

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 21 JUNE 2024****LEAD OFFICER: ANNA D'ALESSANDRO, INTERIM EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES****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 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. 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 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 Sustainable Development Goal (SDG) alignment.
 - b) Acknowledges the outcomes achieved for quarter ended 31 March 2024 by LGIM, LAPFF and Robeco through their engagement.
 - c) Note the voting by the Fund in the quarter ended 31 March 2024.

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**DETAILS:**

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.
5. LGIM is the Fund's passive fund manager. With nearly 1.5 trillion USD in AUM, the annual active ownership report is an in-depth document which covers the vast array of engagement and stewardship efforts performed by LGIM for the year.

LGIM Active Ownership report

6. The annual Active Ownership Report from LGIM can be found at the link below. This report details how the Investment Stewardship and Investment teams at LGIM exercised voting rights and engaged with companies, policymakers and other stakeholders on topics including deforestation, income inequality, human rights and artificial intelligence.

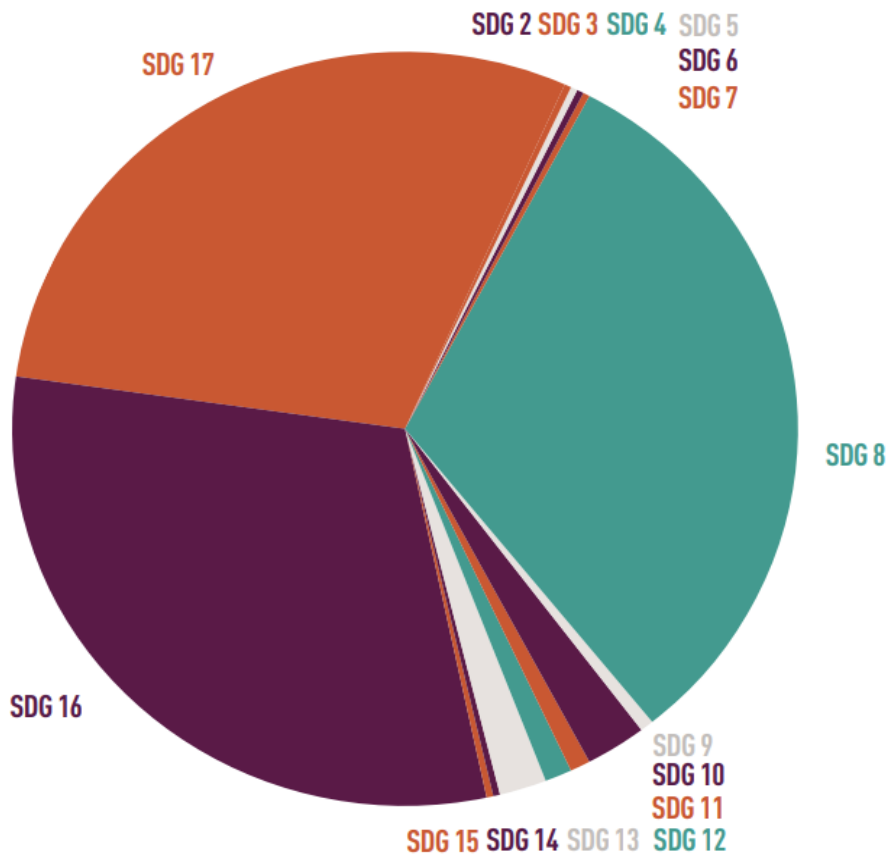
[Active ownership report 2023 | LGIM Institutional](#)

LAPFF Engagement

7. The LAPFF Quarterly Engagement Report details progress on engagements over the quarter ended 31 March 2024 and can be found at the link below. Highlights include engagement with banks on climate change, continued engagement with Drax Energy, engagements with UK water companies, and human rights in two sectors - mining and luxury goods.

[LAPFF-Q1-2024-QER.pdf \(lapfforum.org\)](#)

8. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). The largest SDG categories were 8, 16 and 17 driven by the Votes Against Slavery initiative spearheaded by Rathbones. Companies in the FTSE350 and AIM indexes received letters signed by LAPFF and sent by Rathbones regarding compliance with s54 of the Modern Slavery Act. A further 42 companies outside of this theme were also engaged over the quarter.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	2
SDG 4: Quality Education	0
SDG 5: Gender Equality	2
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	2
SDG 8: Decent Work and Economic Growth	220
SDG 9: Industry, Innovation, and Infrastructure	5
SDG 10: Reduced Inequalities	18
SDG 11: Sustainable Cities and Communities	6
SDG12: Responsible Production and Consumption	7
SDG 13: Climate Action	13
SDG 14: Life Below Water	2
SDG 15: Life on Land	3
SDG 16: Peace, Justice, and Strong Institutions	213
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	206

9. Banks play a significant role in addressing climate change through providing finance to the energy transition. LAPFF’s priority in the banking sector has been the two UK banks HSBC and Barclays, and the objective is to see clear policies, evidence of progress in supporting renewable and clean energy, managing and scaling down fossil fuel exposure and a clear commitment to assessing all relevant client businesses. Both banks have

published transition plans and Barclays also included coverage of its lending to the fossil fuel industry in response to external pressures. LAPFF seeks to encourage stronger restrictions on lending to the fossil fuel sector, proper disclosure and analysis of transition plans and robust commitments to financing the energy transition. Alongside the UK banking engagement, LAPFF has decided to expand its activity to include five Canadian banks - Toronto Dominion, Royal Bank of Canada, Bank of Montreal, Scotia Bank and CIBC - because some of the Canadian banks have been seen as laggards on climate action.

10. The engagement with Drax this quarter focused on the time scale over which new growth of trees will compensate for its carbon emissions and the sustainability of the supply chain for wood pellets used at Drax Power Station. These are mainly imported, and their cost, considering that gas and renewables offer cheaper alternatives, is of interest.
11. Over the past two years, LAPFF has been engaging UK water utility companies on sewage overflows to ensure reductions against targets and the delivery of future improvements. At the same time, the engagement has included the publicly listed companies on the financial resilience of the sector. Discussions were held around investment needed in infrastructure, delivering value for money and ensuring affordability.
12. Legislation globally is increasingly incorporating human rights considerations, including potential fines for companies found to have forced labour or other human rights abuses in their supply chains. Managing such human rights risks is a crucial component of sustainable company practices and increasingly a financially material issue for investors. During the quarter, LAPFF engaged with five luxury goods companies. The requests were varied due to the differing levels of disclosure and transparency and the aim is to ensure robust human rights risk management is viewed as a company responsibility.
13. LAPFF continued its work with mining companies and affected communities and attended the 2024 African Mining Indaba in Cape Town, South Africa this quarter. LAPFF will continue to work with the UN Working Group and other stakeholders to inform best practice on mining and human rights.

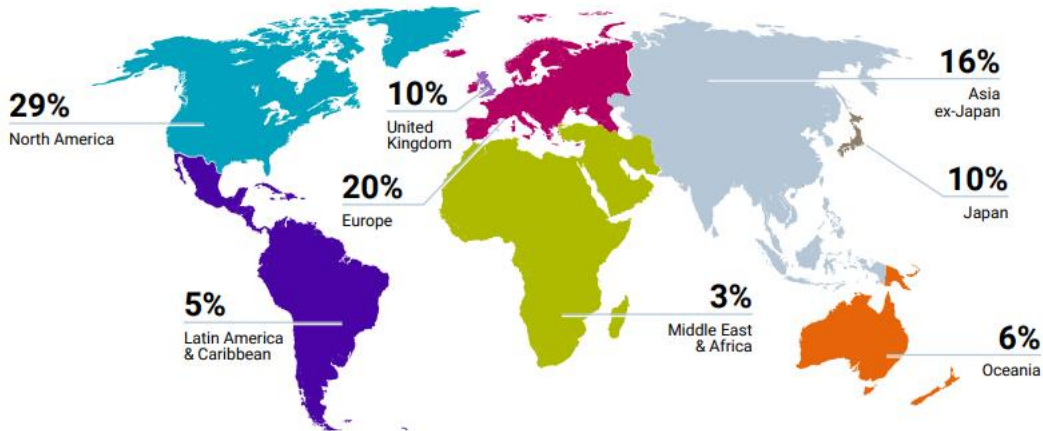
Robeco Engagement

14. In the quarter ended 31 March 2024, Robeco voted at 156 shareholder meetings, voting against at least one agenda item in 58% of cases. The Robeco report can found by following the link below. Some of the engagements from the quarter are shown in the graphics and highlights are described below.

[Border-to-Coast-Public-Engagement-Report-2024-Q1.pdf \(bordertocoast.org.uk\)](https://www.bordertocoast.org.uk/wp-content/uploads/2024/04/Border-to-Coast-Public-Engagement-Report-2024-Q1.pdf)

Q1|24 figures engagement

Engagement activities by region



15. The quarterly report from Robeco typically focuses on four themes which are at different stages in the engagement cycle. There is also a section for proxy voting. The themes for the quarter ending 31 March 2024, are Fashion Transition, Tax Transparency, Natural Resource Management and the Social Impact of Gaming.
16. **Fashion Transition:** This is a cross-thematic engagement helping to address water, air and soil pollution, as well as worker rights and wages throughout the supply chains. Robeco have developed a framework to rank companies according to a sustainability classification which goes from Nascent, to Maturing, Pioneering and Advanced. The vision for the Fashion Transition is to enable positive change on the identified sustainability issues and move companies towards Advanced status. The theme engages with publicly listed companies across the entire global fashion value chain and product lifecycle includes clothing, footwear, accessories, jewellery and cosmetics companies from luxury to sportswear and the mass market. Fibre makers, textile manufacturers, retailers and technology companies can enable the shift to circular economic models. Key exposure however is on fashion brands and more specifically, four main areas covering decent work, natural resources, circular models and stakeholder engagement and governance.
17. **Tax Transparency:** The aim of this new engagement theme is to promote better disclosures from companies on tax transparency. A company's effective tax rate dictates the level of profit distributions and affects any modelling of discounted future cash flows, and thus affects the returns for investors. New legislation between authorities increasingly target corporate structures set up with the main purpose of minimizing tax burdens. A prominent example of this trend is the OECD/G20 Inclusive Framework on BEPS (Base Erosion and Profit Shifting), where more than 135 jurisdictions are collaborating on the implementation of 15 measures aimed at tackling corporate tax avoidance. When profits and taxes are shifted away from countries that have insufficient financial resources to invest in basic healthcare, education, and other necessities, tax optimisation strategies can be detrimental to many of the UN Sustainable Development Goals. The goal of the Tax Transparency engagement theme is to push for more accountability and meaningful disclosures on corporate tax practices. Engagement candidates were chosen by first screening for companies with low effective tax rates of 15% or less, news flow indicating tax disputes or controversies, and relevant investment exposure. The most relevant and engageable

companies selected are mainly located in the US and are operating in the healthcare and information technology sectors.

18. **Natural Resource Management:** This engagement theme focuses on companies where the management of water and waste is a financially material issue, or where they have a significant actual or potentially negative environmental impact. The aim is to improve companies' performance by zooming in on several environmental indicators related to water and waste. In July 2022, the first batch of companies were engaged, from three high water use or water scarce sectors: Chemicals, Oil & Gas, and Paper & Pulp. In November 2022, companies from the Breweries sector were added and the number nearly doubled. In 2023, the engagement was closed with the first couple of companies, 50% successfully. At the end of 2023, some cases were transferred to a more aligned, holistic themes, and the remaining companies will be engaged with for another one-and-a-half years. The latter part of this engagement theme will be steered more towards waste, where the focus is on companies that generate hazardous waste and are at risk of polluting the environment and adversely affecting the communities that host them.
19. **Social Impact of Gaming:** From 2021 to 2023, Robeco engaged with some of the world's largest listed video game publishers. The engagement aimed to address the social impacts of video games related to depictions of violence and diversity, the safeguards for harassment, and the amount of time and money spent playing them. Stakeholder management and human capital management were also discussed as objectives that more broadly relate to the social impacts of these companies. One company was transferred to the Sustainable Development Goals (SDGs) theme, cybersecurity and corporate governance has been added to the discussions. Of the remaining companies, 80% of cases were successfully closed.

Surrey Share Voting

20. 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	% Against Management	% All Votes Against Management
Audit & Reporting	12	4	33.33%	13.79%
Board	61	12	19.67%	41.38%
Capital	7	0	0.00%	0.00%
Corporate Action	6	0	0.00%	0.00%
Other	0	0	-	-
Political Activity	1	1	100.00%	3.45%
Remuneration	11	8	72.73%	27.59%
Shareholder Rights	4	0	0.00%	0.00%
Sustainability	6	4	66.67%	13.79%
Total	108	29	26.85%	100.00%

21. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 4.21%,

Surrey opposed management on 26.85% of resolutions.

22. Resolutions opposed by Surrey received average general shareholder dissent of 9.47%, a much higher level than the dissent received on resolutions that Surrey supported (2.19%), highlighting that Surrey has a robust policy which is consistent and aligned with other investors' governance concerns.

Vote Outcomes

23. The UK Corporate Governance Code recommends boards take action 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%. This compares with three in the previous quarter.
24. The four resolutions that received 20% or more dissent were shareholder proposals filed at Apple Inc, Applied Materials Inc and Bank Mandiri (Persero) Tbk PF. The areas of concern highlighted by Surrey's voting policy included pay gaps and diversity & inclusion practices, managing and mitigating AI-related risks, insufficient disclosure to make informed voting decisions and concerns regarding Board independence.
25. Seven resolutions voted during the period were proposed by shareholders. All of the shareholder resolutions were proposed in the North America region.
26. During 2024 Q1, no resolutions proposed by management were defeated and no shareholder-proposed resolution was successful. On average, the shareholder proposals received 17.03% dissent during the Quarter.

BCPP Responsible Investment

27. Annexes 2, 3, 4 & 5 provide a high-level overview of ESG performance for Global Equity Alpha, UK Equity Alpha, EM 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:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

30. There are financial and value for money implications.

INTERIM EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES COMMENTARY

31. The Interim Executive Director, Finance and Corporate Services is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

32. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

33. 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

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

WHAT HAPPENS NEXT

35. 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. Annexe 1 – Surrey Voting Report (Minerva) Q1 2024
2. Annexe 2 – BCPP ESG Global Equity Alpha Q1 2024
3. Annexe 3 – BCPP ESG UK Equity Alpha Q1 2024
4. Annexe 4 – BCPP ESG Emerging Markets Equity Alpha Q1 2024
5. Annexe 5 – BCPP ESG Listed Alternatives Q1 2024