

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 10 MARCH 2023

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

RECOMMENDATIONS:

It is recommended that the Committee:

- 1) Reaffirms the Fund's belief that the United Nations Sustainable Development Goals (UN SDGs) represent an appropriate foundation in terms of the Fund's overall Responsible Investment (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 RI approach, its company engagement policy, and SDG alignment.
 - b) Acknowledging the outcomes achieved for quarter ended 31 December 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 31 December 2022.

REASONS FOR RECOMMENDATIONS

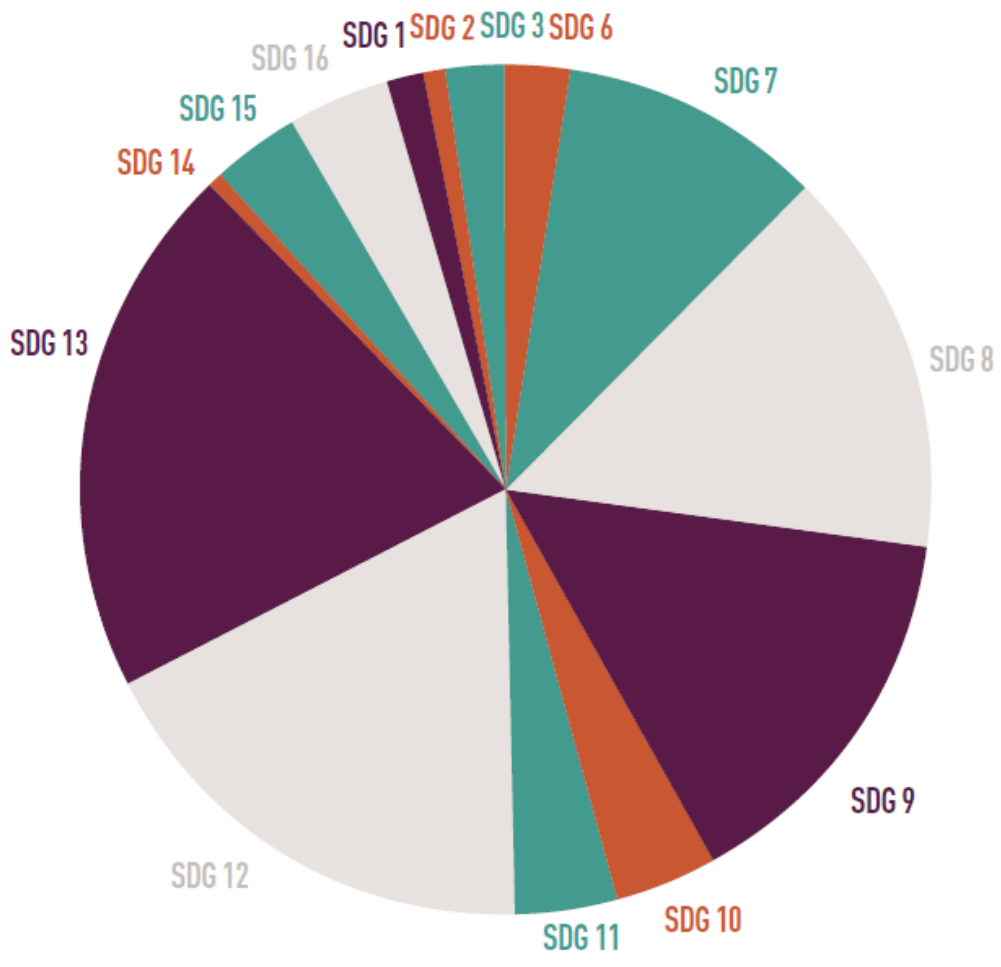
The Fund is required to fulfil its fiduciary duty to protect the value of the Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities in RI as well as how it exercises its influence through engaging as active shareholders.

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 Q3 are summarised below.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	3
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	5
SDG 12: Responsible Production and Consumption	23
SDG 13: Climate Action	26
SDG 14: Life Below Water	1
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	5
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

6. The Australian Centre for Corporate Responsibility filed three shareholder resolutions ahead of BHP's AGM. LAPFF issued a voting alert in favour of the resolutions, recommending that its members oppose the BHP Chair and vote in favour of the three resolutions aimed at improving the company's climate practices.
7. LAPFF would like to see Vale engage more effectively with workers and communities affected by its operations. The Vale Chair travelled to the LAPFF conference to speak in person to investors about Vale's work to provide adequate reparations and recover reputationally from the tailing dam disasters. LAPFF is encouraged that the company is taking investor action seriously in respect of these disaster but there is still a long way to go, for example, rebuilding houses for the local communities.
8. LAPFF is keen to share its findings from its visit to Brazil with other mining companies. To that end, there has been engagement with Anglo American and Glencore. The meeting with the Glencore Chair raised concerns that community members in Peru have about the company's activities in the country and covered the various bribery and corruption allegations against the company. The company has now entered settlements in relation to these allegations and it is hoped that better internal controls are now in place. Community members continue to raise concerns over water pollution and LAPFF will investigate further to understand what is happening in these situations.
9. LAPFF has been pleased to see some progress made by Rio Tinto after the company's destruction of a 46,000-year-old cultural heritage site. They have been particularly transparent about the challenges on both community relations and workplace culture. Reports have been published and LAPFF is keen to ensure that Rio Tinto is undertaking effective social and environmental impact assessments. There is concern that the company does not have a consistent or coherent approach to these assessments. LAPFF would like to work with a range of mining companies to determine how they could be feasibility done much more widely.
10. Engagement continues with Drax over its business model of burning imported wood pellets from North America, and their source.
11. Following heightened engagement with Chipotle, a resolution was first filed and then withdrawn, by Great Manchester Pension Fund, after formal commitments were made relating to the company's water stewardship programme. Chipotle has completed a materiality assessment covering ingredients, its supply chain and restaurants. LAPFF will continue to work with the company to develop targets that relate specifically to areas of the operation under high water stress.
12. Given the investment risks associated with global warming, LAPFF has been issuing climate change voting alerts focused on shareholder resolutions, including those seeking to ensure companies have 1.5C aligned targets and transition plans. LAPFF issued a voting alert for KLA regarding a proposal for a report on net zero targets and climate transition planning. The resolution secured the backing of a quarter of the votes.
13. LAPFF is asking UK companies to set out their carbon transition strategy to investors and put an appropriate resolution to shareholders at the AGM. The

LAPFF Chair again pressed the Rolls Royce board to put the plan to the AGM. This may be considered too soon for the 2023 AGM but has not been ruled out for future AGM's.

14. LAPFF has continued its engagement with electric vehicle manufactures to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. Meetings were held with Renault, General Motors and Mercedes. LAPFF impressed upon them the benefits of transparent reporting and enhanced due diligence and sought to better understand the management of a just transition.
15. Following the military coup in Myanmar in February 2021, Tesco announced a responsible exit from the country. This concluded in May 2022. LAPFF sought a meeting with the company to discuss this exit and gain insight into the company's global supply chain due diligence. LAPFF is continuing to monitor a number of companies that have supply chain links to Myanmar and will likely seek meetings with them.

LAPFF Collaborative Engagements

16. Meetings were held with Asian financial institutions and coal-exposed power companies in collaboration with investors in the Asia Transition Platform.

17. CA 100+ Engagements

LAPFF sought an update on Lyondell Bassell's decarbonisation strategy. It appears that much work has been put into an overall review of company strategy, with low carbon initiatives poised to be major part of company growth going forward.

ArcelorMittal appears to have made progress in decarbonising primary steelmaking. The Inflation Reduction Act is spurring similar initiatives in the US. In Europe, however, the pace of change appears to be slower.

Engagement with National Grid continues to identify and unlock potential policy barriers for the company's decarbonisation strategy. LAPFF and other CA100+ investors are interested in partnering with the company in calling for the necessary policies that can unlock the barriers to fast and decisive climate action.

In conjunction with Sarasin, LAPFF co-signed correspondence to the audit committee chairs of Equinor, CRH, Air Liquide and Rio Tinto setting out expectations on 1.5C aligned accounting and audit disclosures.

18. Investor Alliance for Human Rights, IAHR

LAPFF joined the IAHR Uyghur Working Group in 2022 to engage with companies alleged to use Uyghur forced labour in their supply chains. LAPFF is lead for engagement with Home Depot.

The PRI, Eurosif and IAHR drafted an investor statement in relation to proposed changes to the EU's Corporate Sustainability Due Diligence Directive. The statement proposed five improvements, all of which align with LAPFF positions on human rights, corporate governance, supply chain and climate. LAPFF signed this statement.

Canadian investor body, SHARE, circulated a sign-on letter to Amazon for investors to support. The letter asks the Board to produce a report analysing how Amazon's current human rights policies and practices protect the rightful application of the fundamental rights to freedom of association and collective bargaining. LAPFF signed the letter.

Robeco Engagement

In the quarter ended 31 December 2022, Robeco voted at 126 shareholder meetings, voting against at least one agenda item in 44% 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.

19. Social Impact of Artificial Intelligence

Robeco are closing the engagement on the Social Impact of Artificial Intelligence (AI), launched in 2019. For three years, technology companies were supported in creating holistically responsible AI frameworks to govern their technological development, deployment and end use. Robeco successfully closed 40% of the engagements, with many of the companies having formalised responsible AI principles. They have shared how the principles of inclusiveness, fairness and transparency are being integrated into their developer trainings, enterprise risk management systems and board responsibilities. However, companies remain resistant to publicly disclosing their systematic responsible AI practices, a critical challenge as AI is starting to be regulated.

Additionally, companies are increasingly pursuing a collaborative approach by actively participating and contributing to cross-industry multi-stakeholder initiatives that aim to advance responsible governance and best practices in AI. These types of initiatives play a decisive role in guaranteeing trustworthy AI across the industry.

Next steps

The alignment of AI technologies with ethical values and principles will be critical to promote and protect human rights in society. Even though much work has been done in this area, the implementation of AI principles and management of AI risks remains a critical area for improvement. As a result, Robeco will continue its engagement work with a selection of companies in the ICT sector under the 'Sustainable Development Goals (SDG) engagement' theme. These dialogues have a strong focus on human rights and societal impact, and highlight topics like misinformation, content moderation and stakeholder collaboration. They will focus on how companies can contribute to SDG 10 (Reduced inequalities) and SDG 16 (Peace, justice and strong institutions) by safeguarding human rights in the development and use of AI and promoting social, economic and political inclusion.

20. Social Impact of Gaming

For the consumers playing video games, companies are expected to develop strategies that prevent harassment occurring between players, especially within Massively Multiplayer Online Role-Playing Games (MMORPGs), where

large numbers of players interact at once. Automatic chat text filtering has emerged as a standard technology deployed by most companies under engagement.

Other elements of player behaviour that warrant attention are the money and time spent within games. A straightforward measure implemented by at least half of the companies has been to ban spending abilities for accounts below an early-teen age group, though age restrictions and time restraints are largely implemented through the consoles on which the games are played and must be actively set by parents. In September 2021, the Chinese government introduced limits on children's gaming time for which functions such as account verification had to be integrated. This had a significant effect on the total time and money spent by young players, as already evidenced by one company

Where companies have developed across the board is in their reporting. All companies under engagement now publish annual ESG reports, when at the beginning of the engagement, three had yet to do so. The reports highlight initiatives that relate to many of Robeco's objectives, and largely conform to frameworks that include metrics deemed important for transparency, in particular those that are related to the workforce.

21. Biodiversity

A multi-layered engagement strategy

As the financial materiality of biodiversity and the impact that companies and financial institutions have on nature is becoming clearer, Robeco has set out to create a holistic, multi-layered and scalable engagement approach towards biodiversity. As such, they are not only engaging the various relevant stakeholders, from governments and companies to data providers, but also exploring how stewardship efforts can be scaled through proxy voting and collaborative engagements.

Engagement: From impact assessments to incentive structures

Robeco's engagement initially started off with a focus on addressing biodiversity loss linked to deforestation among companies exposed to high-risk commodities. The engagement program has since been extended in both time and scope to accommodate engagements on other drivers of biodiversity loss, from pollution to overfishing. Through the engagements, they expect companies to assess their biodiversity impacts and dependencies and set a biodiversity strategy that includes, for instance, no-deforestation targets. Robeco also expect them to report key impact indicators following recognised reporting frameworks such as the Task Force for Nature-Related Financial Disclosures.

Voting for nature

To scale up the efforts, Robeco has introduced a new voting approach around deforestation, targeting companies that have high exposure to deforestation risk, but do not have adequate policies and processes in place to reduce their impact, or are involved in severe and repeated deforestation-linked controversies. Drawing on the insights from benchmarks such as Global

Canopy's Forest500 ranking, they will start by focusing on companies involved in the key forest risk sectors: palm oil, soy, beef and leather, timber, pulp and paper.

Collaboration

Robeco recently signed the Business for Nature statement calling for mandatory corporate reporting for nature by 2030. They also joined the letter campaign and ESG data provider engagement by the Finance Sector Deforestation Action, a group of over 30 investors calling for increased action and transparency on protecting our forests. Furthermore, Robeco was honoured to be part of the core investor group that launched the Nature Action 100 initiative during the UN Biodiversity Conference in Montreal in December. This aims to harness the power of collaborative engagement to address nature loss and biodiversity decline, focusing on the 100 companies with the largest impacts and dependencies on nature. The initiative will be co-led by the sustainability advocacy group Ceres, the Institutional Investors Group on Climate Change (IIGCC), the Finance for Biodiversity Foundation and the financial think tank Planet Tracker.

22. Corporate Governance Standards in Asia

There are two broad streams of engagement in Asia. Firstly, Robeco work with regulators and policy stakeholders such as financial regulators and local stock exchanges in Japan, South Korea, and to a lesser extent in China, to ensure an improved and level playing field for ESG issues. Secondly, they work constructively with companies in Japan and South Korea to improve their disclosure, communication and financial performance.

Their policy engagement included a virtual meeting with Japan's Ministry of Economy, Trade and Industry. One of the issues raised was the disclosure timing of annual reports, and they noted that it is of utmost importance to investors that these be released prior to the annual general meetings. In addition, they were co-signatories of a letter to Japan's Financial Services Agency and the Tokyo Stock Exchange on two pathways to address the low rate of female participation and changes to the listing rules.

Company engagements

Robeco have written in previous reports that the essentials of good corporate governance go beyond using 'check-list' assessments of governance codes and are closely related to the two principles of transparency and accountability. Therefore, they ask companies to improve transparency by publishing narrative reporting on their corporate strategy and having a distinct financial strategy.

There is much to celebrate given the increased emphasis on reporting on material environmental and social (E&S) issues, including setting targets on greenhouse gas emissions reductions. Robeco have commended companies when they have not only reported on material E&S issues but have also set credible near-and long-term targets. However, there are still significant opportunities for companies to improve reporting of their financial strategy and to give robust explanations on specific targets that would support their business strategy.

Surrey Share Voting

23. 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	5	2	40%
Board	34	4	12%
Capital	7	1	14%
Corporate Action	1	0	0.0%
Remuneration	4	3	75%
Shareholder Rights	1	1	100%
Sustainability	7	3	43%
Total	59	14	24%

24. The Surrey Pension Fund voted against management on 24% of the resolutions for which votes were cast during the quarter ended 31 December 2022. General shareholder dissent stood at 4% in the same period.

Shareholder Proposed Resolutions/ Management Resolutions

25. 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.
26. During the quarter ended 31 December 2022, no resolutions proposed by management were defeated and no shareholder proposed resolutions were successful.
27. The UK Corporate Governance Code recommends boards to act where 20% or more of votes are cast against the board recommendation on a resolution. As such, a shareholder dissent level of 20% is generally considered to be significant. During the Quarter, Surrey voted against management on one resolution that received shareholder dissent of more than 20%.
28. Surrey voted in favour of a shareholder proposal at Microsoft Corp requesting the Board of Directors issue a tax transparency report which received over 20% votes in favour. The proposal requested the report be prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative's (GRI) Tax Standard. The GRI Tax Standard was developed in response to investor concerns regarding the lack of corporate tax transparency

and the impact of tax avoidance on governments' ability to fund services and support sustainable development. It is the first comprehensive, global standard for public tax disclosure and requires public reporting of a company's business activities, including revenues, profits and losses, and tax payments within each jurisdiction.

BCPP Responsible Investment

29. 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.
30. Annexe 6 contains the press release issued by BCPP regarding strengthening the expectations of oil and gas companies' climate progress and details how it will use voting and engagement to hold them to account.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

34. 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

35. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

36. 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

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

WHAT HAPPENS NEXT

38. 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 Q4 2022
 2. Engagement & Voting – Robeco Active Ownership Report Q4 2022
 3. Engagement & Voting – Surrey Voting Report (Minerva) Q4 2022
 4. Engagement & Voting – BCPP ESG Global Equity Alpha Q4 2022
 5. Engagement & Voting – BCPP ESG UK Equity Alpha Q4 2022
 6. Engagement & Voting – BCPP Press Release
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