Supplement: Questions and Urgent Item

Surrey Pension Fund Committee

Date & time	Place	Contact	Chief Executive
Thursday, 10 March 2022 at 10.00 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey , RH2 8EF	Angela Guest angela.guest@surreycc.gov.uk	Joanna Killian

We're on Twitter: @SCCdemocracy

Please note that the meeting will be held in public. If you would like to attend or you have any special requirements, please email angela.guest@surreycc.gov.uk

The meeting will also be webcast live, and can be viewed here: https://surreycc.public-i.tv/core/portal/webcasts

If you would like a copy of this agenda or the attached papers in another format, e.g. large print or braille, or another language please email angela.guest@surreycc.gov.uk.

Elected Members
Nick Harrison (Chairman), David Harmer, Trefor Hogg (Vice-Chairman), George Potter, Richard Tear and Mark Sugden

Co-opted Members:
Borough Councillor Mark Maddox (Borough & Districts), Borough Councillor Steve Williams (Borough & Districts), Kelvin Menon (Employers) and Philip Walker (Employees)

Supplementary Papers

Joanna Killian
Chief Executive
Published: 9 March 2022

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Surrey Pension Fund Committee – 10 March 2022

Item 4 - Member Questions

Q1 – submitted by Steve Williams

We are all aware of the seriously worrying and tragic situation in the Ukraine and there is currently an ongoing debate regarding LGPS divestment of Russian assets (for example outlined in an article by Colin Marrs in *Public Finance* - https://www.publicfinance.co.uk/news/2022/03/tough-sell-lgps-faces-russian-divestment-challenge). The LGPS Scheme Advisory Board has noted that "In the light of events in Ukraine and resultant extant and potential sanctions by the UK government any LGPS funds who are not already doing so are advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken.":

1. What proportion of Surrey Pension Fund assets, including those invested through Border to Coast comprise Russian investments?

2. Have any steps been taken to offload these assets, and are any such steps planned, in the light of the government applying economic sanctions on Russia and the widespread public concern about the unfolding events in the Ukraine?

3. Is there any intention to provide the Surrey Pension Fund Committee with an opportunity to express a view on divestment of Russian assets?

Reply:

These questions are addressed in a dedicated urgent paper.

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Surrey Pension Fund Committee – 10 March 2022

Item 4 - Public Questions

Q1 – submitted by Jackie Macey

I was encouraged to see that Surrey Pension Fund advisers, Mercer Asset Management, are concerned about the generally poor progress that is being made by companies to lower greenhouse gas emissions and have issued the following statement:

“The low number of companies currently aligned to a 1.5 degree Implied Temperature Rise (ITR) shows that significant further progress is needed from companies across all sectors and countries to reduce greenhouse gas emissions. Asset owners and investment managers engaging with underlying companies have a key role to play in this".

It is very significant that Shell and BP do not provide adequate Scope 3 Emissions data and projections. This prevents the ability of organisations such as Transition Pathway Initiative to make accurate assessments of their carbon performance.

A further challenge to being confident in the data produced by companies and fund managers is the practice of offsetting. Friends of the Earth have described offsetting as a ‘Fool’s Paradise’ and explain that an offset approach may actually intensify and cause more biodiversity loss by creating the illusion of biodiversity protection. Monoculture plantations can look good on paper but in reality struggle to achieve the carbon storage that is promised. In reality you cannot plant an ecosystem.

Question: How will SPF put in place robust systems to question the data on which investment decisions are made in light of the frequency with which greenwashing and the omission of Scope 3 emissions play a part in this data? How will SPF know whether carbon offsetting has skewed the data they are relying upon and to what extent this has happened?

Reply:

Assurance of the quality of data and scrutiny of greenwashing will form a key component of the implementation of the new Responsible Investment Policy currently being drafted. This will reflect our focus on the United Nations Sustainable Development Goals (including biodiversity in water and on land.)

We will expect our asset managers to take all necessary steps to ensure the source and accuracy of any investee company data that they use when determining tCO2e, and to be critical when it comes to company decarbonisation plans that involve, or appear to involve, offsetting.

This is a multi-year journey, and the Fund expects data disclosures to improve markedly over time. This is why quality of data will be a key component of our stewardship strategy as part of our Responsible Investment Policy. This will aim to ensure that all investee companies, irrespective of their domicile are taking responsibility for their TCFD-aligned, Science-based transition plans and publishing verifiable data. In the meantime, the Fund will make decisions in relation to its carbon emission reduction on the information available at this time.

Q2 – submitted by Lindsey Coeur-Belle

In light of the IPCC report published in February 2022 and I quote "Human society causes climate change"

The energy sector is one of the systems required to transform. There is a requirement for long term planning and accelerated implementation particularly in the next decade.
Will SPF transform its investment portfolio to 1.5 degrees or below within a decade? And how will you set metrics to measure progress?

Will SPF commit to investment in reusable energy resources and their generation as part of its investment strategy review? And how will you set metrics to measure progress?

Reply:

Will SPF transform its investment portfolio to 1.5 degrees or below within a decade?

The Surrey Pension Fund is currently in process of adopting a Net Zero target and this will be incorporated in our new Responsible Investment (RI) policy.

And how will you set metrics to measure progress?

These will be established through the Fund's Responsible Investment Policy and ongoing TCFD reporting, but the anticipated LGPS investment regulation changes may also help in setting metrics to measure progress.

Will SPF commit to investment in reusable energy resources and their generation as part of its investment strategy review?

The Fund already does this and expects investment in reusable energy to increase as the world moves forward in decarbonising the global economy.

And how will you set metrics to measure progress?

These will be established through the Fund's Responsible Investment Policy and ongoing TCFD reporting, but the anticipated LGPS investment regulation changes may also help in setting metrics to measure progress.

Q3 – submitted by Ian Chappell

"This week's report from the IPCC underlines the need for Surrey Pension Fund to maximise its influence on companies to take immediate and radical action to mitigate the climate emergency. It is heartening, therefore, to see that you are increasing your resources devoted to engagement.

With regard to the other main policy tool that you have available i.e. divestment, I would like to draw your attention to new empirical research on the effectiveness of divestment carried out by the University of Augsburg. The detailed analysis by Professor Wilkens and his colleagues gives very strong evidence that divestment works by:

- lowering the share price of divested companies
  and
- divested companies reacting by cutting their carbon emissions

They have issued a short (5 min) video explaining their findings https://www.youtube.com/watch?v=dorMMn2BBn4 and a report (attached as a pdf) detailing their methodology. I have spoken with Professor Wilkens and he is keen to share his work, respond to questions and possibly run a bespoke webinar for interested parties. He and his colleagues are holding an "open" webinar on Friday 11th March at 3pm via Zoom https://uni-augsburg.zoom.us/j/98328728036?pwd=QUpCb1pWM2FIMXczekMxK3daYm1VUT09

Could I ask that you fully engage with this analysis so that you can satisfy yourselves that their work validates divestment as part of your Responsible Investment policy? I trust that the subcommittee working on your RI policy will consider the research and its implications thoroughly. I expect that this may take a little time, so in the first instance could I ask that you copy me in on any dialogue you have with Professor Wilkens **marco.wilkens@wiwi.uni-augsburg.**

The effects of Mutual Fund Decarbonisation

Reply:

In the Fund's investment decision making and stewardship activities, we rely on advice from our managers and advisor and research from a wide variety of sources, including from academia. We welcome any new and emerging research in formulating our views and approach.

The Fund is also currently designing an ambitious new Responsible Investment (RI) Policy, which highlights that divestment remains an appropriate option in relation to the Fund's investments, should the Fund's investment managers deem that insufficient progress has been made through voting and engagement activity. The option of participating in securities litigation (or Class Actions) is also another method of holding companies to account, should asset owners concerns not be addressed.

Q4 – submitted by Jennifer Condit

I am quite sure that members of the Surrey Pension Fund Committee share my utter dismay at the invasion and devastation of Ukraine. My question centres on the degree to which this war of choice is financed by oil and gas and the platform that SPF - like many major investors -has to respond to this situation.
As context to my question, the critical economic and investment facts on the ground:

- The importance of Oil and Gas to the Russian economy can be measured in various ways, but particularly relevant is its contribution of 39% to the Russian federal budget (*BBC, Towards Net Zero Nov 2021*).
- Equally important is its 60% share of Russian exports (same source)

Fossils fuels are literally paying for this war.

Russia shows limited interest in decarbonising its economy. Per *Carbontracker*, the Russian economy is on track to closer to a 4° world that one of 1.5°.

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The world and the UK in particular have committed to starving the Russian economy as the best hope to reign in hostilities. Economic sanctions will increase, and so will stranded Russian investment assets, particularly in Oil and Gas companies and the Banks that finance them. Values of such investments - already slashed - are exposed to yet further devaluations when and if they begin trading again. With 20:20 hindsight, the sovereign risk underlying investments in these sectors seems wholly inappropriate for a pension fund.

I believe members of the Surrey Pension Fund and Surrey Council tax payers will not want their contributions to SPF to remain exposed to these risks, nor any future economic benefit they might generate to further contribute to their retirement funds.

So my question is: *Would the Committee please disclose what investments SPF currently holds, both directly and indirectly in Russian and Belarussian assets, and in particular in the Fossil Fuel and Banking sectors

Reply:

These questions are addressed in a dedicated urgent paper.

Q5 – submitted by Lucianna Cole

New research from Feedback and World Animal Protection estimates that Surrey Pension Fund currently has approximately £2.2 million invested in industrial livestock corporations, and £0.8 million invested in the soya industry, based on 2020 data.[1] This includes a known £157,057 investment in JBS via the Baillie Gifford Diversified Growth Fund. JBS produce the largest emissions of any livestock company globally and have been linked to 100,711 acres of deforestation in the two years since March 2019.

These investments drive deforestation and contribute to climate change; if current growth trends continue, the global livestock industry will use almost half the world's 1.5°C emissions budget by 2030.[2] To make matters worse, deforestation and forest degradation together account for 15% of greenhouse gas emissions.[3]

Much of Surrey's investment into industrial livestock companies is through indirect investments so my question is: **will Surrey Pension Fund commit to finding out which intensive livestock companies you are invested in, alongside JBS, and conduct research into funds that exclude industrial livestock companies with a view to phasing out all industrial livestock investments over the next few years?**

[1] Follow this link and see "dataset" for the source of this information:
https://feedbackglobal.org/local-authority-industrial-livestock-divestment-resources/
[2] Source: https://www.tandfonline.com/doi/abs/10.1080/14693062.2018.1528965
[3] Source: https://www.worldwildlife.org/threats/deforestation-and-forest-degradation

Reply:

Surrey Pension Fund currently has exposure to two of the companies identified by the research through Border to Coast; BRF and JBS. The exposure is through the Multi-Asset Credit Fund and represented c. 0.04% (£241,979) and 0.01% (£60,495) respectively as at 31 December 2021.

Our pool provider Border to Coast is aware of the research carried out by Feedback and World Animal Protection and has already taken steps to identify exposure across its asset book (details can be provided).

This issue will be part of the Fund's overall stewardship approach.

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **10 MARCH 2022**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **UKRAINE CRISIS – URGENT DECISION**

SUMMARY OF ISSUE:

This is a paper to recommend how the Pension Fund Committee responds to the catastrophic recent events in Ukraine.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Note the contents of this report.

2. Approve the proposed next steps and accompanying statement in response to the crisis.

REASON FOR THE URGENT DECISION:

Recent events in Ukraine represent a geo-political crisis. Officers, in consultation with the Chairman of the Committee have taken advice from the Fund's managers, consultants and advisors to inform the Fund's response. This culminated in a meeting of the Joint Committee of Border to Coast on 8 March 2022. This paper reflects this dialogue and the need for the Committee to decide on next steps as a matter of urgency.

DETAILS:

Background

1. Below are some established facts about the current crisis in Ukraine:

   a) Economic sanctions are placed on Russia and Belarus;
   b) The above are varied and supported by nations at different levels/timings;
   c) Currency fluctuations are significant in relation to the Russian Rouble;
   d) Public listed companies values have plummeted;
   e) Russian companies listed on the FTSE 100 have dropped by c70% in February, as a result they will inevitably be removed from the FTSE 100.

2. The Local Government Pension Scheme Advisory Board have published this statement on 28th February 2022:

   "In the light of events in Ukraine and resultant extant and potential sanctions by the UK government any LGPS funds who are not already doing so are advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken."

The Surrey Pension Fund exposure to assets affected by the crisis

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3. The Fund has very minor exposure to direct holdings in regions connected to the conflict (less than 0.0025% of the Fund as at 24 February 2022 (c£12m based on a fund value of £5b)) through its Multi-asset credit (MAC) fund with Border to Coast and indexed funds with LGIM.

   a) Border to Coast MAC Fund:
      i- Russia: 1.2%,– sovereign bonds, VEB, Gazprom, Lukoil
      ii- Belarus: <0.1%, – sovereign bond
      iii- Ukraine: 0.4%.

   Formal fair value pricing of the MAC Fund will only take place at the monthly trading date.

   b) LGIM World Emerging Markets Equity index Fund: Overall direct exposure of 1.67%:

      Aeroflot PJSC, Alrosa PJSC, Bashneft PJSC, Credit Bank of Moscow PJSC, Federal Grid Co Unified Energy System PJSC, Gazprom PJSC, Inter RAO UES PJSC, LUKOIL PJSC, M.Video PJSC, Magnit PJSC, Magnitogorsk Iron & Steel Works PJSC, MMC Norilsk Nickel PJSC, Mobile TeleSystems PJSC, Moscow Exchange MICEX-RTS PJSC, Mosenergo PJSC, Novatek PJSC, Novolipetsk Steel PJSC, PhosAgro PJSC, Polyus PJSC, Raspadskaya OJS, Rosneft Oil Co PJSC, ROSSETI PJSC, Rostelecom PJSC, RusHydro PJSC, Sberbank of Russia PJSC, Segezha Group PJSC, Severstal PAO, Sistema PJSFC, Sovcomflot PJSC, Surgutneftegas PJSC, Tatneft PJSC, Transneft PJSC, Unipro PJSC, United Co RUSAL International PJSC,VTB Bank PJSC.

   c) Future World Emerging Markets Equity Index – Overall direct exposure of 0.112%:

      Alrosa PJSC, Gazprom Neft PJSC, Gazprom PJSC, LUKOIL PJSC, MMC Norilsk Nickel PJSC, Mobile TeleSystems PJSC, Novatek PJSC, Novolipetsk Steel PJSC, PIK Group PJSC, Polyus PJSC, Rosneft Oil Co PJSC, Sberbank of Russia PJSC, Severstal PAO, Surgutneftegas PJSC, Tatneft PJSC, United Co RUSAL International PJSC.

   In line with LGIM's fair value pricing policy the value of Russian assets has been pro-actively written down over the past few days. As of close 2nd March, the decision of the fair value pricing committee was to price Russian equity securities at zero. These assets will remain held but with a zero value. Once the index prices the assets at zero, both the portfolio and index will be aligned meaning that there is no ongoing increase in tracking error for the portfolios.

4. The Fund has no exposure to direct holdings in regions connected to the conflict in its mandates with CBRE, Newton or in its private market portfolio.

5. We are in the process of examining our indirect exposure to Russia (e.g. BP and Shell) across our portfolios. We are working towards having an update available for the Committee as soon as possible.

Sanction & impact on trading

6. HM Government's has announced sanctions on Russia. This is aimed at encouraging Russia to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine.

7. Due to these sanctions and reciprocal actions taken by the Russian Government, it is not currently possible to sell any listed Russian equities, or Russian Government Bonds. This is likely to be the case for the next six months at least, until the sanctions are formally reviewed.

8. The two Index providers detailed below are the Indices that are used for the two above LGIM indexed funds that Surrey have exposure to:

   a) FTSE – will be deleting Russian classified equities with an effective date of close 4th March 2022, at a price of zero;
   b) Solactive - will be deleting Russian securities at the close 9th March, and at a price of zero.

Next steps

9. The Surrey Pension Fund is aware that there is a high level of interest in our investments in Russia and our response to the invasion of Ukraine.

10. In this fast-evolving situation, it is proposed that officers will continue to monitor events, in consultation with the Fund's asset managers, consultant and advisors and to keep the committee informed.

11. It is also proposed that the committee agrees to the following statement in response to the crisis:

    "The Surrey Pension Fund is saddened by and strongly condemn the invasion of Ukraine by Russia. Given the current circumstances we have immediately suspended making any further investments in Russia and continue to review our existing investments including our approach to exiting in due course as and when markets permit. This is above and beyond the UK sanctions currently in place."

CONSULTATION:

12. The Chairman of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

13. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

14. Financial and value for money implications are contained within the report.

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

15. The Director of Corporate Finance & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered,

and that private equity has been a good performing asset class for the pension fund.

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LEGAL IMPLICATIONS – MONITORING OFFICER

16. The Monitoring Officer has been consulted.

EQUALITIES AND DIVERSITY

17. The review of the Fund's investment programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

19. The following next steps are planned:

a) Officers will continue to monitor events, in consultation with the Fund's asset managers, consultant and advisors and to keep the committee informed.

Contact Officer:
Neil Mason, Assistant Director – LGPS Senior Officer

Consulted:
Pension Fund Committee Chairman

Annexes:
N/A

Sources/background papers: