SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **16 JUNE 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) engagement and voting 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).

Included in this paper are links to the Quarterly Engagement Report from LAPFF as well as the Active Ownership Reports from Robeco and Legal & General Investment Management (LGIM).

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.

The Fund is advised by Minerva in its direct voting activity in accordance with the Fund's voting policy. 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) Continues to enhance its own RI approach, its company engagement policy, and SDG alignment.

   b) Acknowledging the outcomes achieved for quarter ended 31 March 2023 by Robeco and LGIM 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 March 2023.

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.

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 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
10 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.

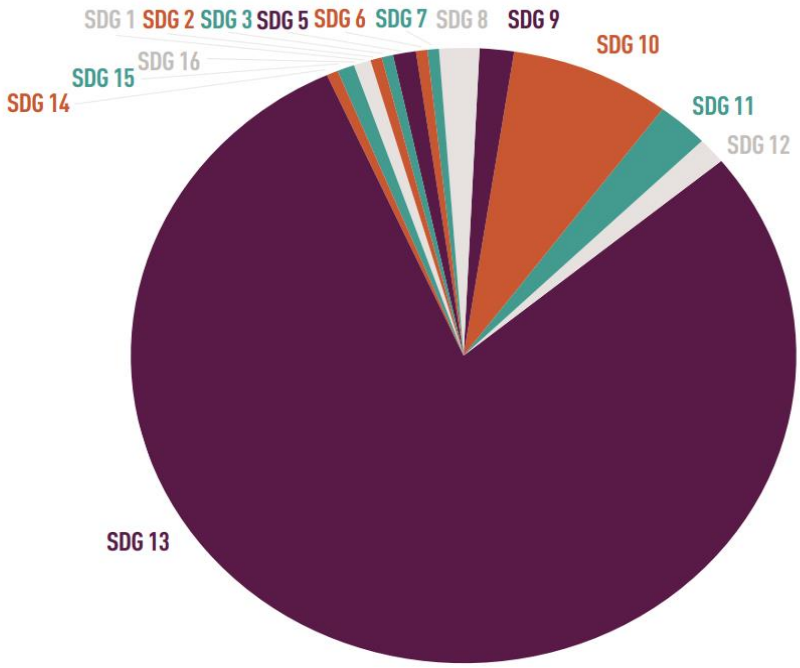
4. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) Funds and UK Pension Pools, including BCPP. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

LAPFF Engagement

5. The LAPFF Quarterly Engagement Report can be found at the link below. This report details progress on all engagements. Some of the highlights from Q1 are summarised below.

   [LAPFF-QER-Q1.pdf (lapfforum.org)]

6. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). The high number of engagements for SDG13-Climate Action reflects the letters sent out to the FTSE All Share companies as part of the Say on Climate initiative.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	1
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	5
SDG 6: Clean Water and Sanitation	4
SDG 7: Affordable and Clean Energy	3
SDG 8: Decent Work and Economic Growth	10
SDG 9: Industry, Innovation, and Infrastructure	9
SDG 10: Reduced Inequalities	38
SDG 11: Sustainable Cities and Communities	10
SDG12: Responsible Production and Consumption	7
SDG 13: Climate Action	426
SDG 14: Life Below Water	3
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

7. Say on Climate is an initiative that aims to provide shareholders with a specific vote at AGMs on a company's approach to transitioning to net zero. LAPFF continues to lobby for a Say on Climate vote and, alongside Sarasin & Partners, CCLA, and the Ethos Foundation, and wrote to the FTSE All-Share (excluding investment trusts) requesting that boards provide shareholders with the opportunity to support their greenhouse gas emission reduction strategy by putting an appropriate resolution on the AGM agenda. Some companies plan to have an annual Say on Climate vote while others will have a vote every three years to approve their triennial climate plan. However, most companies said they did not intend to hold Say on Climate votes. The letter received coverage in the

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press which widened awareness and LAPFF will continue to engage so shareholders can express their views specifically about climate strategies.

8. LAPFF had a number of water-related engagements including McDonald's, Constellation Brands and Chipotle. LAPFF wants McDonald's to publicly disclose the findings of a water risk assessment and physical risk scenario analysis undertaken by the company in 2020. With Constellation Brands, LAPFF wants timebound, contextual targets, goals or policies set to address impacts on water availability in water scarce areas across the sections of the value chain. In the case of Chipotle, LAPFF have engaged with Chipotle Mexican Grill (Chipotle) on its approach to water stewardship since 2019. The initial engagement objective was met during 2022 and an ingredient level water risk assessment to identify areas of water stress within the supply chain was undertaken. During a meeting in March, Chipotle demonstrated some notable progress, including the completion of a water stress evaluation for the current state of its supply chain, forecasting the impact of water stress to 2040, and developing a mitigation roadmap to establish water stewardship throughout its operation.

9. Both McDonalds and Constellation Brands have been identified by the Valuing Water Finance Initiative and therefore included in the 2023 VWFI benchmark. This benchmark will be used by LAPFF to measure company performance LAPFF is the co-lead investor for Constellation Brands and the lead investor for Chipotle as part of the Valuing Water Finance Initiative. During 2023, Chipotle will be benchmarked against peers on its approach to water stewardship.

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10. The acceleration in moving to electric vehicles is being seen globally, as auto manufacturers seek to meet net zero targets and reduce the carbon footprint in the life cycle of their vehicles. LAPFF met with Volvo to discuss its approach to climate change and a net zero transition. As legislation tightens in Europe with the Corporate Sustainability Due Diligence Directive, companies will have to do further due diligence on and ensure greater oversight of their supply chains. LAPFF continues to impress upon vehicle manufacturers the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand how companies are managing a just transition.

Collaborative Engagements

11. **PRI Advance** - LAPFF is pleased to have been selected to join the Principle for Responsible Investment (PRI) Advance working groups for Anglo American and Vale. The initiative is aimed at improving human rights standards in the mining and renewable energy industries.

12. **Initiative for Responsible Mining Assurance (IRMA)** - IRMA has come up in conversation with many of the engagements with electric vehicle manufacturers companies on their approach to responsible mineral sourcing and supply chain due diligence. LAPFF sought a meeting to discuss their certification standard for industrial scale mine sites. Meetings have provided insight into the value of greater due diligence at mine sites and how this can be achieved, particularly through effective multi-stakeholder engagement with a range of industries, including the mining sector and auto-manufacturers which are being engaged by LAPFF.

13. **CA 100+: General Motors -** LAPFF is a member of the CA100+ transport group which is engaging with the largest emitters from the automotive sector. Road transportation is a major contributor to global emissions, the industry faces tightening regulation on emissions standards and some countries have set dates after which the sales of new petrol vehicles will be banned. As such, investors are seeking to ensure that car companies are managing these risks by setting targets and taking action to shift production to electric vehicles. LAPFF participated in a CA100+ collaborative meeting

with General Motors. The meeting covered the impact of the Inflation Reduction Act in the US, GM's targets and how GM is planning on reaching its ambitions. The company plans to have capacity in excess of one million EV units in both North America and China by 2025.

14. **Valuing Water Finance Initiative (VWFI)** - LAPFF is a founding member of the initiative and is well positioned to be at the forefront of driving positive change in this area in 2023.

15. **Market Forces** - Market Forces is an environmental advocacy project which primarily focuses on financial institutions. After recommending votes in favour of Market Forces' resolutions at Barclays and Rio Tinto AGMs in 2021, LAPFF met with representatives from the organisation to discuss plans for development in 2023 and will monitor Market Forces' resolutions and work as the year progresses.

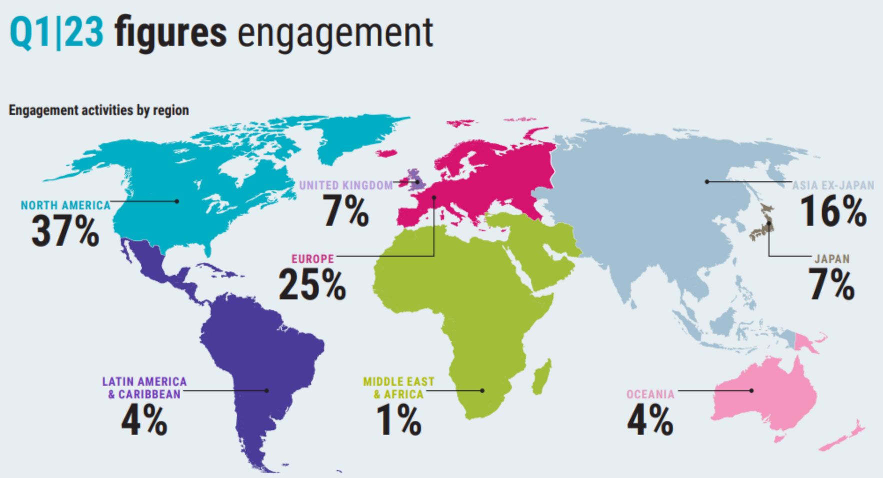
16. **Taskforce on Social Factors**

    LAPFF is a member of the Taskforce on Social Factors that has been established by the DWP. The taskforce has been established to look at how investors can best address and manage social factors, including by identifying reliable data and metrics. The taskforce is comprised of people from the industry and, alongside the DWP, includes observers from the Financial Conduct Authority, Financial Reporting Council, HM Treasury and the Pensions Regulator 10

Robeco Engagement

17. In the quarter ended 31 March 2023, Robeco voted at 139 shareholder meetings, voting against at least one agenda item in 65% of cases. The Robeco report can by following at the link below, which also highlights all companies under engagement. Some of the engagements from the quarter are shown in the graphic and also described below.

    [Robeco-Active-Ownership-Report-Q1-2023-1.pdf (bordertocoast.org.uk)]



Number of engagement cases by topic*

	Q1	Q2	Q3	Q4	YTD
Environment	23				23
Social	11				11
Corporate Governance	12				12
Voting Related	7				7
SDGs	17				17
Global Controversy	6				6
Total	**76**				**76**

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	2				2
Conference call	57				57
Written correspondence	52				52
Shareholder resolution	0				0
Analysis	12				12
Other	1				1
Total	**124**				**124**

Lifecycle Management of Mining

18. Robeco closed the 2020-initiated Lifecycle Management of Mining theme. Over the three years of the engagement, Robeco engaged with 14 mining companies across four continents. Of the 14, engagement with four of them was halted for various reasons. Of the 10 remaining companies, Robeco closed 90% of the cases successfully, with almost all having strengthened their water management policies and improved their water use efficiency and recycling. They have also pledged to uphold the Global Industry Standard on Tailings Management, however, to create an industry free from fatalities and environmental pollution, a systemic and long-term collaboration with the sector is required, prompting Robeco to join the 'Mining 2030' global investor initiative.

19. Water management is greatly improving. 90% of the companies have adopted adequate water management policies, with 80% disclosing performance of their operations on water-related metrics. 60% of companies have set targets to improve water use efficiency, while two others are planning to do so in the near future.

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20. Tailings management transparency and adoption of best practices continues to improve. Eight companies in the peer group disclose all their tailings storage facilities in operation to the Global Tailings Database, and nine companies have committed to implement the Global Industry Standard on Tailings Management.

21. Asset retirement engagement was less successful. Integrated closure activities in business plans was expected, with financial assurances for mine closure liquid and accessible. This should cover costs of reclamation and closure and also redress impacts that were caused to wildlife, soil and water quality. The financial surety should be safeguarded and releasable only with a regulatory authority's specific consent. The results were mixed, with only one company scoring well on the three sub-targets on asset retirement issues. In general, financial assurances for mine closure need to be much better disclosed in annual reports.

Next steps - Launch of Mining 2030

22. In January 2023, Mining 2030 to raise sustainability standards by the end of this decade. Mining 2030 was launched to ensure that growth in mineral demand does not harm people or the environment. Key systemic risks that challenge the mining sector's ability to meet increasing mineral demand for the low-carbon transition will be addressed. Focus areas include the impact on biodiversity and climate change, corruption in the industry, the legacy of mining and rehabilitation, water risk management, seabed mining and many other material issues. Robeco expects to play an active role in the initiative, leading to the identification of global best practice standards and disclosures.

Acceleration to Paris

23. It has been a little over a year since the Acceleration to Paris engagement program began and since then, material events have occurred. The most significant are the passing of the Inflation Reduction Act (IRA) in the US, and the invasion of Ukraine by Russia. Both impact the energy transition, and subsequently how companies manage these risks and opportunities.

24. In the case of the IRA, the financial incentive for investing in the energy transition is material, and companies are already taking part. This has catalysed action by other jurisdictions to match these subsidies and promote investment in their own regions. Although difficult to quantify an impact, it will certainly benefit the speed at which low-carbon technologies come down in price.

25. The Russian invasion of Ukraine has caused a fragmentation of oil and gas markets not previously been seen. Actions taken by the EU to reduce exposure to the importation of Russian fossil fuels has forced an acceleration in the deployment of low-carbon technologies and the sourcing of natural gas from other regions.

26. Acceleration to Paris is classified as an enhanced engagement program, and, as such, Robeco intends to take a more proactive approach to escalation. Using their proprietary Paris-alignment tool to identify companies that are the greatest laggards, Robeco can select the companies they see as having the greatest potential for impact through their engagement.

27. In 2022 Robeco implemented steps to create greater synergies between climate performance assessment and their related voting approach. As such, Robeco will vote against the re-election of the chair for companies rated as 'misaligned' in the traffic light assessment, including all those within the Acceleration to Paris program. 10

28. As the most polluting fossil fuel, and one which has economically available low-carbon substitutes in the form of wind and solar, thermal coal power is an area of focus with the goal of limiting new construction of coal-fired power plants and ensuring that companies put transition plans in place for phasing out exposure to these assets. Robeco have seen positive progress from a number of companies cancelling thermal coal power projects and clarifying the timelines for phasing out their exposure.

29. The emergence of Just Energy Transition Partnerships (JETPs), particularly in Indonesia and Vietnam, have helped to create a policy framework to accelerate the decommissioning of thermal coal assets. The first few Acceleration to Paris companies have publicly stated their commitment to work with the governments of these countries on the potential for the accelerated decommissioning of assets. Further investment in renewable energy sources is required, and the JETPs already announced, should help to facilitate this investment. Expected reforms to the World Bank and other multi-lateral development banks seek to take a more aggressive approach to facilitating investments in low-carbon technologies in emerging markets.

Corporate governance reform in the US

30. While the focus on ESG has gained in importance, there are still shortcomings in the quality, consistency and comparability of ESG reporting, and investors often lack the appropriate tools to voice their concerns regarding a company's ESG performance. In 2022 thew SEC adopted new rules to improve the quality of US companies' disclosure and enhance a board's accountability. Five of the most relevant regulatory initiatives rolled out in the US in 2022 include universal proxy cards, the revamp of shareholder proposal rules, more defined links between pay and performance, the clawback rule and climate related disclosure requirements.

31. **Universal proxy cards** place investors voting in person or by proxy on an equal footing. The new rules strengthen the means by which shareholders can hold companies accountable for poor governance.

Revamp of the shareholder proposal rule

32. The SEC is aiming to “improve the shareholder proposal process and promote consistency” by changing the process by which shareholder proposals are included in a company’s proxy statement. Under rule 14a-8, a company may omit a shareholder proposal from its proxy statement if it falls within one of 13 substantive bases and the proposed amendments would revise three of these criteria. Existing rules have been criticised over inconsistent implementation, leading to unpredictable outcomes. If adopted, the amendments would ensure a clearer framework for the rule’s application.

33. Robeco support the changes, participated in the SEC’s public consultation, and view the shareholder proposal process as one of the most important means of engagement to ensure that ESG issues reach ballots. The shareholder proposal process is currently
10 under scrutiny in various jurisdictions across the world. In Germany, a lawsuit filed in 2022 will test whether a German company has the right to refuse to table a shareholder proposal. In Australia, shareholders cannot propose an advisory resolution or a shareholder vote to express an opinion unless permitted by the company’s constitution continues, drawing significant criticism. The US model is perceived as striking a balance between issuers from being swamped by frivolous proposals, yet still facilitating shareholder suffrage.

34. **Link between pay and performance -** New rules introduced by the SEC require registrants to clearly illustrate the relationship between executive compensation and the financial performance of the company by providing certain disclosures in a tabular format, accompanied by narrative and/or graphical disclosure.

35. This information must include a new measure: the ’executive compensation actually paid’ and must be calculated based on a prescribed formula, to represent total compensation as reported in the summary compensation table, with adjustments to reflect changes in the value of stock awards and pension benefits. Robeco believe a company’s executive remuneration policy is one of the main instruments with which to guide, evaluate and reward the behaviour and achievements of executives. The new rules will aid investors in their evaluation of companies’ remuneration policies and practices. and will likely incentivize issuers to re-evaluate and strengthen the link between executive pay and performance.

36. **Clawback Rule** - The rules direct national securities exchanges to have listing standards requiring issuers to adopt and apply a written clawback policy, providing for the recoupment of incentive based compensation received by current or former executive officers, based on erroneously reported financial information and must apply irrespective of whether the executive engaged in misconduct or not, with the rules requiring registrants to provide detailed disclosure regarding actions to recover erroneously awarded compensation.

37. Robeco support the new rules as they will strengthen a board's accountability and enhance the transparency of companies' disclosures. Some argue that companies may resort to increasing the ratio of fixed, time-based or discretionary pay, so as to shield executives from the prospect of recoupment. Robeco are strong proponents of pay-for-performance and will oppose any changes which they assess would weaken the alignment between pay and performance.

38. **Climate disclosure amidst ESG backlash** - Under the new rules, companies would be required to provide disclosure on, inter alia, the governance of climate-related risks, Scope 1 and 2 greenhouse gas emissions, and Scope 3 emissions if these are material. They also apply if the registrant has set an emissions reduction target that includes Scope 3, as well as various other qualitative and quantitative climate risk disclosures

39. Robeco view the proposed requirements as more than just a call for greater disclosure, but as a driver of change. The new rules, if adopted as proposed, will force companies to review their policies and practices with regards to climate risk.

Labour Practices in a Post Covid-19 World

40. In 2021, this engagement was launched to focus on those sectors put into the spotlight throughout the pandemic, whether due to extreme pressures on them, or a complete halting of operations. As such, Robeco began to engage with companies across the hotel, food retail and online food delivery sectors to address the systemic labour risks highlighted throughout the times of crisis.

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41. **The online food delivery sector** has grown threefold, having been the only route for many restaurants to overcome the lockdowns, for people to receive groceries, and for furloughed workers to make ends meet. However, the pandemic also highlighted core risks, from missing sick pay and not being paid while waiting for orders, to their high dependency on algorithms defining delivery routes, pressures and wages.

42. The enormous economic and social potential of the gig sector is being recognised and many countries are beginning to formalise and create structures to allocate responsibilities appropriately. The Chinese government has started to stipulate minimum accident protections for online food delivery workers and is seeking ways to hold employers accountable for their working conditions. Europe's Directive on Platform Work sets clear rules to define gig workers' employment status and concrete requirements for algorithmic management.

43. Beyond relying solely on regulation, Robeco is encouraging companies to proactively fill existing gaps and the first gig companies have started conducting fair pay assessments and setting up health insurance partnerships for delivery riders.

44. **In the hotel sector**, the recent trend across the industry in leaving the actual ownership and management of hotels to third parties is creating challenges around oversight and accountability. Prohibitive competition laws in many countries are making responsible labour practices on the ground a legal minefield. Robeco's engagements focus on how hotel brands can overcome legislative limitation, encouraging them to set up incentive systems, engage franchisees and, where allowed, conduct social audits. Yet, proactive assumption of responsibility, concrete awareness of labour risks on the ground, and the embedding of responsible labour practices in franchising contracts remains limited, despite the main brands' high reputational risks.

45. Despite having a more centralised employment model, **the food retail sector** is feeling the realities of the post Covid-19 world possibly the most. Supermarkets are battling with soaring food prices and falling demand, and inflated prices impact not only supermarket customers, but also the employees, highlighting the living wage gap that exists across the sector. In the UK, the Living Wage Foundation found that 45% of supermarket employees earned below living wages in 2020. As a response, in 2021 the shareholder advocacy group, ShareAction, filed the first-ever shareholder proposal in the UK calling upon British supermarket Sainsbury's to commit to paying a living wage to all its workers. Although it wasn't passed at the AGM, the resolution put forward a template for other investors to tackle living wages across the food retail sector.

Surrey Share Voting

46. The full voting report produced by Minerva is included in Annexe 1. 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.

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Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	11	4	36%
Board	56	10	18%
Capital	4	1	25%
Corporate Action	0	0	0%
Remuneration	20	7	35%
Shareholder Rights	3	1	33%
Sustainability	3	0	0%
Total	97	23	24%

47. The Surrey Pension Fund voted against management on 24% of the resolutions for which votes were cast during the quarter ended 31 March 2023. General shareholder dissent stood at 6% in the same period.

Shareholder Proposed Resolutions/ Management Resolutions

48. The 'Dissent by Resolution Category' section in the full voting report in Annexe 1 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.

49. 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 four resolutions that received shareholder dissent of more than 20%.

50. During the quarter ended 31 March 2023, no resolutions proposed by management were defeated and one shareholder proposed resolutions was successful.

51. Surrey voted in favour on a shareholder proposal at Applied Materials Inc requesting the Board to lower the threshold required for shareholders to call a special shareholder meeting from 20% to 10% of outstanding shares. Surrey voted supported the proposal and the proposal was successful receiving majority support, 50.3%. The Board of Directors has stated it will take the vote under consideration. The ability to call special meetings gives shareholders a way to bring important matters to the attention of both management and shareholders outside of the annual meeting cycle and is generally considered an important shareholder right. Currently, a majority of companies in the S&P500 allow shareholders to call special meetings and institutional investors generally favour a threshold of between 10% to 15%.

52. **BCPP Responsible Investment -** Annexes 2, 3 & 4 provide a high-level overview of ESG performance for UK Equity Alpha, Global Equity Alpha and Listed Alternatives using a variety of measurements. The reports highlight specific examples which provide insight into how ESG integration works in practice.

53. **LGIM -** Active ownership report 2022 | LGIM Institutional

CONSULTATION:

54. The Chair of the Pension Fund Committee has been consulted on this report. 10

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

57. 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

58. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

59. 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

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

WHAT HAPPENS NEXT

61. 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 – Surrey Voting Report (Minerva) Q4 2022
2. Engagement & Voting – BCPP ESG Global Equity Alpha Q1 2023
3. Engagement & Voting – BCPP ESG UK Equity Alpha Q1 2023
4. Engagement & Voting – BCPP ESG Listed Alternatives Q1 2023

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