

SURREY PENSION FUND COMMITTEE REPORT



SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 21 MARCH 2025

LEAD OFFICER: NEIL MASON, SENIOR LGPS OFFICER

SUBJECT: COMPANY ENGAGEMENT & VOTING UPDATE

SUMMARY OF ISSUE:

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting carried out on behalf of the Surrey Pension Fund (Fund) by Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP). Also included is the direct voting record for the Fund over the period.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Acknowledges the outcomes achieved for quarter ended 31 December 2024 by LAPFF and Robeco through their engagements.
2. Note the direct voting by the Fund in the quarter ended 31 December 2024.

REASON 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 Responsible Investment (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 an implicit fiduciary duty. Such a process is strengthened by the advice of a consultant skilled in this field and this has been provided to the Fund by Minerva Analytics covering voting and the whole spectrum of responsible investment.
2. 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 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.

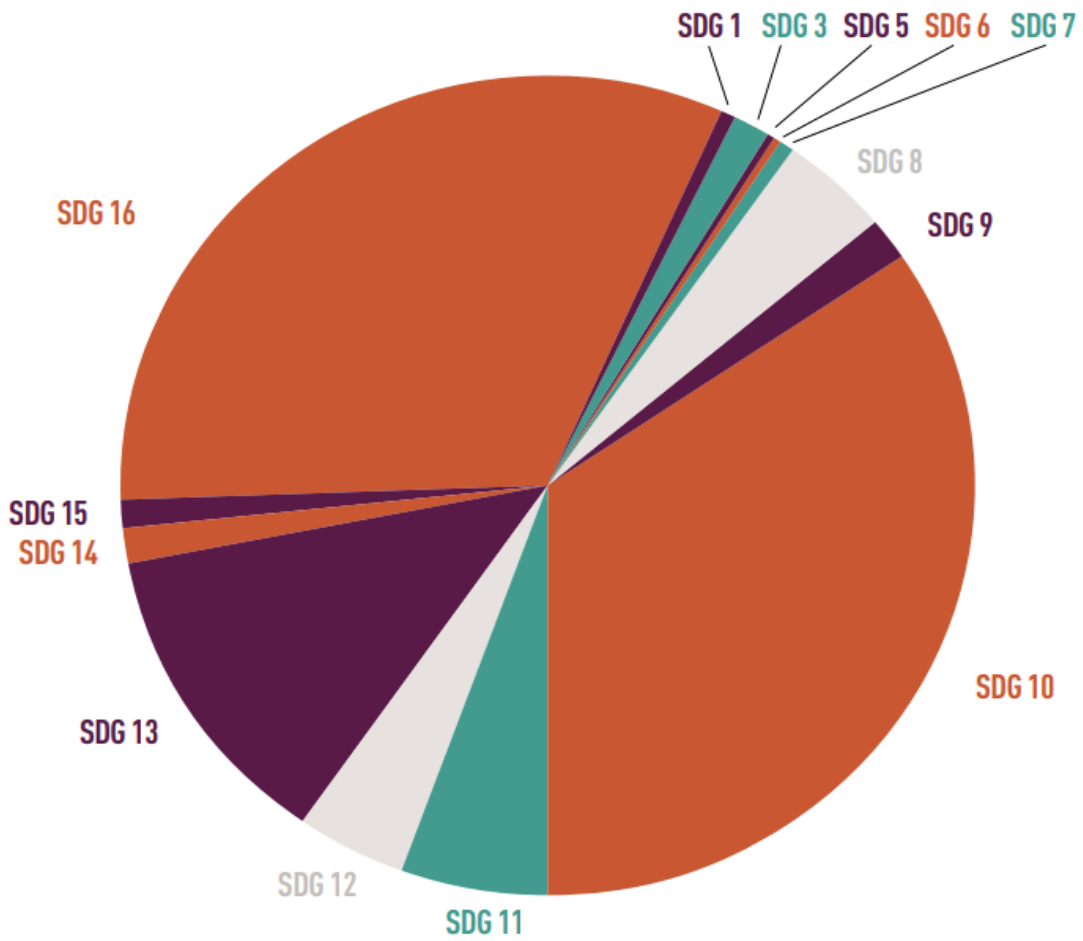
3. LAPFF, of which the Fund is a member, is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) funds and UK Pension Pools. Its aim is to engage with companies to promote the highest standards of corporate governance and responsibility. As a member the Fund enhances its own influence.
4. BCPP has appointed Robeco as its voting & engagement provider.

LAPFF Engagement

5. The LAPFF Quarterly Engagement Report for the quarter ended 31 December 2024 can be found at the link below. Some of this quarter's engagements have been described in this paper and the full report can be found at the link below.

[LAPFF-Q4-2024-QER.pdf](#)

6. The chart below shows LAPFF engagement over the quarter in relation to the UN Sustainable Development Goals (SDGs). The most significant SDGs addressed this quarter were 10 - Reduced Inequalities and 16 - Peace, Justice and Strong Institutions. Engagements included 24 meetings, 38 climate transition plan responses and 94 letters to constituents of the FTSE100 regarding conflict-affected and high-risk areas (CAHRAs).



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	5
SDG 4: Quality Education	0
SDG 5: Gender Equality	1
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	2
SDG 8: Decent Work and Economic Growth	15
SDG 9: Industry, Innovation, and Infrastructure	6
SDG 10: Reduced Inequalities	121
SDG 11: Sustainable Cities and Communities	19
SDG12: Responsible Production and Consumption	15
SDG 13: Climate Action	43
SDG 14: Life Below Water	4
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	113
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

Automotive Industry

7. During the quarter, LAPFF met with a total of five automobile manufacturers with the focus on the mitigation and management of human rights risks in supply chains often associated with conflict-affected and high-risk areas (CAHRAs). All five companies demonstrated progress in their approach to managing human rights risks in their battery mineral supply chain.
8. In the three years that LAPFF first began engaging Mercedes, it has increased the number of raw materials it provides information around human rights due diligence on from six to fifteen. Mercedes now provides enhanced disclosures, detailing comprehensive breakdowns on individual minerals.
9. Ford has developed a supply chain mapping initiative, which includes tracing battery materials to the point of extraction for several high-risk minerals. Through partnerships with third parties, Ford has completed 30 supplier audits across four select battery supply chains to a raw material level. It has also further demonstrated commitments to addressing potential human rights abuses across its supply chain by integrating Free, Prior, and Informed Consent (FPIC) requirements into its supplier code of conduct to protect indigenous communities impacted by raw material extraction.
10. Volkswagen has decided to exit its joint venture in Xinjiang following reports that an audit conducted the previous year had not met Social Accountability International's SA8000 Standard.
11. BMW has shifted its cobalt sourcing exclusively to certified mines in Australia, eliminating higher risk sourcing from the Democratic Republic of Congo (DRC). Reshoring or nearshoring the supply chain for higher risk commodities is considered a meaningful approach to managing human rights risks.
12. General Motors continues to focus on expanding its supplier education and ethical sourcing programmes, including expanding the number of direct agreements it has with mines. GM now also requires suppliers to cascade the requirements of its human rights policy throughout their supply chains.

Airline engagement

13. LAPFF continues to engage with airlines and aviation fuel suppliers, who as an industry, account for approximately 2% of global CO2 emissions.
14. During the quarter, LAPFF met with Wizz Air and IAG. Both airlines are advancing Sustainable Aviation Fuel (SAF) as a cornerstone of their decarbonisation strategies. Wizz Air has secured long-term SAF supply agreements, while IAG is targeting 10% SAF use by 2030 and 70% by 2050. IAG is also actively advocating for SAF mandates and incentives, partnering with producers like 12 Power Liquid to accelerate SAF technology development.

15. IAG supports carbon pricing mechanisms and integrates carbon efficiency into its operational practices, tying 10% of managers' bonuses to carbon reduction targets.

Asia Research and Engagement's Energy Transition Platform

16. A focus for LAPFF is the significant role banks play in the energy transition and as part of its involvement with Asia Research and Engagement investor group, the Forum seeks to engage with major financial institutions in Asia to improve their alignment with a 1.5°C pathway with enhanced disclosure, strengthened transition finance frameworks, and the adoption of clearer policies relating to the financing of more emissions intensive energy sources such as coal and oil sands. LAPFF met with three banks during the quarter.
17. Mizuho Financial Group has improved its approach to environmental and social governance by expanding its E&S Policy to include wood-based biomass as a monitored sector. Furthermore, the bank introduced a 1.5°C criteria within its FY2024 transition risk control framework.
18. Sumitomo Mitsui Banking Corporation (SMBC) has developed a Transition Finance Playbook which provides guidelines for transactions and incorporates annual client progress assessments to ensure alignment with its sustainability goals. Using this, SMBC trying to align its financing activities with climate transition requirements while also managing its own financed emissions.
19. Mitsubishi UFJ Financial Group introduced a 'transition evaluation framework' in April 2024, which evaluates projects and corporate financing against its 1.5°C pathway criteria. Each project undergoes a rigorous E&S checklist review and HQ approval which demonstrates MUFG's effort to institutionalise climate considerations within its decision-making processes.

Water Stewardship

20. LAPFF has engaged with Chipotle on its approach to water stewardship since 2019 with the initial objective met in 2022 – undertaking an ingredient level water risk assessment to identify areas of water stress within its supply chain. Having identified priority regions, LAPFF's expectation is measurable and time bound targets to reduce negative impacts on freshwater.
21. In April 2024 Chipotle's sustainability report included a goal to support water stewardship efforts to conserve and restore watersheds in priority regions. Whilst considered positive, LAPFF felt the target itself lacked specificity, making it difficult to assess the extent to which the goal is effective in reducing water stress within the company's value chain. In a meeting in December 2024 Chipotle indicated it is developing a more focussed target, including a potential incentive for agricultural suppliers to adopt additional regenerative farming practices.

Robeco Engagement

22. This quarter Robeco voted at 123 shareholder meetings on behalf of BCPP, voting against at least one agenda item in 37% of cases. The report for Q4 2024 can be found by following the link below.

[Border-to-Coast-Public-Engagement-Report-2024-Q4.pdf](#)

23. The themes covered this quarter are Ocean Health – new for 2025, the ‘Acceleration to Paris’ engagement which has been extended, and a one year progress report for the ‘Just Transition’ theme with companies based in emerging markets.

Ocean Health

24. The ‘Ocean Health’ engagement theme begins Q1 2025, focusing on environmental health indicators of the ocean biome, and how companies affect them. Three sectors – seafood, shipping and cruise lines – will focus on management of impacts and dependencies on marine health for transition towards nature-neutral and even restorative value creation models.

25. There are four objectives – assessment, strategy, stakeholder management and governance – each with sector-specific asks. Companies are expected to set out high-level climate and biodiversity ambitions, and develop quantifiable and timebound roadmaps

Acceleration to Paris Phase 2

26. In 2021, Robeco launched The Acceleration to Paris theme focusing on high emitters with very weak management of greenhouse gas emissions. By the end of 2023, 84 countries had agreed to phase out coal, or to not develop new unabated coal power plants, collectively accounting for around 30% of current coal power consumption.

27. In 2024, a new set of companies was selected for the second phase and Robeco defined a clear set of minimum climate expectations that high emitters must meet. Many of the companies failing the minimum expectations are based in emerging markets, where climate disclosures are less well established but the development of the IFRS Climate-Related Disclosure framework as the first global standard is encouraging. Regulators around the world, including key markets like China, are aligning corporate reporting requirements with (parts of) this disclosure framework.

Border to Coast Engagement

28. The Fund is aware of increasing global commentary about the nature of ESG integration into investment decision making. BCPP are involved in this debate and continue to monitor the situation. The Fund is engaging with its managers to understand any ramifications.

29. In partnership with RLAM, BCPP are collaboratively engaging 11 UK water utilities, and leading the engagement with Yorkshire Water and Northumbrian Water on behalf of the collaboration. In 2024, the companies were re-assessed based upon the 2023 engagement and a review of their subsequent 2024 plans for the 2025-30 period. BCPP RAG rated each against 19 KPIs covering sewage pollution, water leakage, climate change mitigation and adaption, nature-based solutions and biodiversity, and antimicrobial resistance, and gave an overall score out of 100.
30. This quarter, BCPP met Yorkshire Water senior management to discuss. They acknowledged the assessments as fair and welcomed the deep engagement and the value it has added. Yorkshire Water has made progress across all areas of engagement. Northumbrian Water preferred to respond to the assessment with a detailed written response and they also improved across all areas of engagement. BCPP has highlighted areas that require further improvement for both companies.
31. This engagement programme is expected to complete during 2025 with the publication of a sector report, which will be shared and discussed with Partner Funds.
32. BCPP have joined the Good Work Coalition of investors, co-ordinated by ShareAction, and two of its collaborative engagements on the Living Wage and Ethnicity Pay Gap reporting. During the quarter, meetings were held with Marks & Spencer and Kingfisher to request Real Living Wage accreditation and with Associated British Foods to request Ethnicity Pay Gap reporting.
33. As part of BCPP's engagement escalation with the Oil and Gas sector, they have made several critical public statements in response to reports that BP is to weaken its climate targets and transition plans. BCPP have co-signed open letters and wrote to the company directly to raise concerns and call for any changes to be brought back to shareholders at its 2025 AGM for decision. A meeting with BP is scheduled.
34. Direct engagements were undertaken with Chevron, ConocoPhillips, BP, Shell, and Eni to highlight high methane emissions and request information on how companies are addressing the issue.
35. During the last quarter, 34 letters were sent to companies to advise of votes against management due to climate voting policy during the 2024 AGM season and advising of expectations to avoid such votes in future.
36. BCPP directly engaged SK Inc to address a gap in the top 40 emitter engagement coverage. They requested further disclosure on its transition plan covering technology use and interim targets, and alignment of climate policy and trade association memberships.

Surrey Share Voting

37. The full voting report produced by Minerva is included in Annexe 1. During the quarter Oct-Dec 2024 the Fund was entitled to vote at 6 meetings on 79 resolutions, with the majority of these in North America. The table below shows the resolution category, and 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	5	5	100.00%	19.23%
Board	57	8	14.04%	30.77%
Capital	3	1	33.33%	3.85%
Corporate Action	1	0	0.00%	0.00%
Remuneration	5	5	100.00%	19.23%
Shareholder Rights	2	1	50.00%	3.85%
Sustainability	6	6	100.00%	23.08%
Total	79	26	32.91%	100.00%

38. Surrey voted against management on 32.91% of the resolutions for which votes were cast during the quarter.

39. In the Audit & Reporting, Remuneration and Sustainability categories Surrey voted against management on 100% of the resolutions. This included resolutions on re-appointment of an external auditor where concerns were held with audit tenure and the lack of disclosure regarding a recent tender, amongst others.

40. All resolutions in the Sustainability category were shareholder proposed and Surrey voted in favour of all six proposals which asked for enhanced reporting and transparency on a variety of environmental and social factors, such as racial and ethnic pay gap reporting, human rights-related practices, and risks associated with artificial intelligence.

41. Board resolutions accounted for 72% of all resolutions voted on during the quarter and 31% of the total resolutions voted against management. The majority of Surrey's dissenting votes on board-related resolutions related to proposed director candidates due to independence concerns.

42. The UK Corporate Governance Code recommends boards take action where 20% or more of votes are cast against the board recommendation on a

resolution and is generally considered to be significant. Surrey voted against management in four resolutions which received shareholder dissent of more than 20%. This compared with one resolution with high dissent in the previous quarter. The four resolutions concerned AutoZone, Microsoft and Proctor & Gamble.

BCPP Responsible Investment

43. 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:

44. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

45. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

46. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

47. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

48. There are no equality or diversity issues.

OTHER IMPLICATIONS:

49. There are no other implications.

NEXT STEPS:

50. The following steps are planned:

- a) 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

Annexes:

1. Surrey Voting Report (Minerva) Q4 2024 - Annexe 1
2. BCPP ESG Global Equity Alpha Q4 2024 - Annexe 2
3. BCPP ESG UK Listed Equity Alpha Q4 2024 - Annexe 3
4. BCPP ESG Emerging Markets Equity Alpha Q4 2024 - Annexe 4
5. BCPP ESG Listed Alternatives Q4 2024 – Annexe 5

Sources/Background papers:

None