program in 2018 focused on advancing the corporate contribution to food security, targeting companies in the agrochemical, commodity trading, agricultural mechanization, and irrigation sectors. Robeco engagement was around on sustainability reporting and transparency, product portfolios and the geographic distribution of operations, innovation management and public-private partnerships.

14. The most progress was achieved in formalising companies' sustainability governance, measuring their corporate contribution to the Sustainable Development Goals (SDGs), and exploring new market opportunities in food-insecure regions through public-private partnerships.

15. Engagement results:

- a) Nearly two-thirds of the dialogues were successfully closed after three-year engagement.
- b) Agrochemical and irrigation system companies demonstrated the most progress against Robeco's engagement objectives.
- c) Food processors and commodity trading companies were not able to increase their impact on tackling food insecurity.
- d) For agricultural machinery companies, progress against Robeco's engagement objectives was more mixed, as they only managed to successfully close two-thirds of the dialogues.

Safeguarding the natural balance

Reason for Engagement

16. Biodiversity loss is increasingly being recognised as a global systemic risk by investors. As strong ecosystem health is indispensable for food security, disease prevention, clean water provision, and much more. Yet, biodiversity loss are accelerating faster than ever before. The habitat destruction caused by land-use change for agricultural purposes is one of the major contributors to biodiversity loss.

17. Robeco's biodiversity-focused engagement work aims to improve the sourcing and production practices of companies whose supply chains are exposed to high-risk commodities.

Engagement results

18. Many firms under engagement have set their first vision statements and targets on utilising digital innovation. Robeco's engagement with some of the main beef producers has resulted in companies beginning hold themselves more and more accountable and are committing to achieve full traceability in their supply chain by 2025.

19. Beef producers in Robeco's program have adopted blockchain technology to develop proprietary platforms for their suppliers to track all supply chain movements of their cattle.

20. In their engagement, Robeco observed an increased recognition of the importance of having sound cybersecurity, either voluntarily or through experiencing impactful cybersecurity breaches over recent years.

21. In addition to their engagement work on halting deforestation, Robeco is actively participating in various global efforts to prevent biodiversity loss. They contributed to the informal working group to prepare the launch of the Taskforce Nature-related Financial Disclosure (TNFD), joined the Platform Biodiversity Accounting Financials (PBAF), and collaborated with the

Cambridge Institute for Sustainable Leadership's (CISL) biodiversity risk working group to advance academic research. All of these efforts contribute towards Robeco's commitment to the Finance for Biodiversity pledge which we signed in September 2020.

22. Through this pledge, Robeco has committed to align its investments with the Global Biodiversity Framework that will be negotiated by governments around the world in April 2022 in Kunming, China. This framework calls for no net loss in biodiversity by 2030 and to be nature-positive by 2050.

Surrey Share Voting

23. 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.

24. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	5	1	20.00%
Board	49	35	71.43%
Capital	5	0	0.00%
Remuneration	3	2	66.67%
Shareholder Rights	3	1	33.33%
Sustainability	1	1	100.00%
Total	66	40	60.61%

Shareholder Proposed Resolutions/ Management Resolutions

25. 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.
26. All resolutions voted on during the Quarter were proposed by management and no resolutions were defeated.

Border to Coast Responsible Investment

27. Annexe 2 provides high-level overview of ESG performance for different fund managers using a variety of measurements and the overall performance is in accordance with expectations. The reports highlight specific examples which provide insight into how ESG works in practice.

CONSULTATION:

28. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

31. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

32. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

33. 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

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

WHAT HAPPENS NEXT

35. The Pension Fund will 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:

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Consulted:

Pension Fund Committee Chairman

Annexes:

1. Company Engagement Annexe 1 – LAPFF
2. Company Engagement Annexe 2 – BCPP

Sources/background papers:

3. Robeco Active Ownership Report QE 30 September 2021
https://www.bordertocoast.org.uk/?dln_download_category=engagement
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