

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 16 DECEMBER 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 (the 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 (PFC). 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 (RI) Policy, which is reviewed and approved every year by all 11 partner funds within the Pool.

RECOMMENDATIONS:

It is recommended that the PFC:

- 1) Reaffirms that the Fund believes that the United Nations Sustainable Development Goals (UN SDGs) represent an appropriate foundation in terms of the Fund's overall RI approach
- 2) 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 (RI) approach, its company engagement policy, and SDG alignment.
 - b) Acknowledging the outcomes achieved for quarter ended 30 September 2022 by Robeco in their Active Ownership approach and the LAPFF in its engagement with multinational companies.
 - c) Note the voting by the Fund in the quarter ended 30 September 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 Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities in RI as well as how it exercises its influence through engaging as active shareholders.

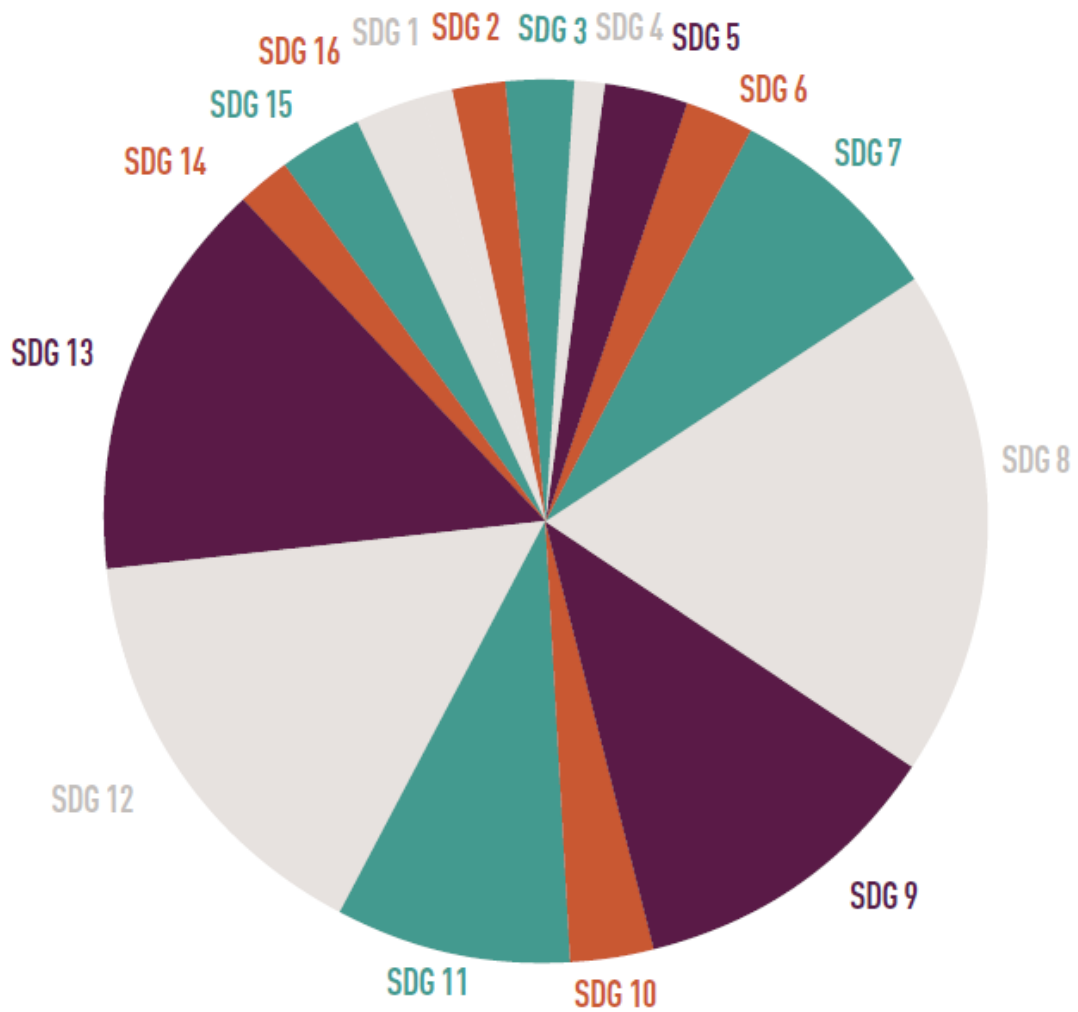
DETAILS:

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 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 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 a 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 (LGPS) 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 summarised below.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	5
SDG 6: Clean Water and Sanitation	4
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	30
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	14
SDG12: Responsible Production and Consumption	25
SDG 13: Climate Action	24
SDG 14: Life Below Water	3
SDG 15: Life on Land	5
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

6. A key focus for the LAPFF this quarter was human rights within the mining sector and in particular, the disastrous tailings dam collapses in Brazil. The LAPFF Chair visited the sites, met with the local communities affected and had discussions with the management of the associated companies. The local communities raised concerns over the provision of new housing, water quality and air quality. LAPFF was pleased to see the investments made by Vale to try to prevent further dam collapses and continues to work collaboratively with other investors to increase the pace and quality of reparations. The complex and inadequate governance structure of the company set up to manage reparations has been a drawback and will be raised in future.
7. LAPFF issued a voting alert recommending a vote against National Grid's transition plan raising concerns over stranded assets, future Scope3 targets and alignment to 1.5 degrees C. Following a meeting with management and the AGM, more detail was gained on 1.5 degree C alignment and the challenge for the US gas business. The company has committed to an assessment against the Science-Based Target initiative (SBTi) certification benchmark. Ongoing coordinated engagement through Climate Action 100+ seeks to identify and unlock potential policy barriers to the delivery of decarbonisation of the power utility sectors.
8. Changing from previously negative reviews of SSE's net zero transition plan, LAPFF recommended voting in favour at the company's 2022 AGM. SSE has made notable progress in its ambition to reach net zero, adding more Science-Based Targets with alignment to 1.5 degrees C.
9. More information was sought on the transition pathway and strategy to achieve low carbon intensity targets at Mizuho Bank. Further detail was provided on targets based on the International Energy Agency (IEA) Scenarios. Mizuho has an engagement policy to support clients' capabilities for dealing with transition risks. LAPFF continues to engage collaboratively with a range of Asia-based utility and financial companies, including Mizuho.
10. LAPFF is engaging with electric vehicle manufacturers regarding responsible mineral sourcing and a 'fair and just transition'. LAPFF met with Ford and has followed up with a range of questions. There will also be calls with Renault and Volvo.
11. LAPFF has continued to investigate issues of Uyghur forced labour in China. LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group and met the Australian Strategic Policy Institute. It would seem that companies are unable to undertake the thorough levels of due diligence they claim to do. LAPFF is currently looking at ways to progress dialogue with companies already engaged on this issue and how to get non-responders to engage in a meaningful manner.
12. LAPFF has maintained an interest in ShareActions' Good Work Coalition, which looks at the living wage and insecure work, amongst other issues. LAPFF continues to monitor work on the Real Living Wage.
13. LAPFF continues to support the Rathbones' Votes Against Slavery engagement. The engagement has had a strong success rate in improving reporting standards within the UK's FTSE 350.
14. LAPFF acts as co-lead for engagement with Kellogg regarding the Nutrition

Index, having a second meeting in August. At the meeting, the company's approach to governance, lobbying, labelling, and responsible marketing was discussed. There appears to be progress across all the topics covered. Dialogue with Kellogg will continue.

15. The 30% Club Investor Group has started a global engagement looking at laggards on gender board diversity in the USA. Letters have been sent to Charter Communications, Liberty Media and Transdigm Group, with limited response so far.

Robeco Engagement

16. In the quarter ended 30 September 2022, Robeco voted at 134 shareholder meetings, voting against at least one agenda item in 56% 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.

17. Robeco are launching two new engagement themes covering Diversity and Inclusion, D&I, and Natural Resource Management. These two themes aim to support companies in facing some of their core negative impacts around their human and natural resource management and push for more transparency as required by the Principle Adverse Impact Indicators defined in the EU Sustainable Finance Disclosure Regulation. They are expected to run continuously rather than the usual three years.

18. Diversity and Inclusion - There are 5 engagement objectives.

1. Develop a D&I policy
2. Definition of D&I implementation strategies and measures of success
3. Encouragement of data disclosure
4. Overall pay equality
5. Strategic approach to shaping attitudes and behaviours in the workplace

19. Natural Resource Management

The engagement theme aims to address the impacts of corporate operations related to their intensive water use and generation of waste. In the water engagements, the focus is on companies operating in high water-stress areas as well as those deemed to have high water consumption. In the waste engagements, the focus is on companies that generate hazardous waste and threaten to pollute the environment, including companies exploring seabed mining and tailings. In July 2022, they started engaging with the first group of 6 companies from 3 sectors, Chemicals, Oil & Gas and Paper & Pulp.

20. Climate Transition of Financial Institutions

The 3-year engagement programme on the climate transition of financials has reached its mid-point. To maximise the effectiveness of the engagement strategy, they collaborate with the Institutional Investor Group on Climate Change, IIGCC, which coordinates a larger investor initiative on banks'

climate strategies. Ten banks were chosen given their significant exposure to carbon-intensive assets and indicators were grouped into 6 areas to provide a comprehensive picture of the banks' net zero transition plans, shown below.

- Net zero commitments
- Short and medium-term targets
- Decarbonisation strategies
- Climate governance
- Climate policy engagement
- Audit and accounts

Based on the first round of assessments in early 2022, average alignment with credible net zero trajectories amongst banks is relatively low.

Future steps

Several areas for banks to improve their climate strategy were highlighted, primarily through enhanced disclosures and financed emission reduction targets. More transparency on how banks engage with clients is also expected in the coming years, supported by shareholder proposals filed at numerous banks during the 2022 proxy voting season. Banks were asked to define their commitment to being net zero by 2050 and include a timeline by which they would stop all lending to new fossil fuel supplies.

Overall, Robeco feel that governance around climate-related financing has been one of their engagement objectives that has seen the most progress. However, they feel the objectives around risk management and strategy have seen the least progress. They will push for improvements in sector decarbonisation strategies and scenario analyses in their upcoming meetings.

21. Responsible Executive Remuneration

In 2020, an engagement project was initiated to make use of the new opportunities that the EU's amended shareholder rights directive, (SDR 2), afforded. For a set of European and US companies they have focused their engagement on four areas.

- To better align pay with performance
- To promote equity holding requirements
- To use ratios and benchmarks in order to avoid excessive pay discrepancies between and within organisations
- To have strong and independent oversight from the supervisory board and feedback mechanisms towards its shareholders

SRD 2 has had an impact, remuneration practices have been voted down, ESG metrics are being incorporated and reporting is being aligned to the directive. However, significant further progress is needed in all of the above areas, especially regarding the pay response over the pandemic, using the ESG metrics as a remuneration cushion and the structures of equity-linked remuneration.

Surrey Share Voting

22. The full voting report produced by Minerva is included in Annexe 3.

There was only one AGM to vote at this quarter, with 7 resolutions. The Fund voted against two management proposed director candidates due to independence concerns and against the reappointment of an external auditor on concerns regarding tenure and the lack of disclosure.

BCPP Responsible Investment

23. 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 integration works in practice.

CONSULTATION:

24. The Chair of the Pension Fund Committee has been consulted on this 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 CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

27. 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

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.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

31. 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 Q3 2022
 2. Engagement & Voting – Robeco Active Ownership Report Q3 2022
 3. Engagement & Voting – Surrey Voting Report (Minerva) Q3 2022
 4. Engagement & Voting – BCPP ESG Global Equity Alpha Q3 2022
 5. Engagement & Voting – BCPP ESG UK Equity Alpha Q3 2022
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