

SURREY PENSION FUND COMMITTEE REPORT



SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: COMPANY ENGAGEMENT & VOTING UPDATE

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 Public Engagement Report for BCPP. 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 Pension Fund 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) Acknowledges the outcomes achieved for quarter ended 30 June 2024 by LAPFF and Robeco through their engagements.
2. Note the voting by the Fund in the quarter ended 30 June 2024.

REASON 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.

DETAILS:

Background

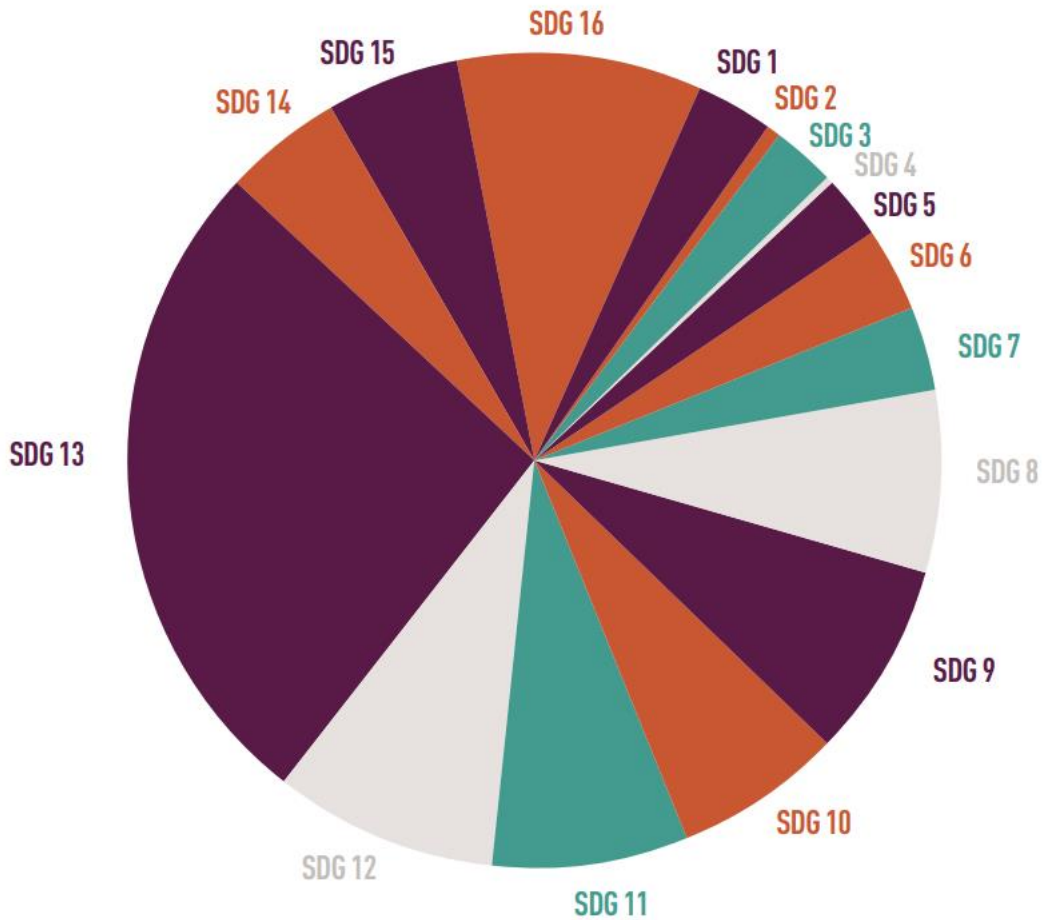
1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this field.
2. The 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 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 details progress on engagements over the quarter ended 30 June 2024 and can be found at the link below. Highlights this quarter include nature stewardship, water stewardship, continued engagement with banks and energy companies and human rights.

[LAPFF QER Q2 2024.pdf \(lapffforum.org\)](https://lapffforum.org/LAPFF_QER_Q2_2024.pdf)

6. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). As usual, the most significant SDG was 13, Climate Action, although there was a good spread across most of the SDGs.



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	8
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	6
SDG 4: Quality Education	1
SDG 5: Gender Equality	6
SDG 6: Clean Water and Sanitation	8
SDG 7: Affordable and Clean Energy	8
SDG 8: Decent Work and Economic Growth	17
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	19
SDG 12: Responsible Production and Consumption	21
SDG 13: Climate Action	64
SDG 14: Life Below Water	11
SDG 15: Life on Land	13
SDG 16: Peace, Justice, and Strong Institutions	23
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

- Nature Stewardship - Natural capital encompasses ecosystems, biodiversity, and land. The degradation of these assets poses significant financial risks with more than half of the world’s GDP moderately or highly dependent on nature. Biodiversity is declining faster than at any time in human history. LAPFF has joined a series of engagements this quarter through the Nature

Action 100 initiative, meeting with AbbVie, Merck & Co, Procter & Gamble, and Novo Nordisk. Subsequent to the letters sent by Nature Action 100 to all focus companies in September 2023, engagement groups and dialogues have been established. The aim is to understand if companies have mapped the extent to which nature loss could affect their business model, including both operations and supply chain activities. Outside of the initiative, LAPFF selectively engaged with Nestlé regenerative agriculture in Q1 2024. LAPFF intends to engage with large food and beverage producers on this topic, as it begins to form strategies, not just from a nature and biodiversity perspective, but as part of some climate strategies as well.

8. Water Stewardship - LAPFF has been engaging with water utilities since 2022 following concerns about the pollution of rivers and coastal areas caused by storm overflows. LAPFF wants to ensure that progress is being made to reduce the number of overflows and that the next five-year business plans will be delivered cost-efficiently. This quarter LAPFF met with United Utilities and Pannon. LAPFF will continue to engage to ensure progress is being made against overflow targets and will also follow final determinations by the regulator to ensure plans are delivered cost efficiently to benefit shareholders and wider stakeholders alike.
9. LAPFF has been engaging with Chipotle on its approach to water stewardship since 2019. The initial objective was met in 2022 by undertaking an ingredient level water risk assessment to identify water stress areas within its supply chain. Now the expectation is setting measurable and time-bound targets. Shortly after the engagement Chipotle published its sustainability report which included a goal to support water stewardship efforts in priority regions.

Climate / Banking and Finance - LAPFF's focus on banks and climate change looks at the risk of lending to a declining sector. Engagements with HSBC saw a comprehensive energy transition plan and learning that risk is assessed at the subsidiary level, both positive outcomes.

10. Canadian banks are increasing lending to oil and gas companies. The scale of this lending and material shareholders prompted this focus. In April, LAPFF met with three of the largest Canadian banks: Bank of Nova Scotia, Royal Bank of Canada, and Toronto Dominion. This was the first engagement and the companies shared their climate reporting efforts and were receptive to providing more disclosure. LAPFF focused on the banks' approaches to client engagement in the energy sector and renewable energy finance. Scotiabank demonstrated the greatest commitment to taking climate change seriously among the three banks. Overall the objectives were met in this round of engagement with constructive dialogues providing a solid foundation for further discussions.
11. LAPFF works with the Asia Research and Engagement (ARE) platform for energy transition to engage with banks and power generation companies in

Asia. This quarter LAPFF engaged with United Overseas Bank (UOB) who showed a positive outlook on its transition pathway and the regulatory landscape in which it is operating. UOB has also set up a Sustainability Advisory Panel, comprising three independent members, which advises the Bank's Board on various sustainability issues.

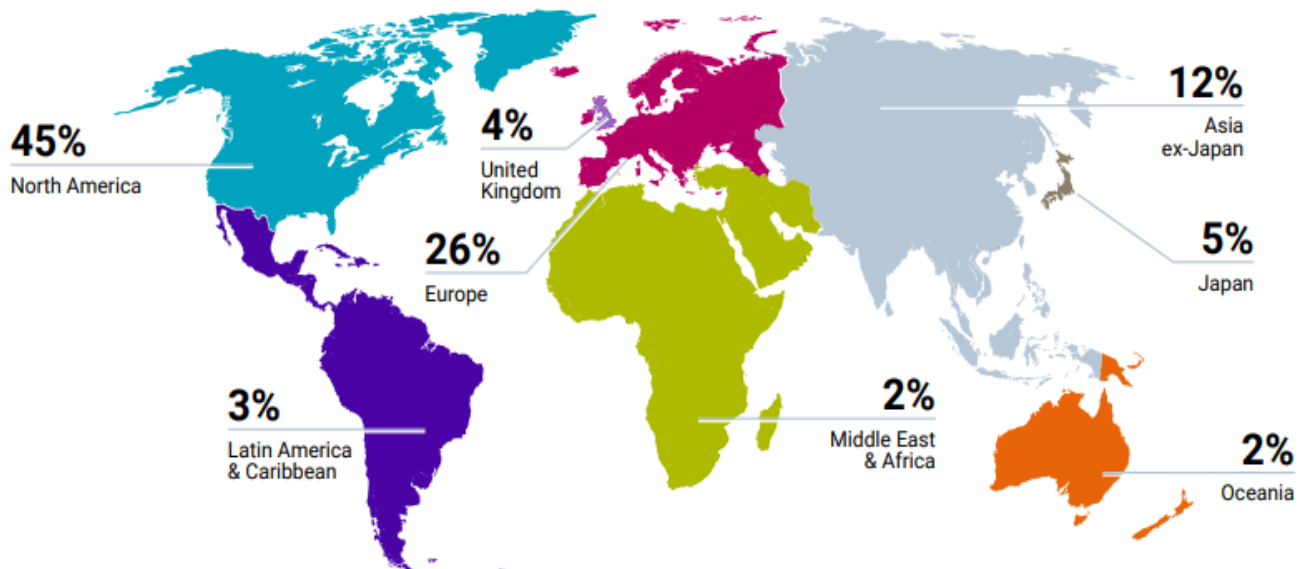
Robeco Engagement

12. This quarter Robeco voted at 604 shareholder meetings, voting against at least one agenda item in 68% of cases. The Robeco report can be found by following the link below.

[Border-to-Coast-Public-Engagement-Report-2024-Q2.pdf](#)

13. The picture below shows the quarterly engagement activity by geographical region.

Engagement activities by region



14. The four themes this quarter are good governance, labour practices in a post covid-19 world, climate and nature transition of financials and SDG engagement - each in different stages of the engagement cycle. There is also a section for proxy voting.

15. Good governance - The second quarter of the year is often seen as the pinnacle of corporate governance, with the most annual general meetings (AGMs) and associated engagements taking place. AGMs are crucial platforms for approving and discussing key governance mechanisms, including questions on climate change, remuneration issues, capital allocation plans, human capital management, lobbying procedures, board elections and the annual report. Robeco remain committed to active ownership.

16. Labour practices in a post covid-19 world - As the economy started to recover, and as costs of living started to rise, workers were no longer prepared to

accept jobs with low pay, bad working conditions, high health risks and limited social benefits. The engagements, initiated in 2021 and now concluded, focused on food retail, online food delivery and hotel sectors. For human capital to be seen as an investment rather than a minimizable cost, a strategic discussion about competitive business models is required, broadening social benefits to include adequate sick pay, health insurance and robust pension plans. One common strategy was the strong focus on human capital development and the prospects for career growth.

17. Climate and nature transition of financial institutions – This theme was launched in 2021 with four main objectives: governance, strategy, risk management, and targets and metrics. After three years the first set were closed successfully with climate change being sufficiently addressed. While almost all the EU banks have progressed well in decreasing their financed emissions, the US banks showed little positive progress, and progress was slow at the Asian banks.
18. Given the mixed engagement results and the growing importance of financed emissions, Robeco has extended and expanded engagement in this sector. The current engagement objectives are based on the TCFD guidelines and have been extended with the same guidelines of the Taskforce on Nature-related Financial Disclosures (TNFD). The same four guidelines of governance, strategy, risk management, and targets and metrics will be used and specific sub-objectives for climate and nature will be set on each one. To reflect these changes, the theme has been renamed to ‘Climate and nature transition of financial institutions’.
19. SDG Engagement – The SDG Engagement is to encourage companies to improve their impact on one or more of the 17 UN SDGs. The theme aims to address to what extent companies’ products and services can make a clear contribution to addressing sustainable development challenges, in developing new business models, expanding into otherwise underserved markets, or adjusting existing business processes to advance industry best practices.
20. Three key processes guide the theme. 1) setting milestones, company-specific, measurable objectives; 2) the engagement itself, providing in-depth insights into companies’ approaches towards sustainable development; and 3) evaluating the impact by applying an impact measurement framework. The impact framework is key and is discussed in detail in the full report.
21. The initial results have been promising. Participating companies shared that engagements have helped improve sustainability disclosures and raise internal awareness on discussed topics, which in some cases even reached the board or led to better performance indicators.

Surrey Share Voting

22. 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	% Against Management	% All Votes Against Management
Audit & Reporting	73	26	35.62%	12.75%
Board	390	71	18.21%	34.80%
Capital	90	6	6.67%	2.94%
Charitable Activity	1	0	0.00%	0.00%
Corporate Action	8	0	0.00%	0.00%
Other	3	3	100.00%	1.47%
Political Activity	9	5	55.56%	2.45%
Remuneration	94	59	62.77%	28.92%
Shareholder Rights	30	4	13.33%	1.96
Sustainability	44	30	66.18%	14.71%
Total	742	204	27.49%	100.00%

23. As seen in the table above and reflected in the engagement activity of LAPFF and Robeco, Q2 is a busy quarter for AGMs and voting. Surrey voted against management on 27.49% of the resolutions for which votes were cast during 2024 Q2. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 5.40%, Surrey opposed management on 27.49% of resolutions.

24. During Q2 2024, no resolutions proposed by management were defeated and two shareholder-proposed resolutions were successful. This compares to no defeated management-proposed resolutions and no successful shareholder-proposed resolutions in 2024 Q1.

25. The two successful shareholder proposals were requests filed at NVIDIA Corp and Roper Technologies Inc requesting the removal of supermajority voting provisions and adoption of the simple majority vote standard. Supermajority voting provisions make it harder for shareholders to approve a resolution and can be used as an entrenching mechanism by management. Surrey voted in favour of the proposals as the fund considers the use of a simple majority vote to be good practice and that enactment would enhance shareholder rights and governance practices

BCPP Responsible Investment

26. Annexes 2, 3, 4 & 5 provide a high-level overview of ESG performance for Global Equity Alpha, UK Equity Alpha, EM 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:

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

RISK MANAGEMENT AND IMPLICATIONS:

28. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

29. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

31. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

32. There are no equality or diversity issues.

OTHER IMPLICATIONS:

33. There are no other implications.

NEXT STEPS:

34. The following steps are planned:

- a) 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.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Annexe 1 – Surrey Voting Report (Minerva) Q2 2024
2. Annexe 2 – BCPP ESG Global Equity Alpha Q2 2024
3. Annexe 3 – BCPP ESG UK Equity Alpha Q2 2024
4. Annexe 4 – BCPP ESG Emerging Markets Equity Alpha Q2 2024
5. Annexe 5 – BCPP ESG Listed Alternatives Q2 2024

Sources/Background papers:

None

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