

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 11 SEPTEMBER 2020****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: COMPANY ENGAGEMENT & VOTING****SUMMARY OF ISSUE:****Strategic objectives****Investment**

This report is a summary of various Environmental Social & Governance (ESG) issues that the Surrey Pension 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. 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 BCPP's voting and engagement services so acts in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 12 partner funds within the Pool.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Reaffirms that ESG Factors are fundamental to the Fund's approach, consistent with the Mission Statement through;

- Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment with its external provider Minerva Analytics.
- Commending the outcomes achieved for quarter ending 30 June 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 June 2020.
- Notes Minerva's Voting Services Issue Update report in Annexe 2

REASONS FOR RECOMMENDATIONS

In accordance with The Fund's Mission Statement, as well as its Investment Strategic Objectives, the Fund is required to fulfil its fiduciary duty to protect the value of the Pension Fund, to meet its pension obligations. Part of this involves consideration of its wider responsibilities in Responsible Investment as well as how it exercises its influence through engaging as active shareholders.

DETAILS:

Background

1. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including Border to Coast Pensions Partnership (BCPP). Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies. By
2. Robeco is an international asset manager, also carrying out independent research on various ESG issues, which can contribute to a company's investment strategy. By providing regular sustainability reports, it reinforces the fact that good corporate governance and social responsibility can enhance the long-term risk-return profiles of our investment portfolios. Robeco has been appointed to provide voting and engagement services.
3. 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 particular field.
4. The Surrey Pension Fund has been with 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 that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS).

Outcomes Achieved through Company Engagement

LAPFF Engagement Outcomes

5. The LAPFF had engaged with 79 companies on issues such as Climate Change, Community Engagement and the Just Transition during the Quarter Ending 30 June 2020.
6. ArcelorMittal (Climate Action) – LAPFF are currently leading the engagement with Arcelor Mittal through the Climate Action 100+ group.
7. Barclays (Climate Change) – LAPFF engaged with both Barclays and SharAction, in response to both organisations submitting their own climate resolutions. As both resolutions had become very close in their views on how to progress Barclays' Climate Strategy, the LAPFF were happy to support both.
8. Tailings Dams (Sustainability) – Community representatives flagged a list of high risk dams, which pose significant safety concerns for affected communities, which the LAPFF cross referenced with its own collective holdings. They had found that the AngloAmerican, Vale and ArcelorMittal all had dams on the list. The Forum consequently decided to pursue engagement with these companies on how they were mitigating risk for these communities

9. Chipotle (Climate Change) – LAPFF met with Chipotle representatives on numerous occasions during 2019 and into 2020, asking how they plan to enact meaningful policies and targets to de-risk their meat and dairy supply chains from a climate perspective. Chipotle have since confirmed it would set science based emissions reduction targets by 2021. LAPFF's focus is now on ensuring the company continues to develop a methodology capable of accurately collecting emissions data from across its value chain

Engagement with Policy Makers on Deforestation

10. The Fund recently co-signed an open letter (Annexe 1) to the Brazilian Embassy in response to the Provisional Measure submitted to the Brazilian congress, which would legalise the private occupation of public lands, mostly concentrated in the Amazon. The Fund supports engagement on Environmental, Social and Governance issues, and sees deforestation and the impacts on biodiversity and climate change as risks both to impacted communities, as well as to our portfolio of investments. This has been widely covered by the media and supporters for this have covered Norway, Sweden, Denmark, UK, France, Netherlands, Japan and US.
11. The Investor groups have since met with Brazilian authorities to discuss further outcomes. Although contents of the meetings with Brazilian Authorities are confidential, a positive shorter term outcome was that Brazil banned forest fires for the four months of dry season and set up military operations due to this investor pressure.
12. Due to the success of this investor dialogue, a working group had been set up to continue this work going forward, of which the Fund has chosen to participate in going forward. The Investors Policy Dialogue on Deforestation in Brazil (IPDD Brazil) has an objective to engage with relevant government authorities and associations to promote sustainable land use and to improve companies' disclosure and management of the various ESG risks associated with soy and cattle.

Robeco Engagement Outcomes

13. Robeco had voted at 4 shareholder meetings, voting against at least one agenda item in 59% of cases during the quarter ending 30 June 2020.

Social Risks of Sugar

Reason for Engagement

14. Sugar contributes strongly to the obesity pandemic, with an estimated USD 2 trillion annually spent towards it, or nearly 3% of global GDP. *Sugar has a direct link with one-third of the Covid-19 fatalities as these were associated with diabetes, according to a study by the National Health Service (NHS) in the UK.*

Engagement Outcomes

15. Companies across the engagement group had made good progress in their product reformulation.

- All eight companies agreed with the need for reformulation and are reporting against their metrics in their sustainability reports.
- Although not all companies under engagement have made the necessary progress on innovation management, the leading companies have made shifts in strategy towards healthy product categories.
- Marketing efforts have slightly improved but are still heavily focused on maximising consumption of all products as opposed to promoting healthy consumption.
- A large number of the companies received a negative score towards SDG Goal 3: Good Health and Wellbeing, due to the companies receiving more than 5% of their revenue from carbonated drinks. The goal throughout the engagement would be to push for the companies toward making a positive contribution to SDG Goal 3.

Living Wage in the Garment Sector

Reason for Engagement

16. The fashion industry has been one of the most significantly impacted sectors during the COVID-19 Pandemic, and the average market capitalisation dropped by almost 40% in Q1 2020. This has shifted investor focus to how companies treat their employees, customers, manufacturers and suppliers
17. Factories in production countries are expected to be hit the hardest. Due to a lack of social protection systems in these markets. They are more exposed to sudden termination, lack of severance pay, and inadequate social security

Engagement Update

18. Robeco collaborating with other members of the Platform Living Wage Financials (PLWF) investor coalition, sent letters to companies urging them to respond to the COVID-19 pandemic in a responsible way. The main ask being upholding financial prudence, protecting labour rights and human right standards in their own operations and supply chain. Although the engagement is still continuing, Robeco had found mixed results in how companies have responded to the COVID-19 pandemic.
 - One company supported its strategic suppliers in securing financing to maintain their business operations and liquidity.
 - Other companies have held off paying dividends as well as being unable to pay their suppliers.

An analysis of the companies under engagement are assessed by the PLWF, with the goal of the engagement to have investee companies ensure responsible labour practices and fair wages as being integral to their business model. A positive outcome will also contribute positively to SDG 1: No Poverty and SDG 8: Decent work and economic growth

Surrey Share Voting

19. The table below shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the quarter. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 5.06%, Surrey opposed management on 7.48% of resolutions.

20. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	89	2	7.14	1.03
Board	445	15	10.61	2.42
Capital	105	1	9.52	2.12
Corporate Actions	2	0	0.00	1.33
Remuneration	76	5	69.23	9.40
Shareholder Rights	47	10	100.00	6.20
Sustainability	38	27	33.33	4.60
Total	802	60	18.85	3.07

Shareholder Proposed Resolutions/ Management Resolutions

21. Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change and often attract relatively high levels of votes against management.
22. On average, the shareholder proposals received 25.00% support. There was one successful proposal in the Quarter - a shareholder proposal at Verizon Communications Inc requesting an amendment to the bylaw provisions on the shareholder ability to call special meetings.

Q1 2020 – Voting Issues

23. Due to an internal administrative error within Minerva's voting services, the Fund was informed that its voting service had been switched off without its consultation, between December 2019 and March 2020. This service issue has now been resolved from April 2020 but as the voting service was not live during quarter ending March 2020, there is no voting activity during that timeframe. Minerva have offered their apologies for this error and have provided the attached investigation (Annexe 2) of the cause of the issue and what had been implemented to prevent this reoccurring.

CONSULTATION:

24. The Chairman of the Pension Fund has been consulted and fully supports the conclusions of the report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

28. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

29. 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

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

WHAT HAPPENS NEXT

31. The Pension Fund 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:

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Consulted:

Pension Fund Committee Chairman

Annexes:

1. Annexe 1- Open Letter to Brazilian Embassy
2. Annexe 2 – Voting Services Issue Update

Sources/background papers:

1. LAPFF Quarterly Engagement Report QE 30 June 2020
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
2. Robeco Active Ownership Report QE 30 June 2020
https://www.bordertocoast.org.uk/?dlim_download_category=engagement