

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 15 DECEMBER 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 and 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 September 2023 by LAPFF and Robeco through their engagement.
 - c) Note the voting by the Fund in the quarter ended 30 September 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

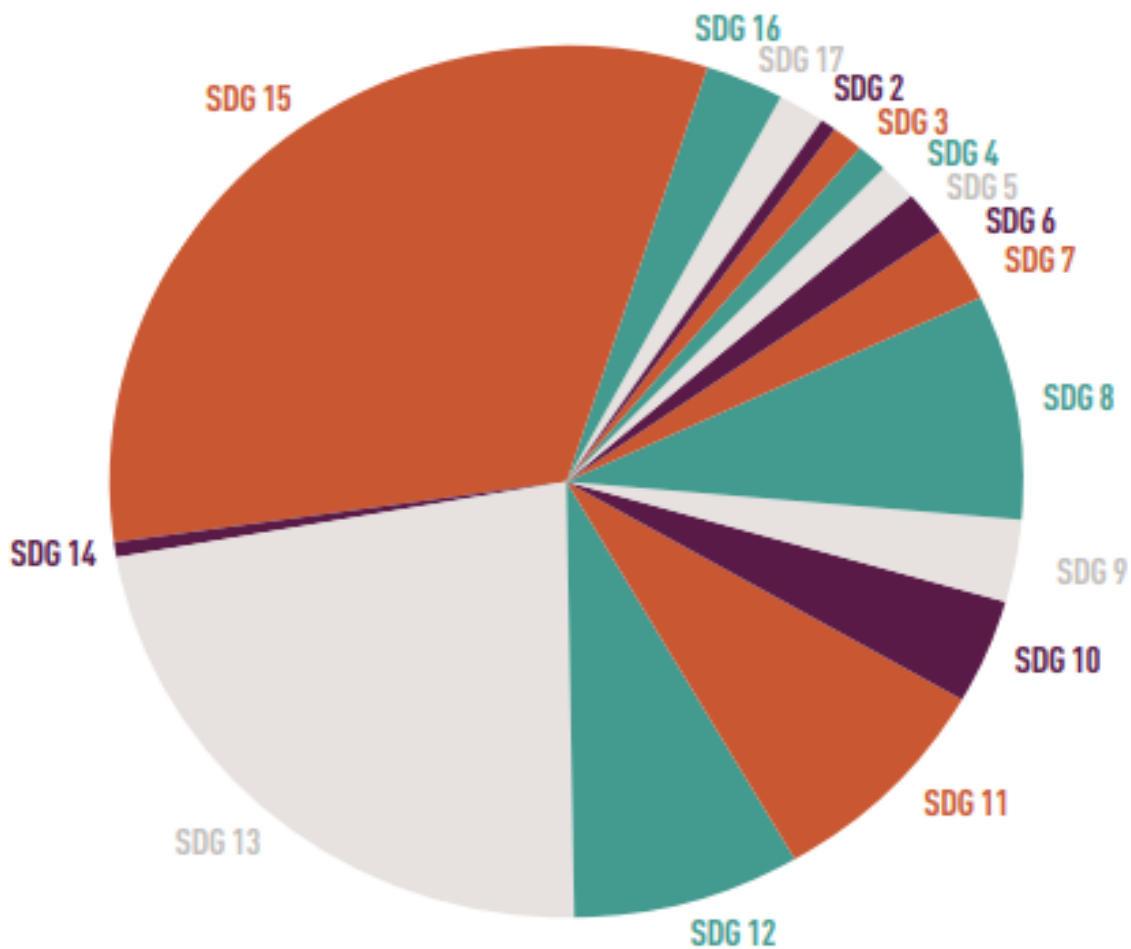
1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this field.
2. The 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 the quarter ended 30 September 2023 are summarised below.

[LAPFF-QR2.pdf \(lapfforum.org\)](#)

6. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). The largest category this quarter was SDG 15, Life on Land, which is mainly down to LAPFF signing onto Nature Action 100's letters. More information on this initiative can be found via this link <https://www.natureaction100.org/nature-action-100-announces-companies-start-of-investor-engagement-process-to-catalyze-greater-action-on-nature-loss/>.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	4
SDG 6: Clean Water and Sanitation	6
SDG 7: Affordable and Clean Energy	9
SDG 8: Decent Work and Economic Growth	27
SDG 9: Industry, Innovation, and Infrastructure	10
SDG 10: Reduced Inequalities	13
SDG 11: Sustainable Cities and Communities	27
SDG 12: Responsible Production and Consumption	27
SDG 13: Climate Action	73
SDG 14: Life Below Water	2
SDG 15: Life on Land	106
SDG 16: Peace, Justice, and Strong Institutions	9
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	5

Company Engagements

7. **Climate and Finance:** LAPFF have been engaging with financial institutions for a number of years. This scope widened in 2020 to include 11 insurance companies and their approach to climate change from a strategic perspective. LAPFF's approach is to ask first what companies' impacts are on climate, which aligns with the UN Guiding Principles on Business and Human Rights, calling for companies to assess their impacts on human rights and rights holders before assessing the impact of human rights on their businesses. LAPFF expanded the coverage to include additional insurers of global impact in which LAPFF holds a significant number of shares. It wrote to large global banks and will explore these companies' strategies in relation to natural resources and in line with a growing interest in biodiversity. Achieved: LAPFF has written to 13 global insurers about decarbonisation and natural resources. Four companies have responded so far.
8. **Say on Climate:** UK's Transition Plan Taskforce is developing a 'gold standard' for climate transition plans. Over the past two years, LAPFF has sent letters to the FTSE All-Share companies requesting a vote on climate transition plans. LAPFF has further organised a letter to 35 companies in high-emitting sectors and gained the support of a wider group of investors with 18 signatories representing £1.8 trillion in assets under management. The letter requested a response, which will be tracked. LAPFF will continue to engage with companies about holding a climate transition plan vote.
9. **Mining and Human Rights:** LAPFF has added Grupo Mexico to the list of mining companies it engages with and met with a representative for the first time this quarter. As with many mining companies, LAPFF's view is there are several processes in place, which appear sound on paper however there is significant work to be done in practice. One of the main milestones for LAPFF is how well companies acknowledge and engage with affected workers and communities. Both Anglo American and Vale groups are now in the Principles of Responsible Investment (PRI) Advance initiative, recognising the importance of stakeholder engagement.
10. **Water Companies and Sewage Pollution** Water companies are facing reputational risks and regulatory scrutiny around their environmental performance. There are considerable regulatory risks, not least perceptions and public concern. Further public scrutiny includes financial concerns about Thames Water. Besides the focus of reducing the amount of sewage released into waterways, the other main objective is to ensure risks are addressed and environmental performance improves. LAPFF also sought to ensure companies had credible climate transition plans and progress was being made against them.
11. LAPFF met with Severn Trent, against the backdrop of the problems facing Thames Water. It is ahead of its targets on reducing overflows. Longer-term plans, including capturing emissions from the sewage treatment process. LAPFF also met with the chair of United Utilities who outlined its reduction in the number of overflows and future plans to reduce further, as well as its plans regarding climate adaptation and mitigation. Another meeting was with Northumbrian Water which covered targets to reduce storm overflows, wider environmental performance and climate change ambitions.
12. **Electric Vehicles and Human Rights** LAPFF continues engagement with electric vehicle manufacturers addressing the risks associated with minerals for batteries for

their vehicles. LAPFF met with Volkswagen (VW) and Volvo Group this quarter, both for the first time. Talks with Volkswagen covered the company's overall human rights programme and individual minerals, as well as one of its joint ventures allegedly associated with Uyghur forced labour in Xinjiang. Volvo's high-level human rights programme is lacking compared to its peers, particularly in critical mineral and material supply chains. Despite this lack of transparency, Volvo demonstrated aspirations to improve. New legislation is being enacted worldwide, including European Union (EU) regulations to impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU, extending to supply chains for materials like cobalt, lithium and nickel. Other legislation will require companies to take responsibility for human rights abuses and environmental harm throughout their global value chains.

13. **Biodiversity.** LAPFF has written to financial institutions regarding their role in biodiversity and climate change and are broadening scope to other industries as well. For example, Procter & Gamble and its supply chain responsibility for forest degradation and Nestlé with a request to discuss plans for regenerative agriculture.
14. Deforestation is becoming an increasingly important topic, particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. LAPFF will monitor how relevant companies incorporate TNFD recommendations and engage those lagging behind on biodiversity and deforestation.
15. **Other company engagements.** LAPFF had various other company engagements through the quarter with Shell, Centrica, National Grid, SSE, Taylor Wimpey and Unilever. The topics included cost of living crisis assistance, connecting clean energy projects to the grid, energy and just transitions. Since LAPFF engagement, Taylor Wimpey has produced a transition plan, which has emission targets covering scopes 1-3 emissions and with a net zero by 2045 commitment.

Collaborative engagements

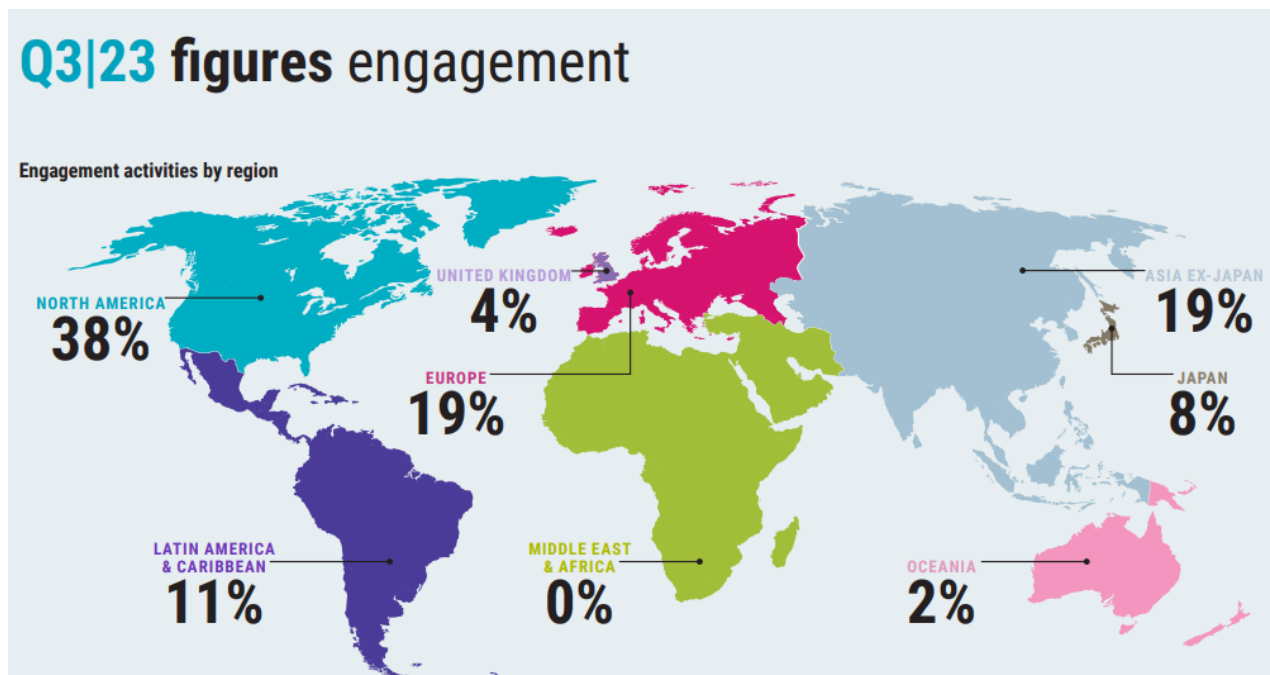
16. LAPFF works collaboratively with a number of organisations, some of which are listed below. The Farm Animal Investment Risk and Return (FAIRR) initiative is an engagement focusing on working conditions at food producers, mainly in North and South America. The Asia Research Engagement's (ARE) Energy Transition Platform seeks to engage both financial companies and coal-exposed power companies, and LAPFF participated in calls with Mizuho Financial Group, China Construction Bank (CCB), and Huaneng Power during the quarter.
17. Nature Action 100 is a global investor-led engagement initiative led by Ceres and the Institutional Investor Group on Climate Change (IIGCC) which seeks to reverse biodiversity loss and drive nature action. The 30% Club Investor Group expanded its scope to cover racial equity in UK boardrooms and promote gender diversity in global boardrooms. Valuing Water Finance Initiative engages companies with a significant water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.
18. During the quarter LAPFF signed onto the Climate Disclosure Project's (CDP) science-based targets campaign for the third straight year. LAPFF signed onto a letter to the International Sustainability Standards Board (ISSB) requesting that the body 'prioritise researching' human capital and human rights indicators in its work plan.

19. Bank Track has finalised its investor statement and is encouraging signatories to use it as a basis of engagement with banks on human rights. LAPFF is a signatory. LAPFF also met with Ofwat to discuss various issues around capital expenditure, affordability, delivery, resilience and the impact of climate change.
20. LAPFF continues to focus on reliable accounts, given problems with accounting and auditing standards, and extends to climate reporting and decarbonisation. Focus on the Freedom of Information Act requests also continues.
21. LAPFF made a strong response to the Financial Conduct Authority's (FCA) consultation on relaxing the Listing Regime, which was met by equally strong condemnation of the FCA proposals by other large asset owners, including RailPEN. The LAPFF has set up a Capital Markets Working Group.
22. LAPFF hosts fringe events at the political conferences. The focus of this year's meetings was greenwashing. Achieved: Within the quarter, LAPFF held a meeting at the Lib Dem party conference. Meetings at the Conservative and Labour party conferences were planned for the following quarter.
23. LAPFF responded to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights.

Robeco Engagement

24. In the quarter ended 30 September 2023, Robeco voted at 909 shareholder meetings, voting against at least one agenda item in 68% of cases. The Robeco report can 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-Q3.pdf \(bordertocoast.org.uk\)](https://www.bordertocoast.org.uk/Border-to-Coast-Public-Engagement-Report-2023-Q3.pdf)



Just Transition in Emerging Markets

25. This quarter, the theme of Just Transition in Emerging Markets is explored. Climate action should not come at the cost of workers, local communities or other vulnerable stakeholders. This theme will engage companies to define just transition ambitions and strategies, emphasising the need for a fair and inclusive approach to the decarbonization process. Beyond workers, it considers the impacts on all affected stakeholders along the value chain.
26. While the Just Transition is a global challenge, it is especially relevant for emerging markets. Given their strong dependence on high-emitting sectors, they face a significant risk of unsustainable, inequitable development. A Just Transition can reshape economic landscapes, create jobs and advance the SDGs by showcasing a proactive response to climate change and social equity.
27. Various frameworks and initiatives have been established, including the International Labour Organization's Just Transition Guidelines, the UN Guiding Principles for Business and Human Rights, Climate Action 100+ initiative, and the World Benchmark Alliance's Just Transition Methodology. The frameworks helped develop the five engagement objectives.
28. By reallocating capital towards companies with net-zero strategies, investors actively drive the transition to a low-carbon future. Investors can effectively address Just Transition issues through five main avenues: their investment strategies, corporate engagement, capital allocation, advocating for supportive policies, and forming partnerships. Robeco's programme focuses on corporate engagement, acknowledging that all five areas are interlinked and imperative to the Just Transition.
29. The rigorous selection process identified targeted companies in the APAC region and South Africa. Once alignment with SDGs 7, 8 and 13 (Affordable & Clean Energy, Decent Work & Economic Growth, and Climate Action respectively) was evaluated and proprietary climate scores were assigned. Six companies were ultimately selected for engagement under the Just Transition theme. The engagement activities are initially focused on the energy and mining sectors due to their stronger decarbonization progress and social relevance for emerging markets.

Corporate Governance in Emerging Markets

30. Robeco's engagement in emerging markets focuses on companies and is bottom-up in nature. There are five broad engagement objectives the most positive progress so far is on the objective of improving disclosures for the capital markets, with the main sub-objective to ask companies to provide or improve 'non-financial' reporting on material issues to improve accountability for results. Another engagement objective is to improve how companies allocate capital by doing it more transparently and effectively.
31. Robeco are active members of the Asian Corporate Governance Association (ACGA) working toward the implementation of effective corporate governance practices AND are particularly active with ACGA in Japan, Hong Kong and South Korea. In a more recent result, the Korea Exchange (KRX) and the Financial Services Commission (FSC) revised the guidelines on mandatory corporate governance, which has expanded to firms listed on the Korea Composite Stock Price Index (KOSPI). Notably, companies must explain to shareholders details on internal transactions with affiliated firms and self-dealings involving management and controlling shareholders..

Sovereign Engagement

32. While in Brazil this year, Robeco met with 5 governmental bodies, the Brazilian Central Bank, and 4 companies. Countries worldwide repeatedly pledge collective action, but progress is often too slow. For the first time in decades, progress made in meeting the UN SDGs, has reversed. Investors in sovereign debt can encourage issuers to safeguard and invest in the environmental services their economies depend on. Partnering with investors may give governments a better understanding of the sustainability-related needs arising from financial markets and how to leverage these to increase access to capital.
33. Robeco's engagement with Brazil aims to support the government on ending deforestation in the Amazon as part of the Investor Policy Dialogue on Deforestation (IPDD) collaboration. Sovereign engagement has since been extended to Indonesia and Australia. The engagements focus on key nature-related SDGs. Talks regarding SDG 15 (Life on land), focused on ending deforestation, are being conducted with Brazil and Indonesia, while the talks with Australia focus on SDG 13 (Climate action).
34. Brazil is home to 60% of the Amazon basin, the world's largest rainforest and land carbon sink, and plays a key role in combating climate change. Traditionally, safeguarding the rainforest has stood in contrast to the Brazil's agricultural sector, representing up to 29% of the country's gross domestic product (GDP). The lack of incentives and financial streams directed towards greater efficiency in agriculture is oftentimes hindering the sector's transition. Deforestation is only now starting to decrease as Brazil works toward eliminating deforestation by 2030. The engagement takes place at many different levels; consulting, local civil society organizations, governmental agencies and even corporates, who can all become important allies in the country's environmental transition.
35. The Brazilian business sector led the initial transition, and pressures to act were only met by the government end of 2021, when the country signed the Glasgow Leaders Declaration on Forests and Land Use at COP26, pledging to halt and reverse forest loss and land degradation by 2030. Yet, progress remained stagnant until the new administration came into force. In April 2023, Robeco and other IPDD members travelled to Brazil to discuss deforestation actions under the new government. The dialogue focuses on finding systematic and socially beneficial solutions to the deforestation challenge. Solutions such as establishing an accessible and reliable national cattle traceability and deforestation monitoring systems would increase efficiency and accountability in the private sector and would ensure compliance with current requirements set forth by the EU Deforestation Directive. Lastly, a centralized traceability system could help the country fight broader criminal activities and tax avoidance, which are often linked to illegal deforestation.
36. Robeco engaged with the Brazilian Central Bank and the Bank of Brazil to explore how to strengthen local sustainable credit markets, pushing the development of clearer taxonomies and verification systems, reflecting the growing demand for green investment vehicles into the real economy. The new elected administration seems to be standing behind its 2022 campaign promises, fostering cross-ministerial collaboration, and increasing budgets for environmental protection and enforcement, however, the anti-environmental lobby remains strong in the Brazilian Congress and parts of the agribusiness sector, leaving budgeting and progress plans open to question. Yet, opposition also creates an opportunity for engagement as it reflects a need for dialogue and the importance of finding mutually beneficial solutions. Overall, a first fall of 34% in deforestation rates having been witnessed during the first half of 2023, and a fresh wind seems to be blowing through the Brazilian rainforest.

Surrey Share Voting

37. 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	7	2	28.6%
Board	24	2	8.3%
Capital	9	0	0%
Political Activity	1	1	100%
Remuneration	4	2	50%
Shareholder Rights	3	2	66.7%
Sustainability	1	0	0%
Other	0	0	0%
Total	49	9	18.4%

38. The Surrey Pension Fund voted against management on 18.4% of the resolutions for which votes were cast during the quarter ended 30 September 2023. General shareholder dissent stood at 1.9% in the same period.

Shareholder Proposed Resolutions/ Management Resolutions

39. The period under review had a low level of activity regarding resolutions the Surrey Pension Fund was able to vote on. No management-proposed resolutions were voted down by shareholders and there were no resolutions proposed by shareholders.
40. **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:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

43. There are financial and value for money implications.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

44. 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

45. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

46. 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

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

WHAT HAPPENS NEXT

48. The Pension Fund will continue to monitor the progress of the voting and engagement work carried out by BCPP, 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) Q3 2023
 2. Engagement & Voting – BCPP ESG Global Equity Alpha Q3 2023
 3. Engagement & Voting – BCPP ESG UK Equity Alpha Q3 2023
 4. Engagement & Voting – BCPP ESG Listed Alternatives Q3 2023
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