

**SURREY COUNTY COUNCIL****SURREY PENSION FUND COMMITTEE****DATE: 22 MARCH 2024****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE CORPORATE AND COMMERCIAL****SUBJECT: COMPANY ENGAGEMENT & VOTING****SUMMARY OF ISSUE:**

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting issues that the Surrey Pension Fund (the 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 (Committee). Also included in this paper are links to the Quarterly Engagement Report from LAPFF and the Active Ownership Reports from Robeco. 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 voting and engagement services to BCPP, so acts in accordance with BCPP's Responsible Investment (RI) Policy, which is reviewed every year by all 11 partner funds within the Pool.

**RECOMMENDATIONS:**

It is recommended that the Committee:

- 1) Reaffirms that ESG Factors are fundamental to the Fund's approach, consistent with the RI Policy through:
  - a) Continuing to enhance its own RI approach and Sustainable Development Goal (SDG) alignment.
  - b) Acknowledging the outcomes achieved for quarter ended 31 December 2023 by LAPFF and Robeco through their engagement.
  - c) Note the voting by the Fund in the quarter ended 31 December 2023.

**REASONS 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 RI as well as how it exercises its influence through engaging as active shareholders.

**Background****DETAILS:**

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 field.

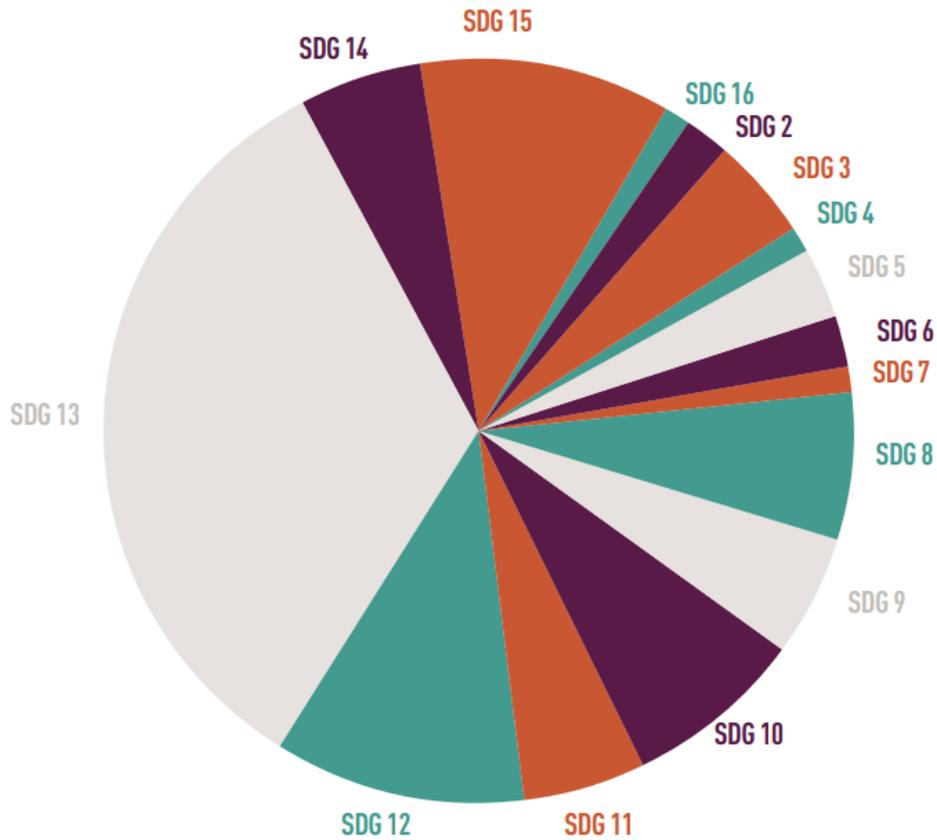
2. The Fund has commissioned Minerva Analytics (formerly Manifest) since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva Analytics has assisted in ensuring the Fund's RI and voting policies reflect the most up-to-date standards and that officers learn of the latest developments and can reflect these developments 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 is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) Funds and UK Pension Pools, including BCPP. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies
4. BCPP appointed Robeco as its Voting & Engagement provider to implement a set of detailed voting guidelines and ensure votes are executed in accordance with BCPP's Corporate Governance & Voting Guidelines. A proxy voting platform is used with proxy voting recommendations produced for all meetings, managed by Robeco.

#### **LAPFF Engagement**

5. The LAPFF Quarterly Engagement Report can be found at the link below. This report details progress on all engagements. Some of the highlights from the quarter ended 31 December 2023 are summarised below.

[LAPFF\\_QER04\\_2023.pdf \(lapfforum.org\)](#)

The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs).



**LAPFF SDG ENGAGEMENTS**

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	3
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	6
SDG 9: Industry, Innovation, and Infrastructure	5
SDG 10: Reduced Inequalities	7
SDG 11: Sustainable Cities and Communities	5
SDG 12: Responsible Production and Consumption	10
SDG 13: Climate Action	31
SDG 14: Life Below Water	5
SDG 15: Life on Land	10
SDG 16: Peace, Justice, and Strong Institutions	1
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

- The ‘Say on Climate’ initiative is aimed at companies presenting their climate transition plans for shareholder voting. Last quarter LAPFF coordinated an investor letter signed by 18 other investors with around £1.8tn AUM. This letter was sent to 35 FTSE companies in high emitting sectors to request such a vote. Of the responses received, some outlined their approach to climate and stated that they are considering such a vote for their AGM next year. Some outlined previous votes and their intention to continue to hold similar votes, but others stated they are either not planning such a

vote but instead were engaging through other means, or that having had a vote in the past, there were no immediate plans to do so again. Transition plan votes are not standard practice, but LAPFF will continue to work toward the goal.

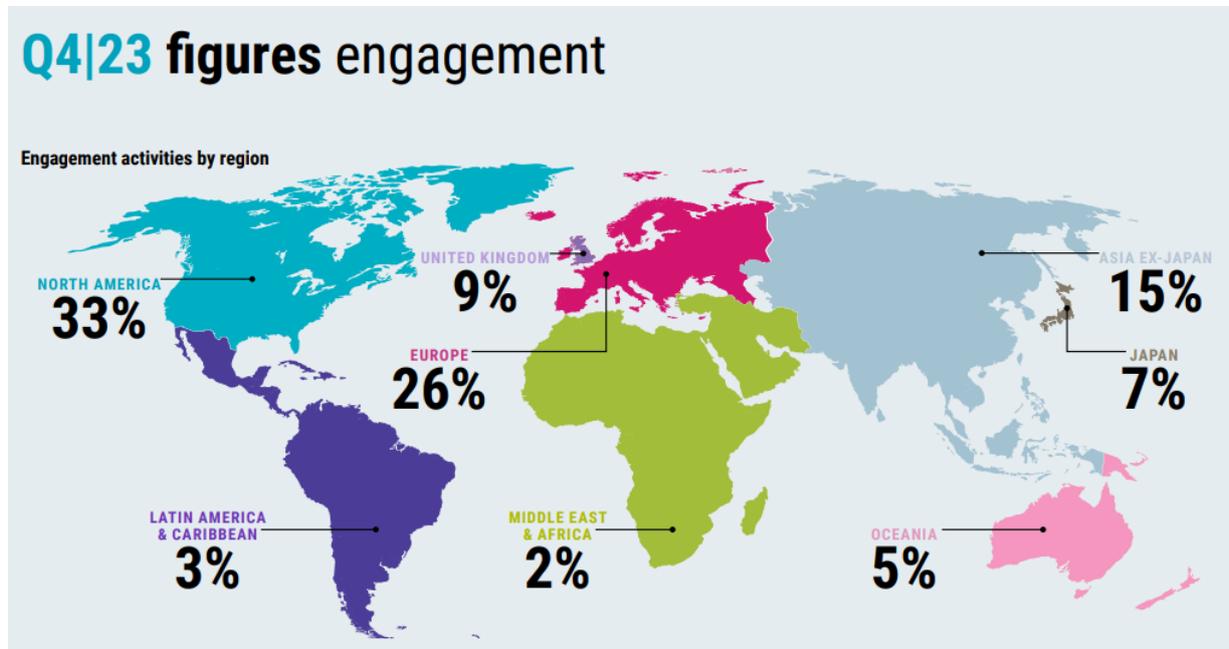
7. LAPFF has re-started its 2020 engagement with insurance companies on their climate strategies and practices. The aim is for companies to assess their impact on climate change and to integrate climate considerations into corporate strategy and operations. Active engagement included meetings with AIA, AXA, Legal & General, Lloyds Banking Group, and Ping An to discuss progress. The insurers were also asked how they are addressing natural resources within their climate strategies. This is relatively early in the engagement cycle and all companies are at the beginning of understanding the relationship between climate and natural resources and how to bring natural resources into business decision-making. In particular, insurers are focusing almost exclusively on their investment businesses in relation to climate mitigation, but LAPFF would like to see greater consideration given to the role the insurance products can play in mitigating climate change through setting societal expectations of risk. LAPFF will aim to engage with the remaining large insurance holdings before moving onto the largest bank holdings under this engagement.
8. There were engagement efforts focused on mining and human rights, particularly with Grupo Mexico and Glencore. A seminar was organised for investors featuring communities impacted by Glencore's mining projects. In relation to Mexico, LAPFF was alerted about possible inadequate reparations payments. It appears that LAPFF will now need to investigate options to escalate its engagement with Grupo Mexico, but it will need to do so in consideration of safety concerns for the affected communities.
9. Discussions with German technology giant SAP took place to address the management of adverse human rights impacts, including issues of discrimination, arising from advancements in artificial intelligence (AI) technologies. The meeting covered identification of risks and SAP set out the framework and processes it has in place for preventing negative impacts. It also covered how it had responded to the German Supply Chain Due Diligence Act.
10. A voting alert was issued for BHP, highlighting concerns over the company's climate-related practices and its corporate culture regarding human rights. BHP is currently the subject of potentially costly litigation in Brazil, the UK, and Australia. LAPFF continues to have serious concerns that BHP is not taking appropriate accountability and responsibility for its human rights and environmental practices, and that this omission could lead to large financial losses for both the company and investors.
11. Engagement with The Home Depot through the Investor Alliance for Human Rights' Uyghur Working Group is aimed at addressing the company's response to allegations of Uyghur forced labour within its supply chains. LAPFF, alongside other investors, met with Home Depot and during the call, LAPFF sought answers on what the company was doing to ensure that its supply chain was free of forced labour, potential implications of bifurcation of supply chains, and what new methods Home Depot was implementing to have sufficient audit procedures in place. LAPFF will continue to monitor the company's approach to global human rights due diligence and seek further engagement in due course for updates, with a focus on the company's implementation of enhanced audit procedures.

12. LAPFF met with the chair of Barclays to gain insight into the enhancement of its corporate governance in light of allegations associated with its former executive and Jeffrey Epstein. The Chair openly discussed the event and actions the bank had taken, including freezing deferred bonuses. It has also strengthened their board recruitment practices and remained vigilant. However, LAPFF will be monitoring the governance going forward.

### Robeco Engagement

13. In the quarter ended 31 December 2023, Robeco voted at 126 shareholder meetings, voting against at least one agenda item in 38% of cases. The Robeco report can found by following the link below, which also highlights all companies under engagement. Some of the engagements from the quarter are shown in the graphics and highlights are described below.

[Border-to-Coast-Public-Engagement-Report-2023-Q4.pdf \(bordertocoast.org.uk\)](https://www.bordertocoast.org.uk/Border-to-Coast-Public-Engagement-Report-2023-Q4.pdf)



14. The quarterly report from Robeco typically focuses on four different themes which are at different stages in the engagement cycle. There is also a section for proxy voting. The themes for the quarter ending 31 December 2023, in order of stage of engagement are Modern slavery in supply chains, Nature action 100, Net Zero carbon emissions and Responsible executive remuneration.

15. **Modern Slavery in Supply Chains:** Through complex supply chains, companies across the globe are exposed to modern slavery and forced labour risks. While difficult to monitor, companies must not only disclose information about modern slavery that they become aware of, but also effectively address the risks and prevent recurrence. The aim is to enhance effectiveness in identifying and addressing the risks, going beyond formal human rights policies and processes. The engagement will also focus on how companies provide impacted stakeholders with effective remediation measures and prevent future recurrence. Agriculture, garment, technology, mining and manufacturing sectors are often highlighted as those industries at the highest risk. Robeco selected a list of companies for engagement based on multi-layered supply chains, the nature of operations for raw materials production, and geographical areas

in which they and their suppliers operate. This is the theme in early engagement this quarter.

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16. **Nature Action 100:** Formally launched in September 2023, with over 200 investors representing a collective USD 26.6tn of AUM and advice, the aim of the Nature Action 100 initiative is to establish a common high-level agenda for engagements, and a clear set of expectations to drive greater corporate ambition and action to stem biodiversity loss. It targets 100 companies in eight key sectors deemed to be systemically important in reversing biodiversity loss by 2030. As a first step, the 100 companies targeted have received a letter outlining six timely and necessary corporate actions needed to protect and restore nature. Companies are encouraged to set a public commitment to minimize biodiversity impacts and to conserve and restore ecosystems by 2030. They should set time-bound, science-based targets based on assessments of their nature-related dependencies, impacts, risks and opportunities followed by an inclusive implementation plan taking into account any local communities affected. Robeco prioritised its engagement coverage with eleven companies across the Materials (chemicals), Consumer Staples (retail, food and beverage, household and personal products) and Consumer Discretionary (retail) sectors and more than half of these companies are based in emerging markets. Dialogues will be held from 2024 onwards.
  17. **Net Zero Carbon Emissions:** This engagement started three years ago with the aim of companies setting long-term Net Zero targets, substantiated with credible emissions reduction strategies, and implementing transition plans to ensure a reduction in real-world emissions over the next decade. Overall, Robeco registered positive progress for almost all the companies under engagement. Although the oil and gas industry has taken several initiatives to address the Net Zero transition, Robeco feel there is room for improvement and have witnessed that setting targets for Scope 3 emissions has been one of the main challenges on the Net Zero pathway for that sector. The industries which registered the highest level of progress were the steel and cement sectors and showed meaningful improvements, especially in disclosing detailed capital alignment and decarbonisation strategies. The case study on Heidelberg Materials, found in the report, is one such success in this initiative.
  18. **Responsible executive remuneration:** Launched in 2020, this theme is now coming to a close. Throughout the three years of engagement, remuneration policies and disclosures, relevant key performance indicators (KPIs), and incentive structures at a set of European and American companies were reviewed. The project focused on four broad objectives: 1) equity compensation, 2) pay for performance, 3) quantum (i.e., level of pay) and the link to equity, and 4) structure and oversight. To a certain degree, remuneration should be paid in equity to ensure a longer-term holding period. This objective was successfully closed in the majority of cases. Another objective addressed the relationship between pay and performance where Robeco believe that variable pay should be aligned with long-term value creation. Companies were asked to set relevant ESG targets for their variable pay as well as considering the overall size of remuneration. Generally, European companies were more receptive to suggestions for moderation than those in the US.

## Surrey Share Voting

19. The full voting report produced by Minerva is included in Annexe 1. The table below shows the total number of resolutions which the Fund was entitled to vote, along with the number of contentious resolutions voted during the quarter as produced by Minerva.

### Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	4	3	75%
Board	36	4	11.1%
Capital	3	1	33.3%
Political Activity	1	1	100%
Remuneration	10	3	30%
Shareholder Rights	1	0	0%
Sustainability	8	5	62.5%
Other	0	0	0%
Total	63	17	27%

20. The Fund was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 5.25%, the Fund opposed management on 27% of resolutions.

### Vote Outcomes

21. The UK Corporate Governance Code recommends boards to take action where 20% or more of votes are cast against the board recommendation on a resolution. As such, a shareholder dissent level of 20% is generally considered to be significant. During the Quarter, Surrey voted against management on three resolutions that received shareholder dissent of more than 20%.
22. The three resolutions that received 20% or more dissent were shareholder proposals filed at Microsoft Corp concerning ESG issues:
- Resolution 10 requested that the Board issue a tax transparency report to shareholders, prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative's (GRI) Tax Standard.
  - Resolution 11 asked the Board to commission a report assessing the implications of siting Microsoft cloud data centres in countries of significant human rights concern, and the Company's strategies for mitigating these impacts.
  - Resolution 13 requested that the Board issue a report assessing the risks to the Company's operations and finances as well as risks to public welfare presented by the Company's role in facilitating misinformation and disinformation disseminated or generated via artificial intelligence, and plans to remediate those harms, and effectiveness of such efforts.
23. During the period, no management-proposed resolution was voted down by shareholders and no shareholder proposal was successful. On average, the shareholder proposals received 11.95% votes in favour during the Quarter.

24. **BCPP Responsible Investment** - Annexes 2, 3 & 4 provide a high-level overview of ESG performance for Global Equity Alpha, UK 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:**

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

#### **RISK MANAGEMENT AND IMPLICATIONS:**

26. There are risk related issues contained within the report.

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

27. There are financial and value for money implications.

#### **DIRECTOR OF FINANCE CORPORATE AND COMMERCIAL COMMENTARY**

28. The Director of Finance Corporate and Commercial 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 BCPP, LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

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#### **Contact Officer:**

Lloyd Whitworth, Head of Investment & Stewardship

#### **Consulted:**

Pension Fund Committee Chair

#### **Annexes:**

1. Engagement & Voting – Surrey Voting Report (Minerva) Q4 2023
2. Engagement & Voting – BCPP ESG Global Equity Alpha Q4 2023
3. Engagement & Voting – BCPP ESG UK Equity Alpha Q4 2023
4. Engagement & Voting – BCPP ESG Listed Alternatives Q4 2023