

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 10 SEPTEMBER 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 30 June 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 June 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.

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.
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 30 June 2021.

5. Hanwha drops Cluster Munitions Business – In 2014, the LAPFF engaged with defence companies to stop production and selling of cluster munitions. Although this engagement was difficult, about a year later, Singapore Technologies wrote to LAPFF stating that the company had ceased the production and sale of cluster munitions. Then, in December 2020, LAPFF received confirmation from another one of the companies it engaged with, Hanwha Corporation, stating that company had sold off its cluster munitions business.
6. Diversity Engagement and socio-Economic Task force - The Hampton-Alexander Review set a target of 33% representation of women on FTSE350 boards and in Executive Committees by the end of 2020. LAPFF has sought to engage on ethnic diversity and approached the City of London Taskforce on Socio Economic Diversity. LAPFF approached six companies in the financial services sector in the FTSE100 including Standard Life Aberdeen and Lloyds Banking Group. Lloyds Banking Group is one of the first companies in the FTSE100 to post an ethnicity pay gap report and it recognises that there is further work to be done in this area. The LAPFF has also continued its participation in the 30% Club Investor Group Meetings which provides a space to discuss best practice among investors in relation to female representation on company boards. The LAPFF will extend its engagement on diversity and pay gaps to the FTSE350, with the view to

understand where companies have not yet met targets of the Hampton-Alexander review, and where wider pay gaps exist.

7. Workers Safety during the pandemic – The coronavirus pandemic has highlighted the importance that companies must place on the S in ESG to safeguard workers and protect and enhance shareholder value. It is one of the LAPFF's core objectives of promoting responsible investment and the highest standards of corporate governance. Engagements sought to ensure that proper processes have been in place during the crisis and that boards were providing proper oversight as the crisis has unfolded. These engagements have focused on sectors most at risk including the outsourcing and social care sectors. LAPFF met with Capita and Serco, which covered the safeguarding of staff and the balance of working from home, call centres and PPE. LAPFF, alongside a range of other investors, also signed on to an expectations for the nursing home sector statement. The statement, coordinated by UNI Global, calls on providers to improve standards for residents and staff in the wake of the pandemic. LAPFF will continue to be engaging companies on this agenda and collaboratively with the care sector as part of the UNI Global initiative.
8. Electric Vehicles - LAPFF has sought to engage with the carmakers, who are facing tightening regulatory emission and fuel standards across the globe, which will require them to move to electrify their fleets. LAPFF has sought to engage companies through approaching this challenge and pushing for emission reductions in the short term, and achieving net zero emissions in the longer term. LAPFF will continue its engagement with vehicle producers around changing regulation and their approach to electrifying product lines.

Robeco Engagement Outcomes

9. Robeco had voted at 511 shareholder meetings, voting against at least one agenda item in 74% of cases during the quarter ending 30 June 2021.

Minimising the negative impact of minerals

Reason for Engagement

10. As the world faces the challenge to transition towards a low-carbon world, clean technologies are causing a boom in demand for materials such as aluminium, copper and nickel. This rise in demand has significant adverse impacts on natural landscapes, ecosystems, and scarce water resources to the detriment of local communities.

Engagement Objectives

11. As a responsible investor in the mining industry, Robeco launched an engagement program in 2020 with the objective of encouraging investee companies to minimise the environmental footprint of their operations. Robeco focus on three overarching areas: water risk management, tailings dam safety and asset retirement.
12. Majority of the companies disclose water use performance at the group or entity level, and only a minority provide data at the asset level. Providing data at the detailed level is essential for comparison between the entities which is currently not possible. Since 2020, Robeco has also joined the CDP Non-

Disclosure Campaign and have requested companies to complete CDP's annual water questionnaire in order to help enhance the quality of disclosures and to allow comparison between entities.

13. One of the main areas of concern that Robeco engagement aims to address is the adverse impact of mining operations on water availability for all users of the waterbody - something which requires companies to ensure that the water balance at the catchment level is sustainable. Asset-level disclosures are important because the sustainability of water consumption levels is dependent on the specific hydrological characteristics where a mine operates.
14. Focused on enhancing transparency and setting targets at the asset level.
15. Since the launch:
 - a) First year of engagement has found that there is a high level of awareness of the importance of water use management among most of the mining companies. Due to the operational importance of enhancing efficiency, most of them are undertaking efforts to re-use water and minimize consumption.
 - b) A growing number of companies are conducting baseline risk assessments at the entire basin level, effectively adopting a catchment level approach, which will help to measure and report on the impact of operations on water availability at the catchment level, and in setting targets to mitigate adverse impacts on the overall water body and its users.
 - c) Mining companies that are members of the International Council on Mining and Metals (ICMM) have committed to implementing the global standards within the next three years.
 - d) Robeco also engaged with Brazil mining industry following dam burst in Brumadinho. The engagement has resulted in mining companies started disclosing for the first time the full inventory of tailings storage facilities they operate.

Digital Innovation in Health Care

Reason for Engagement

16. The Covid-19 outbreak has highlighted the relevance of digital innovation in the health care landscape. Since the lockdowns began, the health care sector has struggled to conduct business as usual and has realised the importance of using digital tools. The pandemic has not only fast-tracked the adoption of digital technologies but has also forced companies and their customers to overcome cultural barriers (such as technology adversity) to adapt to the new reality of remote working.

At the start of the engagement with the companies, it was found that several organisations did not view technology as one of their key priorities. However, covid-19 pandemic has made them reevaluate their priorities and include technological development as a key area of focus going forward.

Engagement Objectives

17. Many firms under engagement have set their first vision statements and targets on utilising digital innovation.

18. Robeco continue to encourage organisations to articulate a clear vision on how digital innovation can support them in achieving their missions.
19. In their engagement, Robeco observed an increased recognition of the importance of having sound cybersecurity, either voluntarily or through experiencing impactful cybersecurity breaches over recent years.
20. To mitigate cyber risks, companies are increasingly training their boards and employees to integrate cybersecurity-by-design and take responsibility to mitigate third-party risks.

Surrey Share Voting

21. 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.

22. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	49	10	40.82%
Board	363	48	13.22%
Capital	46	5	10.87%
Corporate Actions	5	3	60.00%
Remuneration	57	41	71.93%
Shareholder Rights	22	24	36.36%
Sustainability	28	24	85.71%
Other	1	1	100.00%
Total	571	150	26.27%

Shareholder Proposed Resolutions/ Management Resolutions

23. 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.
24. During the quarter two management-proposed resolution were defeated, and four shareholder-proposed resolutions were successful.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

28. 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

29. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

30. 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

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

WHAT HAPPENS NEXT

32. 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:

Sources/background papers:

1. LAPFF Quarterly Engagement Report QE 30 June 2021
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
 2. Robeco Active Ownership Report QE 30 June 2021
https://www.bordertocoast.org.uk/?dln_download_category=engagement
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