

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 11 DECEMBER 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, referenced in the Investment Core Beliefs & SDG Mapping report.
- Applauding the outcomes achieved for quarter ending 30 September 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 September 2020.

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.

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 27 companies on issues such as Climate Change, Community Engagement and the Just Transition during the Quarter Ending 30 June 2020.
6. ArcelorMittal (Climate Action) – Met with company officials to establish 2030 carbon emission targets, including scope 3 targets
7. HSBC/ Allianz (Climate Change) – LAPFF engaged with both companies to ensure they gain awareness of the impact the insurance side of their businesses does - and can - have on climate change, in addition to the investment aspects.
8. Pharmaceutical Companies (COVID-19) – Joined a collaborative engagement and sent letters to 17 pharmaceutical companies, to seek assurances that there won't be unfair distribution and pricing practices in the context of the virus
9. Department of Business, Energy and Industrial Strategy (Policy Engagement) – Supported findings from the Kingman Review in replacing the Financial Reporting Council as well as the Competition and Markets Authority's Review on the audit market.

Robeco Engagement Outcomes

10. Robeco had voted at 1299 shareholder meetings, voting against at least one agenda item in 52% of cases during the quarter ending 30 June 2020.

ESG Challenges in the Auto Industry

Reason for Engagement

11. With the shift towards zero-emissions mobility, the automotive industry can play a role in making a positive contribution towards the Sustainable Development Goals (SDGs), in particular to SDG 11: Sustainable cities and communities. Electric vehicles and sustainable transport systems can create environmental and social benefits that can contribute to the SDGs.

Engagement Outcomes

12. At the start of this engagement, the goal of achieving zero-emission transport was not taken seriously by any major car manufacturer. Three years later there is a broad acknowledgement of this ambition.
- All companies under engagement had set targets around emissions reductions or electrification of their fleets
 - Two companies had set ambitious commitments; one of which was certified as being aligned with 1.5 degree scenario by the Science based Target Initiative (SBTi)
 - Another company has also set a mid-term (2030) emissions reduction target that has been certified by SBTi, and was considering setting a long-term target by the end of the engagement.
 - A fourth is in the process of merging with another car manufacturer in order to become better positioned to weather the industry's transition to automated, connected, electric mobility.

Food security and COVID-19

Reason for Engagement

13. According to a World Food Program (WFP) projection, the number of people facing acute food insecurity stands to double to 265 million in 2020 from 2019. This negative trend represents a remarkable setback to global efforts to reach Sustainable Development Goal (SDG) 2: Zero Hunger by 2030.
14. In these uncertain times, it remains important to keep markets well supplied with affordable and nutritious food, while allowing consumers to access and purchase food despite movement restrictions and income losses.

Engagement Update

15. In Robeco's engagement over the past 6 months, they focused on companies across different stages of the supply chain; agrochemicals, food processing and commodities trading, agricultural mechanisation and irrigation.
- Agricultural machinery manufacturers experienced the largest drop in demand for their products in the first half of 2020.
 - As the global economy headed into an economic downturn, farmers around the globe took a cautious approach to their short-term capital investments by postponing large investment decisions such as purchasing new machinery.
 - One company has managed to shift its strategy from only servicing commercial farmers growing high-value crops in high-income countries, to also servicing smallholder farmers growing basic crops in middle and low-income countries.
 - The key to success was to partner with local governments to roll out community-wide projects to reach the smallholder farmer consumer base and transition the business model to service this market. The company's drip irrigation technology helps farmers to double their yields with only half of the water.

Surrey Share Voting

16. 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 did not vote against management on any resolutions for the quarter ending 30 September 2020

17. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	32	0	0.00	1.27%
Board	106	0	0.00	2.81%
Capital	46	0	0.00	1.96%
Corporate Actions	4	0	0.00	8.12%
Remuneration	31	0	0.00	4.23%
Shareholder Rights	17	0	0.00	3.62%
Sustainability	6	0	0.00	4.64%
Total	242	0	0.00	2.81%

Shareholder Proposed Resolutions/ Management Resolutions

- 18. 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.
- 19. Surrey did not vote on any resolutions proposed by shareholders during the quarter ending 30 September 2020. In 2020 Q2 Surrey voted on 46 shareholder-proposed resolutions.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

- 21. There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 22. There are no financial and value for money implications.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

- 23. 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

- 24. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

- 25. 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

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

WHAT HAPPENS NEXT

- 27. 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:

Mamon Zaman, Senior Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

Sources/background papers:

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