

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 9 SEPTEMBER 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 30 June 2022 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 June 2022.
 - c) Note the voting by the Surrey Pension Fund in the quarter ended 30 June 2022.

REASONS FOR RECOMMENDATIONS

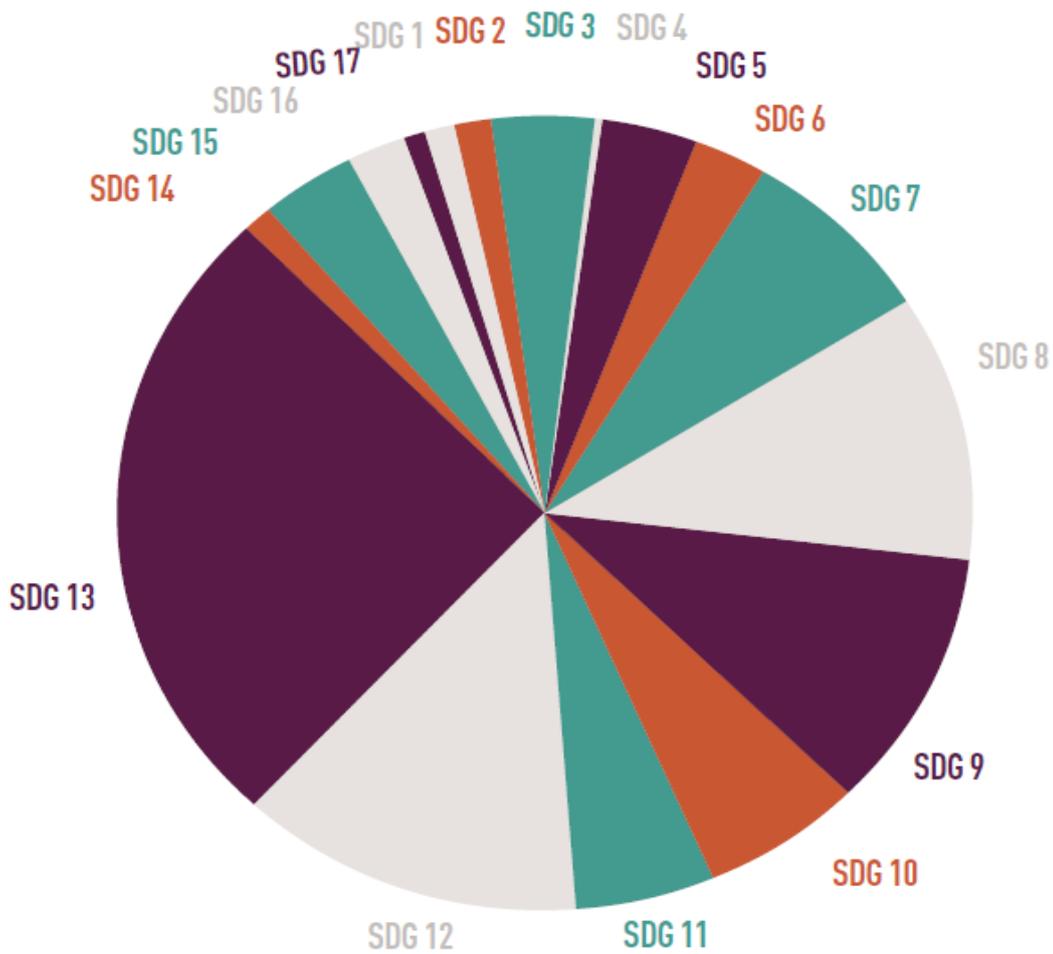
In accordance with the Fund's Mission Statement, as well as its Investment Strategic Objectives, the Fund is required to fulfil its fiduciary duty to protect the value of the Pension Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities 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. BCPP appointed Robeco as its Voting & 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.
4. 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.

LAPFF Engagement

5. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). The LAPFF Quarterly Engagement Report is included in Annexe 1 which also details progress on all engagements. Some of the engagements from Q1 are described.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	4
SDG 2: Zero Hunger	5
SDG 3: Good Health and Well-Being	13
SDG 4: Quality Education	1
SDG 5: Gender Equality	12
SDG 6: Clean Water and Sanitation	10
SDG 7: Affordable and Clean Energy	25
SDG 8: Decent Work and Economic Growth	37
SDG 9: Industry, Innovation, and Infrastructure	36
SDG 10: Reduced Inequalities	21
SDG 11: Sustainable Cities and Communities	18
SDG 12: Responsible Production and Consumption	44
SDG 13: Climate Action	88
SDG 14: Life Below Water	4
SDG 15: Life on Land	12
SDG 16: Peace, Justice, and Strong Institutions	8
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	2

6. New LAPFF climate initiative. The climate change initiative is linked to LAPFF's work on 'Say on Climate'. LAPFF already issues a number of climate-related voting alerts and expects to issue up to 50 alerts over the course of the next 12 months. Corporate climate plans will not be rubber stamped, but assessed on their merit, and not merely on the basis that plans have been put to a vote.
7. New human rights initiative. The human rights initiative is a visit by the LAPFF Chair to communities affected by the Mariana and Brumadinho tailing dam collapses in Minas Gerais, Brazil. There are concerns that not enough has been done by the companies involved since the disasters, for example, housing reparations. The trip to Brazil will be assessed for its role in speeding up reparations for affected communities. The LAPFF Chair was also able to raise these issues with the Vale Chair in person at a meeting in London in early April.
8. Voting alerts. In the mining sector, voting alerts have covered various issues such as just transition, accounting for climate-related financial risks, climate plans, bribery and corruption, and the response to the tailing dam disasters.
9. In the technology sector, the alerts covered lobbying, climate, board accountability and human rights. The human rights issues included due diligence, worker safety and working conditions, freedom of association, tax reporting and racial equity.
10. In the oil and gas sector, alerts were issued for both BP and Shell, opposing the companies' climate plans and supporting the 'Follow This' shareholder resolutions. LAPFF will continue to engage with the oil and gas majors, to highlight the need for Paris-aligned transition plans. Alerts were issued against Standard Chartered and Barclays in the financial sector. Whilst progress has been made, the absence of absolute emission reduction targets for carbon led to alerts.
11. Occupied Palestinian Territories (OPT). LAPFF reached out to several companies in the quarter, continuing to push for them to undertake human rights impact assessments with regards to the OPT, and for those that do, to publish them.
12. Electric vehicles. LAPFF reached out to several car manufacturers to discuss approaches to raw material sourcing and how companies ensure that this is done in a responsible manner. Mercedes provided an overview but not in-depth details. BMW explained its direct sourcing model for battery minerals and how it is working with NGOs on the ground to attempt to rectify a range of human rights and environmental issues.
13. Various company engagements. LAPFF had a call with Nestle to discuss the approach to plastic packaging, a meeting with National Grid to discuss the company's climate transition plan and attended the Arcelor Mittal AGM to ask about aligning their emissions reduction plan to 1.5 degrees C. Following engagement, Suzano has signed up to a number of climate-change initiatives, making real progress, and LAPFF has sought to understand the human rights due diligence process undertaken at Total to reach the decision to divest from Myanmar, and the process to decide to remain invested in its Russian operations. LAPFF will continue to monitor sanctions legislation pertaining to Russia and will engage again if necessary.

14. Water Utilities. LAPFF has started to engage water companies on having credible plans to minimise the release of raw sewage into rivers, as well as how companies are seeking to reach net zero given the sector contributes 1% of the UK's total emissions.
15. Collaborative engagements. LAPFF supports Rathbones Votes Against Slavery engagement with many companies now compliant with Section 54 of the Modern Slavery Act.
16. As part of the Asian Transition Plan collaborative initiative, LAPFF supports company engagement in Asia's financial markets, focusing on carbon and coal risks at financial institutions, as well as coal-exposed power companies.
17. LAPFF supports a new Global Standard on Responsible Climate Lobbying. This provides a framework to ensure companies' lobbying and political engagement activities are in line with the goal of restricting global temperature rise to 1.5 degrees C.
18. There are a number of human rights collaborations. For example, PRI Advance, conflict minerals in the semi-conductor supply chain, Wells Fargo human rights impact assessment and IndustriALL.
19. LAPFF is a member of the CA100+ Transport Group which aims to engage major automakers on their plans to decarbonise their operations and shift to zero emission vehicles.

Robeco Engagement Outcomes

20. In the quarter ended 30 June 2022, Robeco voted at 573 shareholder meetings, voting against at least one agenda item in 72% 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 Cost of Circularity – Single Use Plastics

Reason for Engagement

21. Plastics are used in almost every part of our modern economy, combining superior functionality with low cost. The use has increased 20-fold since the 1970s and this is expected to double again in the next two decades. Reducing single-use plastic has become a priority for tackling the high degree of waste that it produces. A circular economy reduces the need for single-use plastics, innovates so that plastics can be reused or composted, and recirculates everything by keeping it within the 'loop' economy and away from the environment.

Engagement Objectives

22. The aim of this engagement was to drive the global plastic packaging value chain towards a more circular model and improve the supply and demand dynamics for recycled plastic. The 10 companies that were targeted operate within industries that have the potential to combat plastic waste issues. They engaged with the whole plastics value chain from petrochemicals, plastic packaging and consumer packaged goods to retail companies.

Engagement Results

23. In April 2022, they closed 8 of the 10 engagements successfully. They found that most companies were able to show good progress toward 3 of the engagement objectives, namely innovation management, plastic recycling and industry collaboration and partnerships. However, they showed less progress towards responsible lobbying for regulatory change and plastic harmonisation.

Robeco has been leading the call for a UN treaty on plastics and has urged other investors and financial industry stakeholders to sign up to it. In March 2022, the UN approved a mandate for the International Negotiating Committee to develop a legally binding treaty on plastic pollution.

Digital Innovation in Healthcare

Reason for Engagement

24. According to Accenture's research, 81% of health care executives say the pace of digital transformation at their organisation is accelerating. The key to the success of this innovation lies in having an integrated approach that allows solutions to be communicated across stakeholders, and which ultimately delivers more efficient, better-integrated care to patients.

Engagement results

25. In May 2022, they concluded their engagement program and closed two-thirds of the engagement cases successfully.
26. Most companies under engagement have defined a comprehensive digital strategy and supported it by integrating newer digital technologies within their innovation process.
27. Limited progress has been achieved on the engagement objectives 'cybersecurity' and 'sales and marketing strategy', where respectively only 54% and 23% of those were closed successfully. When it comes to cybersecurity, despite having robust policies in place, companies remain reluctant to share detailed information on external attacks and internal policy adherence failures due to commercial sensitivity issues.

Surrey Share Voting

28. 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	61	18	29.5%
Board	331	48	14.5%
Capital	55	6	10.9%
Corporate Action	5	0	0.0%
Remuneration	67	41	61.2%
Shareholder Rights	27	14	51.9%
Sustainability	50	48	96.0%
Total	596	175	29.4%

29. The Surrey Pension Fund voted against management on 29.4% of the resolutions for which votes were cast during the quarter ended 30 June 2022. General shareholder dissent stood at 7.4% in the same period.

Shareholder Proposed Resolutions/ Management Resolutions

30. 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
31. 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.
32. During the quarter ending 30 June 2022, four resolutions proposed by management were defeated and two shareholder-proposed resolutions were successful.
33. All four defeated management-proposed resolutions were remuneration report approvals. The resolutions occurred at Bayer AG, CME Group Inc, Informa plc and JPMorgan Chase & Co and Surrey Pension Fund voted against all four items.
34. On average, the shareholder proposals received 21.4% support during the quarter and there were two 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. During the quarter, 42 resolutions opposed by Surrey received dissent of 20% or more.

High Dissent Resolutions By Resolution Category



- 35. At Altria Groups Inc’s AGM. A shareholder proposal requesting the board commission a third-party civil rights equity audit to review its corporate policies, practices, products and services was successful. The Surrey Pension Fund voted in favour of the proposal and it received 61.4% shareholder support.
- 36. At Dollar Tree Inc’s AGM, a shareholder proposal requesting enhanced political spending disclosure was approved by shareholders. The Surrey Pension Fund voted in favour of the proposal and it received 56.8% votes in favour.

BCPP Responsible Investment

- 37. 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.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

- 41. 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

- 42. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

43. 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

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

WHAT HAPPENS NEXT

45. 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 Quarterly Engagement Report Q2 2022
 2. Engagement & Voting – Robeco Active Ownership Report Q2 2022
 3. Engagement & Voting – Surrey Voting Report (Minerva) Q2 2022
 4. Engagement & Voting – BCPP ESG Global Equity Alpha (Part 2) Q2 2022
 5. Engagement & Voting – BCPP ESG UK Equity Alpha (Part 2) Q2 2022
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