

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 9 JULY 2021****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 11 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;

- a) Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment.
- b) Acknowledging the outcomes achieved for quarter ending 31 March 2021 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2021.

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. 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.
2. 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).
3. 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
4. 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.

Outcomes Achieved through Company Engagement

LAPFF Engagement Outcomes

The LAPFF had engaged with 145 companies on issues such as Climate Change, Human Rights and the Just Transition during the Quarter Ending 31 March 2021.

5. Suzano and CA100+ - The LAPFF has been engaging with Suzano a pulp and paper company to reduce gas to take action to reduce greenhouse gas emissions, improve disclosures, and implement a strong governance framework from which company decision making can be made accountable. Since the engagement the company has set a target to reduce emissions intensity of scope 1 & 2 emissions by 15% by 2030. The company has also set a goal of removing an additional 40 million tons of carbon from the atmosphere by 2030, this on top of the already established target of carbon neutrality. The company recognises the contribution its natural asset base can make to global net-zero efforts which is reflected in its carbon negative ambition. LAPFF will continue to focus on the company's carbon reduction strategy with a focus on setting more ambitious scope 1 & 2 emission reduction targets.
6. Volkswagen and General Motors on Electric Vehicles and Climate Change – LAPFF has sought to engage with the auto industry to ascertain how car makers will be approaching the challenges of electrifying their fleets, to push

for net zero commitments, and to ensure that plans would support a just transition to net zero. The Forum met with General Motors (GM) and Volkswagen (VW). Both companies outlined their commitments to investing in and scaling up electric vehicle production. VW stated that it was committed to achieving net zero by 2050. GM formally announced its plans for carbon neutrality by 2040 in products and operations. The Forum intends to continue engagements with carmakers to ensure that they are meeting their targets and that short-term emission reductions are being achieved.

7. HSBC Resolution - The LAPFF engaged with HSBC on the group's approach to climate change, raising concerns over the lack of clarity on climate and business strategy. The company has acknowledged that 'expansion of coal-fired power is incompatible with the goals of the Paris agreement, and has committed to phasing out coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. Furthermore, HSBC has committed to set, disclose and implement a strategy with short- and medium-term targets to align its financing across all sectors with the goals of the Paris climate agreement.
8. Samarco Dam Collapse – LAPFF has been engaging with Vale and BHP in relation to both the Samarco and Brumadinho dam collapses. Samarco is a particular concern, over five years from the dam collapse in Mariana, Brazil, only five of the over 500 houses destroyed have been re-built, and none of them are occupied. However, LAPFF has been actively engaging with the key stakeholders and it is hoped that all houses will be re-built by 5 November, the next anniversary of the Samarco dam collapse.
9. BAE Systems (Human Rights) – The LAPFF met with BAE and found that at the moment the company appears to continue to focus on staff issues as its primary social indicator of performance, but doesn't acknowledge the human rights implication of its arms contracts. The LAPFF feels that continuation of this engagement is necessary and would consider engaging with government Post-Covid.
10. Compass Group Food Parcels - In January 2021, multiple media articles came to light about Chartwell (a subsidiary of Compass Group Plc) and its contract awarded by the government to supply £30 for free school meals. The articles and pictures of school meals in the press presented what a family had been supposedly been provided for ten days and were highly critical of the allocation. LAPFF immediately reached out to the Compass Group to ascertain the problem. After a thorough conversation, Compass have set out how they would ensure this is rectified and ensure all food parcels were of adequate standard. Compass also publicly made a commitment that free breakfast was going to be included in the food parcels for every child eligible for free school meals from the 25th of January, as a gesture of goodwill.

Robeco Engagement Outcomes

11. Robeco had voted at 1112 shareholder meetings, voting against at least one agenda item in 54% of cases during the quarter ending 31 March 2021.

Seeing results in climate action

Reason for Engagement

12. With the adoption of the Paris Agreement in 2015, the world committed to curbing greenhouse emissions to contain the global temperature rise to well below 2°C by the end of the century. Robeco continued to engage with companies in all sectors and have aligned this engagement with the United Nations (UNs) Sustainable Development Goals (SDGs).

Engagement Objectives

13. In 2018 Robeco launched its Climate Action engagement theme with 13 companies in the electric utilities (five), oil and gas (four), chemical (two) and industrial sector (two). The aim was to encourage companies to;
- a) Integrate climate-related issues into the organization's governance, strategy, risk management and disclosures on metrics and targets.
 - b) Commit to decarbonize their business operations.
 - c) Improve their governance of climate-related issues, their management of climate-related risks, their actions taken to reduce greenhouse gas emissions, and their enhancement of corporate climate-related financial disclosures.
 - d) Implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities, and to explicitly align executive incentives with the attainment of the company's climate strategy.
 - e) Companies align their business strategies with the goals of the Paris Agreement of limiting global warming to less than 2°C by the end of this century.
14. Since the launch:
- a) This has grown into one of the world's largest investor-led engagement initiatives, backed by more than 545 institutional investors with more than USD 52 trillion in assets under management.
 - b) Actively engaged with CRH, Enel and Royal Dutch Shell.
 - c) Companies taking the lead and adopting stronger commitments to decarbonize their business operations.
 - d) 9 out of 12 companies have made positive progress in aligning their business strategies with the goals of the Paris Agreement.
 - e) Three companies progress is more advanced with one aligned with Paris Agreement with other two aligned with the 2°C scenario.
 - f) At the end of March 2021, three-year engagement was closed with companies in the Climate Action theme. From the 12 companies in the peer group, Robeco successfully closed engagement with six of them. However, others simply need more time to define their pathways.

Waste Management

Reason for Engagement

15. With global solid-waste production expected to reach 3.4 billion tons by 2050, manufacturers, regulators and investors alike face a growing waste management challenge. Companies have started transiting from a 'waste

management' to 'resource recovery' mindset and embedding these principles can reduce resource consumption, improve resource efficiency, and reduce the overall cost of waste management. Furthermore, sustainable waste and resource management has the potential to reduce greenhouse gas emissions by 15%-20% across several sectors.

Engagement Objectives

16. Robeco worked with group of 12 predominantly small/mid-cap companies over the last three years that operate in industries related to solar energy, industrial waste management and technology to improve reporting regarding contribution to the Sustainable Development Goals (SDGs). The objective of this engagement was to;
- Improve the reporting of companies regarding their contribution to the Sustainable Development Goals (SDGs), especially sub-target 12.4 which seeks to achieve “the environmentally sound management of chemicals and all wastes throughout their life cycle”.
 - Challenge the companies' strategic approach to managing performance on material ESG issues.
 - Finally, encourage companies to manage their resources sustainably, for example through the reduction and recovery of materials.

Surrey Share Voting

17. 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.

18. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	26	1	3.85%
Board	151	32	21.19%
Capital	18	1	5.56%
Corporate Actions	4	3	75.00%
Remuneration	25	11	44.00%
Shareholder Rights	17	1	5.88%
Total	241	49	20.33%

Shareholder Proposed Resolutions/ Management Resolutions

19. 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.

20. The two high dissenting resolutions Surrey voted contrary to management recommendation were shareholder proposals (Apple Inc and Applied Materials Inc). The other resolution that received high dissent was a share issue authority request at Ping An Insurance (Group) Company of China Ltd. Despite best efforts, no management-proposed resolution was defeated and no shareholder proposed resolution was successful for the QE 31 March 2021.

CONSULTATION:

21. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

24. 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

25. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

26. 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

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

WHAT HAPPENS NEXT

28. The Pension Fund will 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:

Ayaz Malik, Senior Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

None

Sources/background papers:

1. LAPFF Quarterly Engagement Report QE 31 March 2021
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
 2. Robeco Active Ownership Report QE 31 March 2021
https://www.bordertocoast.org.uk/?dln_download_category=engagement
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