

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 17 JUNE 2022

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

SUBJECT: COMPANY ENGAGEMENT & VOTING



SUMMARY OF ISSUE:

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 voting and engagement services to BCPP, 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:

- 1) 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 March 2022 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2022.
 - c) Acknowledge the LGIM 2021 Annual Active Ownership Report
 - d) Note the voting by the Surrey Pension Fund in the quarter ended 31 March 2022.

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, with a purpose 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

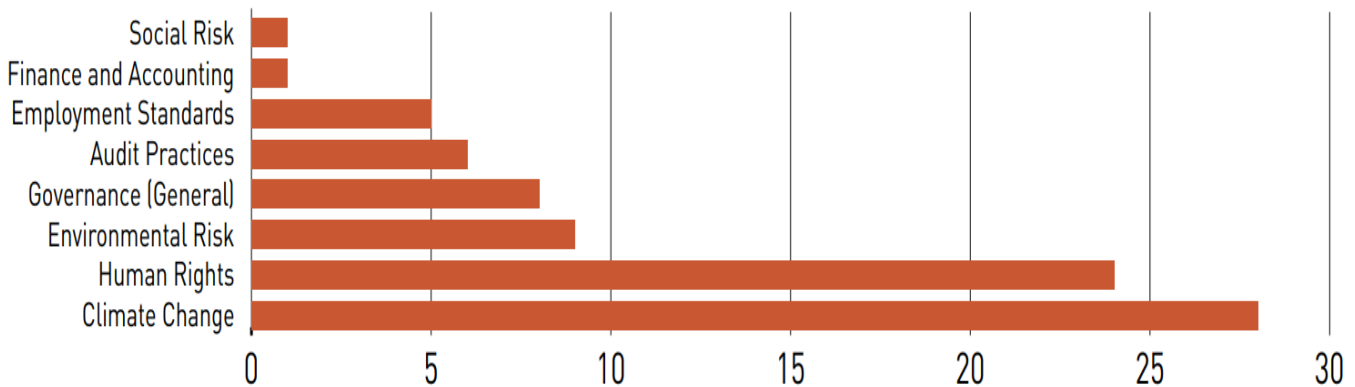
1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this particular field.
2. The Surrey Pension Fund has 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 that 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. 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.
4. BCPP appointed Robeco as its Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with BCPP's Corporate Governance & Voting Guidelines. A proxy voting platform is used with proxy voting recommendations produced for all meetings, managed by Robeco as the Voting & Engagement provider.
5. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including 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 6 distinct mandates for Surrey Pension Fund. They have long experience and deep commitment to engagement on systemic ESG risks.

Outcomes Achieved through Company Engagement

LAPFF Engagement

7. The LAPFF engaged with 50 companies on issues such as Climate Change, Human Rights and Environmental Risk during the quarter ending 31 March 2022. The LAPFF report is included in Annexe 1 which also details progress on all engagements. Some of the engagements from Q4 are included below.

ENGAGEMENT TOPICS



8

8. Shell – Ongoing engagement over its lack of a 1.5-degree Celsius plan. Its plan remains vague and does not cover the necessary emission reductions prior to 2050. There now appears to be more scepticism from asset managers and owners that had previously been supportive of the Shell plans in 2021; this is in line with the LAPFF position.
9. Total – Total decided to divest from Myanmar after a presence in the country of around 30 years. LAPFF engaged to understand the decision-making process and how that may be applied in future, for example, Russia. The company laid out the specific complications related to geopolitical risk, balancing human rights considerations with legal and financial obligations. It was agreed that LAPFF would engage further on this topic.
10. BHP – With concern over the slow progress of the new house building following the Samarco tailings dam collapse, a meeting was held with both BHP and the Renova Foundation. At the time of the meeting more houses had been built, but there is still a lot to do. There will be ongoing engagement with the companies, Renova and the affected communities.
11. Freeport McMoran – A first meeting with this company with a focus on engagement with Indigenous communities. Pleased with the discussion on free, prior and informed consent, regarding mining projects and Indigenous communities. Will continue to build relationship.
12. Rio Tinto – Meeting with CFO to assess the extent to which social and environmental factors are included into financial considerations. The company is being open about its social and environmental shortcomings. There has been progress, but still a lot to do, for example, an appropriate timeframe for Scope3 emission reductions and a just transition were not adequately addressed in the transition plan.
13. Vale – LAPFF continues to seek better communication between Vale and communities affected by their operations. The company seems to be listening more to its investors but not these communities. There is a good focus on

human rights processes but not enough on human rights outcomes. Engagement continues.

14. Chipotle – Long term engagement over water risk and management. Engagement around a possible resolution has led to commitments being made which will see a significant improvement to the company's approach to managing water risk throughout the value chain. The proposed resolution was withdrawn.
15. LyondellBasell – Met with Chair to discuss the company's climate transition plan and further progress to be made on setting targets for Scope 3 carbon emission reductions. Subsequent correspondence set out expectations including decarbonisation pathways, exploring partnerships to further technological advance and further disclosure on climate-related capital expenditure.

Robeco Engagement Outcomes

16. In the quarter ending 31 March 2022, Robeco voted at 121 shareholder meetings, voting against at least one agenda item in 60% of cases. The Robeco report is included in Annexe 2 which also highlights all companies under engagement. Some of the engagements from the quarter are included below.

The Journey to Sustainable Palm Oil

Reason for Engagement

17. Palm oil is an ingredient in almost half of all packaged products found in supermarkets, from food to shampoo and toothpaste. However, production of palm oil can come at an enormous cost to the environment and the people harvesting it. By far the biggest issue is with producers clearing forestry – sometimes pristine rainforest – to make way for new palm trees needed to meet the growing Western demand.

Engagement Objectives

18. Since 2019, Robeco has required all investee companies to become a member of the Roundtable on Sustainable Palm Oil (RSPO) and to have at least 20% of their plantations already certified, with a clear roadmap to moving to 100%. The threshold for RSPO certification has subsequently been raised to 50%, with a clear pathway to having at least 80% certification by the end of 2024.

Engagement Results

19. Over the last 3 years, Robeco has been engaging with 6 companies based in Malaysia, Indonesia, and Singapore. By December 2021, 4 companies had successfully reached the 50% certification threshold, with 3 above 80%. The engagement program is now addressing the 3 companies that remain below the 80% certification level.

The Sustainable Mine Cycle

Reason for Engagement

20. Green technologies such as solar panels, wind turbines, batteries and electric vehicles are far more mineral intensive than equivalent fossil fuel technologies. For example, an onshore wind plant requires 9 times more mineral resources than a gas-fired plant of the same capacity. This soaring demand for minerals will potentially have significantly adverse impacts on ecosystems and communities.

Engagement Objectives

21. To encourage investee mining companies to assess, manage and minimise their environmental footprints, initially with a focus on water and tailings, then on asset retirement.

Engagement results

22. CDP (Climate Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.
23. Robeco participated in the CDP's Non-Disclosure campaign, asking 5 mining companies to disclose their water practices and performance in the CDP's annual Water Security assessment. As a result, 3 have responded for the first time, significantly enhancing their disclosures.
24. The industry has responded positively to the call for enhanced disclosures on tailings safety. All companies, except for one, in the peer group now disclose information about tailing storage facilities.
25. The objective of phasing out high-risk tailing storage structures has seen less traction, with only 2 companies (15%) committing to developing dry-tailings storage for any new facility.

Surrey Share Voting

26. The full voting report produced by Minerva is included in Annexe 3. The table below shows the total number of resolutions which the Fund was entitled to vote, along with the number of contentious resolutions voted during the quarter as produced by Minerva.

Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	15	7	46.67%
Board	93	7	7.53%
Capital	11	0	0%
Corporate Action	2	1	50.00%
Other	1	1	100.00%
Remuneration	15	11	73.33%
Shareholder Rights	5	2	20.00%
Sustainability	8	8	100.00%
Total	150	37	24.67%

Shareholder Proposed Resolutions/ Management Resolutions

27. Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, around corporate governance, social and environmental practices, for example. Although 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.
28. The 'Dissent by Resolution Category' section in the full voting report in Annexe 3 provides emphasis on vote outcomes - in particular whether there were any management-proposed resolutions defeated; any successful shareholder proposals; and how many resolutions received high dissent.
29. During the quarter ending 31 March 2022, one resolution proposed by management was defeated and three shareholder-proposed resolutions were successful.
30. The defeated management-proposed resolution occurred at TE Connectivity Ltd's AGM. The resolution concerned the renewal of the Board's authority to issue shares out of the Company's authorised capital, by a maximum amount of 50% of the share capital, for an additional two-year period.
31. On average, the shareholder proposals received 31.36% support during the quarter and there were three successful proposals. The UK Corporate Governance Code recommends boards take action where 20% or more of votes are cast against the board recommendation on a resolution. As such, a dissent level of 20% is generally considered to be significant.

32. At Apple Inc, two shareholder proposals were successful. The first proposal asked the Board to oversee a third-party audit analysing the adverse impact of Apple's policies and practices on the civil rights of company stakeholders, above and beyond legal and regulatory matters, and to provide recommendations for improving the company's civil rights impact. Surrey voted in favour of the proposal, and it received 52.83% votes in favour.
33. The second proposal asked the Board to prepare a public report assessing the potential risks to the Company associated with its use of concealment clauses in the context of harassment, discrimination, and other unlawful acts. Concealment clauses are defined as any employment or post-employment agreement, such as arbitration, non-disclosure or non-disparagement agreements, that Apple asks employees or contractors to sign which would limit their ability to discuss unlawful acts in the workplace, including harassment and discrimination. Surrey voted in favour of the proposal, and it passed receiving 49.32% votes in favour; greater than the 49.24% votes cast against the proposal.
34. The third proposal occurred at Costco Wholesale Corp and requested that Costco adopt short, medium, and long-term science-based greenhouse gas emissions reduction targets, inclusive of emissions from its full value chain, in order to achieve net-zero emissions by 2050 or sooner and to effectuate appropriate emissions reductions prior to 2030. Surrey voted in favour of the proposal, and it received 66.64% votes in favour.

BCPP Responsible Investment

35. Annexes 4 & 5 provide a high-level overview of ESG performance for UK Equity Alpha and Global Equity Alpha using a variety of measurements. The reports highlight specific examples which provide insight into how ESG works in practice.

LGIM 2021 Active Ownership Report

36. The LGIM 2021 Active Ownership report, along with other resources, can be downloaded by following the link [here](#). Engagements highlighted are as below.
37. Moderna (page 70,73) – pressure was put on the company to disclose how government financial support was influencing its vaccine-pricing decisions; this escalation resulted in it publishing the information, leading to the withdrawal of the shareholder resolution.
38. Exxon (page 44) and Microsoft (page 68) - opposed the election of chair/CEO combined role. For Exxon, supported shareholder nominees who made it onto the board.
39. JPMorgan Chase (page 46) - following multi-year engagement, the bank has made a commitment to Paris alignment across the financing of a number of high-emission sectors.
40. Industrials & Commercial Bank of China (page 46) - added to divestment list as part of 'engagement with consequences' under 2021 Climate Impact Pledge; engagement with the bank has since picked up and disclosures are improved.

41. MUFG (page 46) - continue to press on the bank's exclusion policies to go beyond mere project finance and take account of the wider financing activities.
42. Cardinal Health (page 70,72) - co-filed a shareholder resolution to publish annually an in-depth report disclosing its direct and indirect lobbying activities and expenditures, as well as its policies and procedures governing such activities – following commitments on additional disclosures, the shareholder proposal was withdrawn ahead of the vote.
43. Deliveroo and The Hut Group (page 74) - decided not to participate in IPOs given the dual-class share structures at these companies.
44. Informa and Cineworld (page 77) - voted against executive remuneration proposals, resulting in Informa's remuneration report voted down.
45. Starbucks (page 78) - voted against pay vote due to substantial one-off incentive award to CEO.

CONSULTATION:

46. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

49. 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

50. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

51. 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

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

WHAT HAPPENS NEXT

53. 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:

Lloyd Whitworth, Head of Investment & Stewardship

Consulted:

Pension Fund Committee Chair

Annexes:

1. Engagement & Voting – LAPFF Q4 2021-22
 2. Engagement & Voting – Robeco Q4 2021-22
 3. Engagement & Voting – Surrey Voting Report (Minerva) Q4 2021-22
 4. Engagement & Voting – BCPP ESG UK Alpha (Part 2) Q4 2021-22
 5. Engagement & Voting – BCPP ESG Global Alpha (Part 2) Q4 2021-22
-

This page is intentionally left blank