

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 8 SEPTEMBER 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND 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). Also included in this paper are links to the Quarterly Engagement Report from LAPFF as well as the Active Ownership Reports from Robeco. 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 that ESG Factors are fundamental to the Fund's approach, consistent with the RI Policy through:
 - a) Continuing to enhance its own RI approach and SDG alignment.
 - b) Acknowledging the outcomes achieved for quarter ended 30 June 2023 by LAPFF and Robeco through their engagement.
 - c) Note the voting by the Fund in the quarter ended 30 June 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.

Background

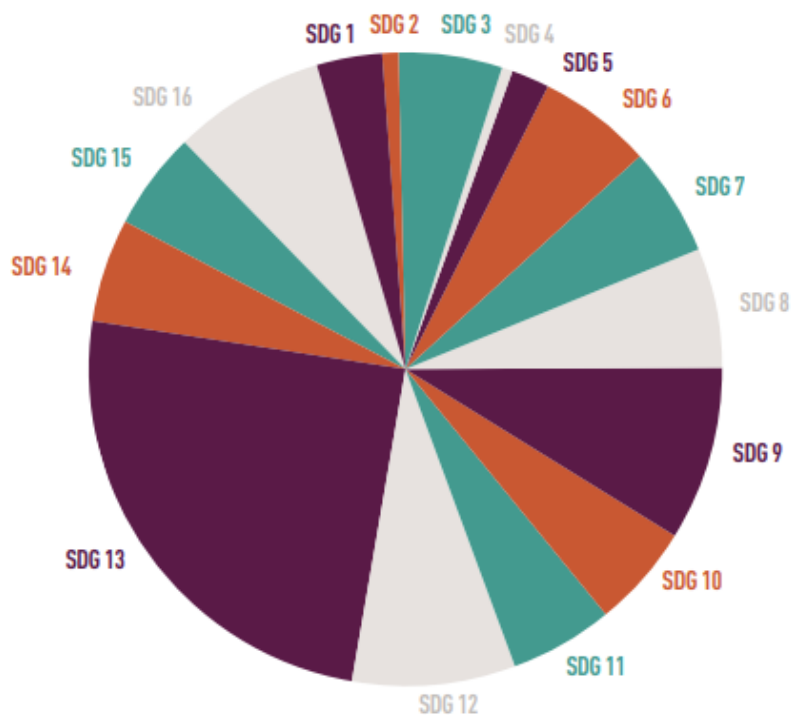
1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this field.
2. The 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 RI and voting policies reflect 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. 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
4. 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.

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 Q2 are summarised below.

[LAPFF_QER02_2023.pdf \(lapfforum.org\)](#)

6. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs).



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	10
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	16
SDG 4: Quality Education	1
SDG 5: Gender Equality	6
SDG 6: Clean Water and Sanitation	18
SDG 7: Affordable and Clean Energy	16
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	26
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	16
SDG 12: Responsible Production and Consumption	25
SDG 13: Climate Action	74
SDG 14: Life Below Water	16
SDG 15: Life on Land	15
SDG 16: Peace, Justice, and Strong Institutions	23
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

7. Due to the scale of investment risk and as part of a continued focus on mitigating climate risks, LAPFF has been issuing a series of dedicated climate change voting alerts. These recommend voting positions on climate-related shareholder resolutions with the aim of ensuring companies properly address the climate risks they face. The alerts covered companies in different sectors and centred on climate topics that LAPFF engages on, including transition plans, adequate targets, lobbying, and a just transition. Over the quarter, LAPFF issued climate alerts covering over 50 resolutions with half receiving the backing of 20 percent or more shareholder votes. The scale highlights the support for climate action among responsible investors and delivers a strong message to companies on the need for credible climate action policies and plans.

8. LAPFF has issued voting alerts for Amazon, Tesla, Meta Platforms, and Alphabet, largely supporting ESG shareholder resolutions. LAPFF continues to have concerns about corporate governance and social practices at large US technology companies, who, in LAPFF's experience, do not have a culture of engaging with investors as UK and Australian companies do. None of the technology companies who were issued draft alerts prior provided comments or responses to LAPFF and LAPFF continues to seek ways to engage.
9. LAPFF has been seeking meetings with companies in the oil, banking, mining and garment industries to raise important issues regarding climate, human rights, affected communities and LAPFF's report after their visit to Brazil, remuneration and active companies in the Occupied Palestine Territories (OPT).
10. LAPFF met with Shell's relatively new chair, recommending voting for his re-election as he was elected after the disappointing Transition Plan 2021 and noting that Shell would be presenting a new Climate Transition Plan before the 2024 AGM. LAPFF will engage on the new Transition Plan.
11. After a meeting with HSBC's Senior Independent Director, LAPFF decided to issue a voting alert, recommending voting against the report and accounts because of inadequate human rights disclosures and the need for a broader strategy in response to the increasing integration of Hong Kong into mainland China. Climate disclosure too could be improved. The company has invited LAPFF to a follow up meeting to focus on human rights, further discussion on climate finance and reporting.
12. LAPFF will follow up with Barclays on governance with one of its main concerns centred on why the Financial Conduct Authority (FCA) investigation reached a different conclusion to that of the Board a year earlier. LAPFF will also engage on climate action and disclosure, in particular the rate of wind down of fossil fuel lending.
13. LAPFF has been consistently engaging with community members around the world affected by mining companies' activities, some of them in its recent visit to Brazil. LAPFF has been seeking engagement with the mining companies, raising important issues such as social and environmental impact assessments, practices improvements, their approaches to resettlement of communities and their role in reparations for the communities, as well as engaging them in relation to LAPFF's Brazil report.
14. LAPFF continues questioning Rio Tinto's approach to social and environmental impact assessments, which, in LAPFF's view, need to be more methodologically rigorous, independent, and more reflective of concerns raised by affected stakeholders critical of the company's operations.
15. Anglo American engaged significantly with LAPFF in relation to the Brazil report, with LAPFF including many of the company's useful insights and contributions in it. The Chair stated that the board would commit to visiting community members affected by Anglo American's operations. BHP also provided helpful comments on LAPFF's report about its visit to Brazil and offered a meeting to discuss the UK litigation pertaining to the company's activities in relation to the Samarco tailings dam collapse.
16. An ongoing area of engagement with Vale has been the time for resettling affected community members following the destruction of their homes in the tailing dam disasters. Vale indicated that, whilst still slow, progress was being made and it continues to learn, in part due to engagement it has had with LAPFF, to improve its practices.

17. LAPFF met with Kingfisher in April, when company representatives provided an overview of its efforts around employee engagement and where it had provided support for its employees, with both benefits as well as salary increases. Kingfisher has paid above inflation wage increases for its lowest paid staff.
18. LAPFF also met up with representatives from Bank Leumi, an Israeli bank, to encourage an independent assessment of the human rights impact of their active operations in the OPT. The LAPFF continues to push companies to discuss their approaches to human rights risk management in relation to the OPTs.
19. Home Depot is alleged to have links to Uyghur forced labour in its supply chain. LAPFF asked the company to commit to a human rights assessment report. There was no commitment and LAPFF will be seeking to organise another call with the company to further discuss their supply chain due diligence.
20. LAPFF met with Next and Adidas, two companies still working in Myanmar, to ask what they were doing regarding human rights risk management and due diligence. LAPFF requested Next to increase disclosure of child labour concerns and remediation practices. Adidas gave comprehensive answers to the questions and LAPFF will continue to monitor how Adidas chooses to publicise its supply chain practices, especially as it is also subject to a letter from the US House Select Committee regarding its cotton supply chain that may have links the Uyghur forced labour.

Collaborative Engagements

21. CA 100+: Toyota - Transportation is a major cause of carbon emissions and therefore a strategically important sector to decarbonise. One company of concern about its lobbying alignment and its plans and targets for moving to electric vehicles has been Toyota. This quarter LAPFF signed a letter to Toyota organised by NYC Office of the Comptroller and Domini Impact Investments and supported a shareholders resolution calling for an annual review and report on the impact on Toyota caused by climate-related lobbying activities and the alignment of their activities with the goals of the Paris Agreement. During the quarter, LAPFF also met with Toyota and covered proposed US regulations and the company's likely position towards it. Toyota outlined capital expenditure on EVs, its plans for EV production, and discussed the challenges around battery sourcing.
22. Welltower: IIRC - LAPFF is a member of the Investor Initiative for Responsible Care (IIRC), a coalition of 138 responsible and long-term investors in the care sector with \$4.4 trillion in assets under management, coordinated by UNI Global Union. The initiative aims to address investment risks associated with employment and care standards within the social care sector. LAPFF wrote to Welltower, a US-based REIT, seeking a meeting and requesting the company to provide information on exposure levels and oversight mechanisms. As the company had not responded to requests for a meeting and information, LAPFF issued a voting alert and recommended voting against the chair. In total 6.9% of shareholders voted against the chair.

23. CA 100+: National Grid – LAPFF is one of the co-leads on National Grid at CA100+ and held several meetings to discuss concerns regarding disclosure and transition plans. The company acknowledged some of LAPFF’s comments, particularly on climate lobbying, and shortly before the AGM announced it would publish a comprehensive review of its climate lobbying activities, a key demand of LAPFF and other CA100+ members. The company publicised a policy proposal for addressing the delays in grid connection, which is broadly sensible, and a welcome development. LAPFF’s focus is on their long-term strategy and the role it sees in domestic gas, as its continuous support may explain its reluctance to embrace net zero more fully as well as the company’s own vision for improving grid connections.
25. PRI Advance - LAPFF continued to engage with both the Vale and Anglo American groups through the PRI Advance initiative on human rights. LAPFF accepted the invitation to become a lead investor in the Vale group given its work in Brazil. It will continue to work with both the Vale and Anglo American groups to engage the companies and push for meaningful human rights improvements.
26. 30% Club Investor Group - LAPFF continues to support the 30% Club Investor Group, a coalition of investors pushing for women to represent at least 30% of boardroom and senior management positions at FTSE-listed companies. The Group continues to extend its outreach to companies outside of the UK, with LAPFF set to lead on engagements through the Group’s Global Workstream subgroup. LAPFF met with Sanwa Holdings and Kamigumi Co in April, and although neither company is currently a member of the Japanese 30% Club Charter, both companies provided information around their diversity efforts.

Stakeholder Engagement

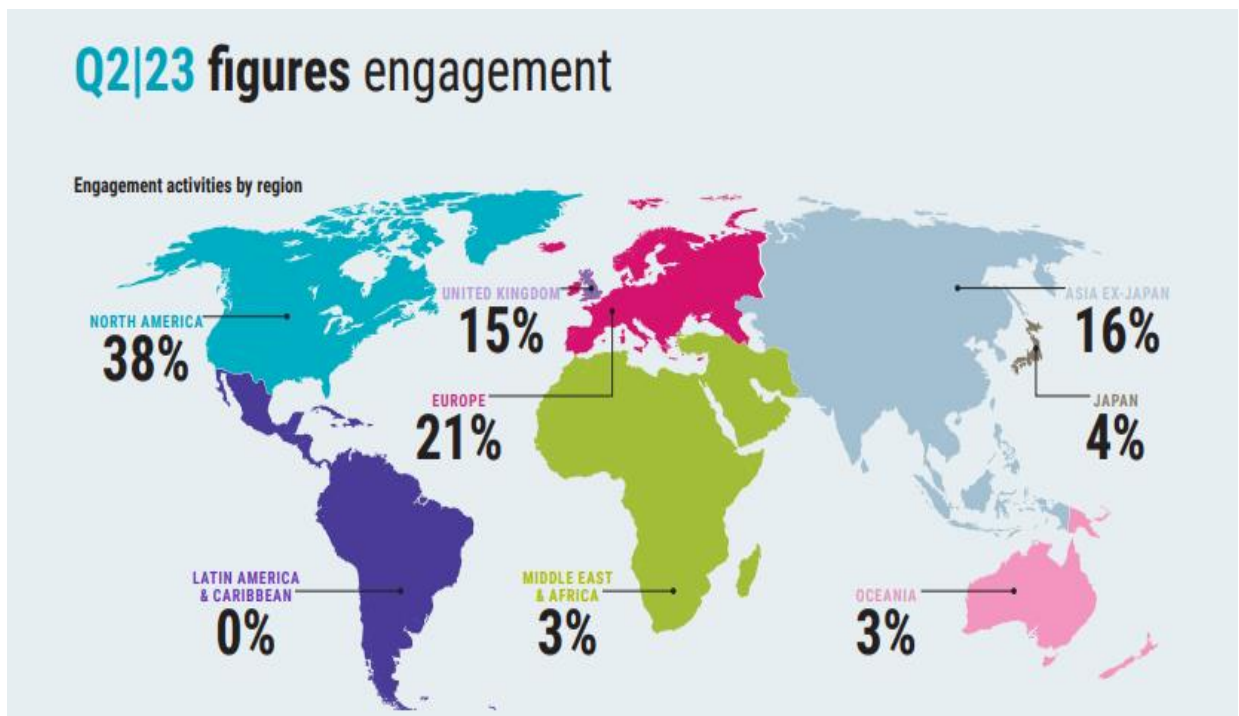
27. OECD Forum on Responsible Supply Chains - LAPFF presented at a side event of the OECD Forum on Responsible Supply Chains, aiming to share LAPFF’s learning from its visit to Brazil and its engagement with stakeholders affected by mining operations. LAPFF was approached by event participants after its presentation, who stated that they were impressed with LAPFF’s work in this area and wanted to learn more about LAPFF’s experience. LAPFF continues to engage with these contacts and others made through them to explore opportunities to develop this work stream further.
28. Mining Communities and Workers - LAPFF meets with communities affected by mining operations before mining companies AGMs to listen to the communities’ experiences, understand better any operational, reputational, legal, and/or financial risks associated with its members’ investments and then present questions at AGMs and meetings. LAPFF also meets with trade union representatives and workers to inform its engagements. LAPFF met with community representatives from the US, Serbia, Madagascar, Papua New Guinea, Mexico, Peru, Colombia, and Brazil to hear about their experiences with Rio Tinto, Anglo American, and Vale. LAPFF also virtually attended a ‘pre-AGM’ meeting hosted by ShareAction and IndustriALL in relation to Glencore, where trade union leaders and community members from various countries reported their concerns about Glencore’s practices. LAPFF attended a webinar to hear about the Amazon shareholder resolution, to ensure that company practice on human rights and the environment meets community needs to create the conditions for more sustainable shareholder returns.

29. Uyghur Forced Labour in Green Technology Supply Chains - The Modern Slavery and Human Rights Policy and Evidence Centre (Modern Slavery PEC) announced a project to explore and uncover links between the climate crisis and modern slavery globally. LAPFF took part in an initial consultation process where Anti-Slavery International, Sheffield Hallam University and the Investor Alliance for Human Rights are examining Uyghur forced labour in the production of green technology. LAPFF subsequently joined a two-day workshop alongside other investors and NGOs, looking at the challenges investors face in addressing these risks, engagement barriers and information gaps, before looking at ways to move forward. LAPFF is engaging with electric vehicle manufacturers on a range of issues, inclusive of human rights, and will raise these relevant supply chain issues in engagements with such manufacturers.
30. 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.

Robeco Engagement

31. In the quarter ended 30 June 2023, Robeco voted at 579 shareholder meetings, voting against at least one agenda item in 72% of cases. The Robeco report can be found by following the link below, which also highlights all companies under engagement. Some of the engagements from the quarter are shown in the graphic and described below.

[Border-to-Coast-Public-Engagement-Report-2023-Q2.pdf \(bordertocoast.org.uk\)](https://bordertocoast.org.uk/Border-to-Coast-Public-Engagement-Report-2023-Q2.pdf)



Biodiversity - Setting credible zero deforestation commitments

32. In 2020, Robeco initiated an engagement program that focused on deforestation and five key forest-risk commodities, namely cocoa, pulp and paper, natural rubber, beef and soy. For the past three years they have engaged with companies sourcing these raw materials as key components in their production processes, covering sectors such as materials and consumer staples.
33. In line with the Global Biodiversity Framework agreed at COP 15, companies are expected to actively work towards reverting nature loss no later than 2030, setting time-bound commitments to end deforestation and native vegetation conversion in their supply chains no later than 2025. In the last three years, much progress has been made with companies setting and accelerating net zero deforestation targets to as early as 2025 and strengthening monitoring systems to map how their suppliers are exposed.
34. Many companies sourcing soy and beef still struggle to include legal deforestation and native vegetation under their commitments. Pulp and paper companies, however, tend to be vertically integrated and source smaller volumes from external suppliers with better monitoring systems in place. They are also able to rely on well-established certification schemes such as the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). For companies sourcing cocoa and rubber, traceability is still quite tricky with heavy reliance on smallholder farmers and several intermediaries involved in the value chain, making the overall visibility more challenging.
35. As part of the engagement, companies were asked to implement adequate land restoration efforts and improve disclosures on sourcing locations in high carbon stock areas. Assessing the impact of companies' sourcing strategies as well as their own operations on biodiversity is crucial to being able to factor these risks into their decision-making process. While currently more ad-hoc, some companies have issued their first restoration or conservation-linked green bonds or made initial payments for ecosystem service pilot schemes.
36. While relatively few companies are checking their reliance on different fauna and flora species or trying to calculate their impact on nature with tools such as the Integrated Biodiversity Assessment Tool (IBAT), it is hoped that the integration of the new Taskforce for Nature-related Financial Disclosures (TNFD) framework will help in as companies carry out their biodiversity impact assessments.
37. The livelihood and well-being of local communities is directly linked to deforestation rates. Farmers often cannot earn a living by selling their produce, and some companies have integrated a premium into the commodity price to accommodate. However, pressure to keep commodity prices at competitive levels remains, hindering the applicability of this instrument.
38. Some companies are starting to publicly disclose their deforestation-free volumes and Scope 3 emissions linked to land use. Adoption of certification schemes has also increased within the pulp and paper industry, but the natural rubber and soy sectors still lack credible certification standards.

39. Nature Action 100 will be launched in the coming months, which targets companies and sectors with the highest negative impact on nature loss, beyond deforestation. Robeco is part of this effort, while continuing sovereign engagement work to support government agencies in their efforts to reduce deforestation rates in Brazil and Indonesia.

Human Rights due diligence for Conflict-Affected and High-Risk areas (CAHRA)

40. Under the UN Guiding Principles on Business and Human Rights (UNGPs, 'soft law') corporates have a shared responsibility to respect human rights. A rapidly changing regulatory landscape ('hard law') has increased requirements for companies on human rights due diligence and disclosures. Investors recognise that adverse human rights impacts pose regulatory, legal, financial and reputational risks and when not managed properly, could negatively impact the value of a company. To address this Robeco launched a dedicated human rights engagement program in Q4 2021.
41. The correlation between conflict-affected areas and human rights violations was used to establish the four objectives of enhanced and robust due diligence, reporting, remediation and performance measurement.
42. It is midway through the three-year engagement period. At the start 10 companies were selected from eight different sectors with significant exposure to CAHRA operating in the Occupied Palestinian Territories (OPT), Myanmar and/or China/Xinjiang. Although different industries and areas, the opportunity to improve human rights risk due diligence and management is a mutual aspiration. In light of the Russian-Ukraine war and the increased attention to Xinjiang, another four companies have been included in the engagement program.
43. Overall, they have been open to engagement, with only one company failing to respond despite multiple attempts. There is positive progress with two companies in developing management processes to exercise effective human rights due diligence in line with the UNGPs and one company hired two dedicated human rights experts to further implement these commitments. Other cases showed slower due diligence evolution but improvements in audit and reporting mechanisms. It is challenging to show the bridge between commitments and implementation, but crucial in demonstrating actual results. Implementation effort will be the focus in the engagement going forward.
44. Regional trends have also been revealed, with better progress observed in the OPT compared to Myanmar and Xinjiang. Since the start of the engagement, two companies stopped their operations: one in the OPT and one in Myanmar. Going forward, the engagement will also focus on the human rights implications of withdrawing versus staying, to ensure a responsible exit.

Good governance observations

45. Traditionally, large institutional shareholders vote their shares via proxy and the actual AGM doesn't tend to see much debate, but it is becoming increasingly common for stakeholders of companies including employees, local communities, and sustainability focused NGOs to join shareholder meetings and raise concerns, especially at larger international companies entangled in complex societal issues. During periods of takeovers or restructurings, employees and labour unions also find their way to the AGM to make their voices heard and if non-shareholder stakeholders don't have another channel to effectively raise their concerns, the AGM can become an annual meeting of stakeholders rather than shareholders.

46. This happened a lot during the current AGM season. As an example, Robeco attended AGMs of both Ahold Delhaize and Unilever requesting information on various topics. Both meetings were attended by NGOs and labour unions who claimed significant roles for themselves, resulting in longer meetings than usual, albeit still safely and respectably. Other AGMs were not so calm. ING, Volkswagen, Shell, Berkshire Hathaway had very active meetings with storming of platforms where the board were sat, food throwing and even security intervention. This change in tone and form was much more prevalent this year than previously. The vast majority of AGMs are calm, with both sides politely interacting.
47. It's possible that this livelier activity is due to the AGMs taking in place in person again after Covid restrictions were fully lifted, but the more hostile and violent tone is somewhat concerning. The AGM is becoming a place to make a point or a political statement, not leading to common understanding or progress in any form; and the topics of the conversation often have little connection with the vote result or the agenda itself.
48. The events of the 2023 season might lead to a change in the participation of both company managements and institutional shareholders and could possibly reduce its function as the one moment in the year when companies are publicly held to account by their shareholders. But if the credibility of the AGM as a platform is to be maintained, changes are needed to facilitate a constructive conversation. Possible solutions include pre-AGM engagements with a larger set of stakeholders than just institutional investors and prioritisation of questions sent in beforehand and allowing room for follow-up conversations. Hybrid set-ups can also allow for broader participation at an AGM by foreign shareholders.

Surrey Share Voting

49. 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.

Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	63	29	46%
Board	399	70	17.5%
Capital	81	13	16%
Corporate Action	5	0	0%
Remuneration	148	59	40%
Shareholder Rights	48	9	19%
Sustainability	59	52	88%
Other	1	1	100%
Total	804	233	29%

50. The Surrey Pension Fund voted against management on 29% of the resolutions for which votes were cast during the quarter ended 30 June 2023. General shareholder dissent stood at 6.5% in the same period.

Shareholder Proposed Resolutions/ Management Resolutions

51. 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.
52. 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 45 resolutions that received shareholder dissent of more than 20%.
53. During the quarter ended 30 June 2023, one resolution proposed by management was defeated and one shareholder proposed resolution was successful.
54. Surrey voted against the approval of CME Group Inc's remuneration report and the report was defeated with 68% of the shareholders ballot withholding support.
55. Surrey voted in favour on a shareholder proposal at Dollar General Corp requesting the Board to commission an independent third-party audit on the impact of the Company's policies and practices on the safety and well-being of workers. Surrey supported the proposal, and the proposal was successful receiving 66% votes in favour.
56. 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.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

58. There are risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

59. There are financial and value for money implications.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY

60. The Director of Finance, Corporate and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

61. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

62. 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

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

WHAT HAPPENS NEXT

64. 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) Q2 2023
 2. Engagement & Voting – BCPP ESG Global Equity Alpha Q2 2023
 3. Engagement & Voting – BCPP ESG UK Equity Alpha Q2 2023
 4. Engagement & Voting – BCPP ESG Listed Alternatives Q2 2023
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