

**SURREY COUNTY COUNCIL****PENSION FUND COMMITTEE****DATE: 10 MARCH 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL****SUBJECT: COMPANY ENGAGEMENT & VOTING****SUMMARY OF ISSUE:**

<b>Strategic objectives</b>
<b>Investment</b>

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;

- a) Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment.
- b) Acknowledging the outcomes achieved for quarter ending 31 December 2021 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 December 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 commissioned 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). Minerva operates a customised voting policy template on behalf of the Fund and provides bespoke voting guidance in accordance with the Fund's policies.
3. Whereas Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with Border to Coast's Corporate Governance & Voting Guidelines. A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider.
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.
5. 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.
6. Legal and General Investment Management (LGIM) is currently managing 3 distinct mandates for Surrey Pension Fund, there engagement policy is included in the link below:

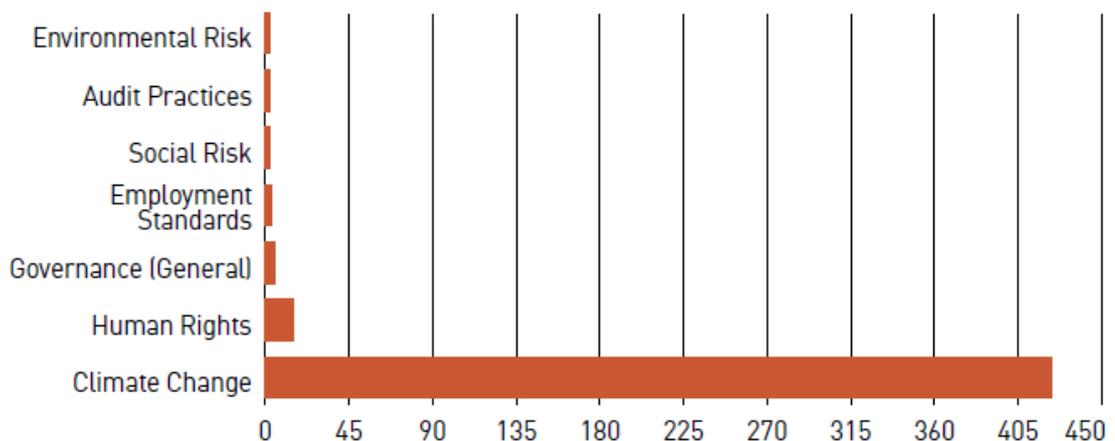
<https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/>

### **Outcomes Achieved through Company Engagement**

#### **LAPFF Engagement Outcomes**

The LAPFF had engaged with over 400 companies on issues such as Climate Change, Human Rights and the Just Transition during the quarter ending 31 December 2021. LAPFF report is included in Annexe 1 which also details progress on all engagements. Some of the engagements from Q3 are included below.

## ENGAGEMENT TOPICS



7. ArcelorMittal – A formal letter was sent to ArcelorMittal setting out the approach to the 2022 and 2023 proxy season moving towards the 2023/24 reporting cycle deadline for target companies to have achieved alignment to the goals of the initiative. A confirmation from ArcelorMittal chair that they are collaborating with the Science Based Target Initiative (SBTI) on a new Paris aligned methodology for the steel sector working towards a net-zero by 2050 target.
8. Standard Chartered – A meeting was held with company representatives to discuss progress to reduce carbon emissions and align with the bank’s net zero by 2050 policy. A roadmap was issued highlighting progress to net zero which included 2030 targets to reduce financed emissions for thermal coal mining and oil and gas power.
9. National Grid – LAPFF has had long-term ongoing engagement with National Grid, most recently a joint letter was sent on behalf of the CA100+ initiative with an updated assessment of progress against the second CA100+ benchmark. It identified short-term priority actions to improve the benchmark score and a commitment for fully aligned disclosure with the benchmark by the end of 2023.
10. Barratt Developments – LAPFF have engaged with one the largest housebuilders in Barratt Developments to gain assurance about plans they are making towards achieving net zero for homes and for their operations.
11. BP – LAPFF discussed company energy transition plan and were provided more background to the company’s plan which includes a reduction of production of 40% over 10 years and a goal of 50GW of renewable
12. Chipotle – LAPFF has been in dialogue since 2019, regarding their approach to water stewardship and managing the water stress within its value chain. However, as of 2021, Chipotle were yet to conduct a water risk assessment. As a result, LAPFF worked with the Greater Manchester Pension Fund to file a resolution to request that Chipotle provide an assessment on water supply quality and quantity posed by climate change.

### Robeco Engagement Outcomes

13. Robeco had voted at 204 shareholder meetings, voting against at least one agenda item in 44% of cases during the quarter ending 31 December 2021. Robeco report is included in Annexe 2 which also highlights all companies under engagements. Some of the engagements from Q3 are included below.

### **Addressing food insecurity at its roots**

#### Reason for Engagement

14. Due to Covid-19, the poverty rate has reached almost 10% of the global population and pushing over 100 million workers into poverty worldwide. Poverty pay is one of the most pressing issues, and it is systemically embedded in the global garment and sportswear industries. Although minimum wages are in place, they are kept low in a bid to create jobs and boost economies. Minimum wage is far from sufficient to provide for workers, therefore, paying a living wage is instrumental against poverty reduction.

#### Engagement Objectives

15. As a responsible investor, Robeco launched an engagement program in 2019 focused on advancing payment of living wages in the global supply chain of the apparel industry. Robeco carried this out through the Platform Living Wage Financials (PLWF), a coalition of 18 financial institutions, using their influence and leverage to engage with their investee companies on this topic.
16. Robeco engaged with nine companies in the industry, ranging from fast fashion retailers to luxury brands. The program focused on how companies uphold the payment of living wages across their strategy; how this is supported by responsible purchasing practices and meaningful industry collaborations; and whether they offered remedies when incidents were identified.
17. Engagement results:
- a) Half of the cases were successfully closed after three-year engagement.
  - b) Most of the companies have adopted references to living wages, however only a handful have laid out a strategic plan.

### **Safeguarding the natural balance**

#### Reason for Engagement

18. Since the 2017 financial crises, many banks were forced to redesign their approach to risk management, compliance and incentive structures. Even after the crisis, many banks continued to be faced with governance-related issues, such as sanctions violations, money laundering issues, and other financial crimes. This quarter Robeco concluded their engagement on the quality of risk management and governance in the financial industry.
19. Robeco's engagement project addressed these issues by firstly analysing the quality of governance on a set of issues, and secondly (where possible) to seek improvements. Four topics were made a priority: incentives for risk-taking personnel; remuneration policies for executives; processes around non-financial crimes; and the quality of risk governance.

### Engagement results

20. Many banks have now moved their incentive structures away from meeting sales targets towards a more balanced approach. In recent years, performance evaluation schemes and KPIs for variable pay have changed. Many banks have incorporated so-called scorecards that evaluate employees on a set of metrics including client care, risk management, teamwork and other KPIs rather than only looking at sales targets. In some cases, banks have stripped variable pay altogether, or drastically lowered the amount of bonus pay to avoid so-called perverse incentives.
21. Several Banks have implemented controls in relation to money laundering and have increased their resources to detect money laundering by implementing Know Your Client (KYC) procedures and by improving the monitoring of suspicious transactions.

### **Surrey Share Voting**

22. 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 as produced by Minerva. Full voting report included in Annexe 3.
23. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	8	2	25.00%
Board	42	5	11.90%
Capital	13	3	23.08%
Remuneration	10	7	50.00%
Shareholder Rights	5	1	20.00%
Sustainability	7	6	85.71%
<b>Total</b>	<b>85</b>	<b>22</b>	<b>25.88%</b>

### **Shareholder Proposed Resolutions/ Management Resolutions**

24. 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.
25. The 'Dissent by Resolution Category' section provides emphasis on vote outcomes. In particular, whether there were any management-proposed resolutions defeated; whether there were any successful shareholder proposals; and how many resolutions received high dissent. During the quarter there was one successful shareholder proposal at Microsoft which has resulted in the board taking action to respond to shareholder concerns which provides a good example of how Surrey's voting can make a difference.

### **Border to Coast Responsible Investment**

26. Annexe 4 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:**

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

#### **RISK MANAGEMENT AND IMPLICATIONS:**

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

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

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

#### **DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY**

30. 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**

31. There are no legal implications or legislative requirements

#### **EQUALITIES AND DIVERSITY**

32. 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**

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

#### **WHAT HAPPENS NEXT**

34. 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.

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**Contact Officer:**

Ayaz Malik, Senior Pensions Finance Specialist

**Consulted:**

Pension Fund Committee Chairman

**Annexes:**

1. Company Engagement Annexe 1 – LAPFF
  2. Company Engagement Annexe 2 – Robeco
  3. Company Engagement Annexe 3 – Voting
  4. Company Engagement Annexe 4 – BCPP (Part 2)
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