Supplementary papers – public questions

Surrey Pension Fund Committee

Date & time	Place	Contact	Chief Executive
Friday, 17 June 2022 at 10.00 am	Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey ,RH2 8EF	Angela Guest Tel angela.guest@surreycc.gov.uk	Joanna Killian We're on Twitter: @SCCdemocracy

Elected Members
Nick Harrison (Chairman), David Harmer, Trefor Hogg (Vice-Chairman), George Potter, Richard Tear and Robert Hughes (Shere)

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

Supplementary Agenda Papers – Public Question & Responses

4	**QUESTIONS AND PETITIONS** To receive any questions or petitions. Six public questions have been received. These and the responses are attached.	(Pages 1 - 10)

Joanna Killian
Chief Executive
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Surrey Pension Fund Committee – 17 June 2022

Item 4 - Public Questions

Q1 – submitted by Ian Chappell

At the beginning of 2021, Surrey Pension Fund owned over £31m shares in Shell. At Shell's AGM in May, there was a shareholder resolution which criticised Shell's energy transition strategy and lack of progress towards Paris aligned targets.

How did Surrey Pension Fund vote on this resolution and with what rationale?

In the previous 4 years, Surrey Pension Fund has voted against management, supporting shareholder resolutions which criticised Shell's climate performance and strategy, on three out of four occasions.
Over this period, Shell continues to defy engagement attempts:

- Since 2015, Shell's carbon emissions intensity has hardly changed – from 70.5 to 69.09 gCO2/mj - and is projected to result in a temperature rise of over 2 degrees C in 2050 (Transition Pathway Initiative)
- Shell plans to spend $43 million every day until 2030 on new projects which are incompatible with 2.7 degrees (Carbon Tracker). These plans are despite the IEA declaring that no new fossil fuel projects should start after 2021
- Shell has an active programme of greenwashing, designed to mislead the public about its intentions. For example:
  - Shell claims its tree planting will be a vital offset, but their plans account for less than 10% of its current carbon emissions
  - Despite claiming to be at the forefront of investment in renewables, Shell has invested less than 2% of its capital in this sector in the last decade
  - Since November 2020, senior company executives and consultants have left the company, publicly citing the mismatch between their promises and reality

Given these facts, Shell has clearly established a track record of ignoring stakeholder engagement.

Will Surrey Pension Fund invoke its Responsible Investment policy of engagement with teeth and define a clear and urgent process which will lead to exclusion?"

Reply:
(Answered assuming the questioner meant 2022 rather than 2021 as stated in the question.)

The Surrey Pension Fund voted in favour of the shareholder resolution, Resolution 21, at the Shell plc AGM 2022 in the actively managed portfolios. The result of the vote for this resolution was 20.29% For, 79.71% Against. The same shareholder resolution was put to the Shell AGM in 2021. The result last year was 30.47% For and 69.53% Against. Had the Fund sold its position in Shell this year the decline in the vote for the resolution may have been greater, as well as there being a significant financial cost to the Fund.

The Surrey Pension Fund actively managed vote was also in line with the recommendation from the Local Authority Pension Fund Forum, LAPFF. Border to Coast Pensions Partnership, BCPP, the Surrey Pension Fund's pooling partner, supported Resolution 21. However, they interpreted the main text of the proposal as being complementary to the majority of the company's Climate Transition Strategy (CTS) and, in their view, only called for minor additions or clarifications in order for the strategy to be considered Paris Aligned.

4 Our passive investments are in pooled funds with Legal & General Investment Management. They voted Against Resolution 21. Their vote against was due to their view of the company's progress in its energy transition strategy, primarily around disclosure and the strengthening of its interim emissions reduction targets. However, they also voted Against Resolution 20 - Approve the Shell Energy Transition Progress Update (proposed by management), due to concerns over the disclosed plans for oil and gas production and wanting further disclosure of targets associated with the upstream and downstream businesses (Surrey and BCPP also voted against Resolution 20).

The vote outturn and the comments above highlight the live debate regarding Shell's approach. The Fund's investment managers will continue engagement with Shell, as will the LAPFF.

Shell is currently under engagement by Border to Coast via Robeco on the "Net-Zero Carbon Emissions", "Good Governance" and "Climate Action" Themes. The Net Zero Carbon engagement aims to improve company practice on various areas including setting emissions reduction targets over the short-and medium-term and aligning capital expenditures with a net zero trajectory. The engagement approach is based on the CA100+ Net Zero Company Benchmark framework. In addition to these engagements Border to Coast has had direct dialogue with Shell pre- and post-AGM and will continue to engage and work with the company through their own "Low Carbon Transition" theme.

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

The Surrey Pension Fund Responsible Investment Policy is in the final stages of the approval process. The specific mechanics of the proposed escalation process will be set out in the implementation of the RI Policy, with the Pension Fund Committee having the final say on the process and the stages reached.

Q2 – submitted by Kevin Clarke

As a Surrey CC pensioner, I am concerned that continuing investment by Surrey Pension Fund in fossil fuel companies will result in significant losses when the 'tipping point' is reached, so a huge loss will probably occur overnight. So the Surrey Pension Fund is effectively gambling which is surely not appropriate for a pension fund, ie by allowing fossil fuel investments to remain as we get closer to the tipping point!
How do you intend to avoid this loss?"

Reply:
Year to date, the energy sector has been the best performing sector in the MSCI AC World Index by some margin, reflecting rising demand as economies recovered from the pandemic and supply concerns following the invasion of Ukraine. Share prices have reacted positively to the resultant rise in the oil price, as well as a renewed consideration of the source of supply regarding International Oil Companies, IOCs, as opposed to National Oil Companies, NOCs, and their associated human rights records.

Investment management decisions are delegated to the Fund's investment managers, and so neither the Pension Fund Committee nor Officers have any direct influence over individual stock picking. However, the Fund does expect its external investment managers to take ESG factors into consideration when making and holding investments on its behalf. For example, our pooling partner, Border to Coast Pensions Partnership, has management of climate risk, alongside other ESG considerations, integrated into their investment process. For the highest emitting companies, irrespective of sector, they aim to understand the plans for reducing their carbon exposure over time and assess how credible and achievable these plans are. They use a number of industry tools and data such as CA100+, TPI and MSCI ratings, company engagement either directly or through Robeco, analysis by their internal portfolio managers and engagement with the external managers. Where they do not consider their plans to be credible or achievable, they will consider reducing exposure or exiting the investment.

The largest single fund investment within the Surrey Pension Fund is in the LGIM Future World Global Equity Index Fund. The Future World product range represents their strongest convictions when it comes to responsible investing. These funds go beyond traditional exclusion-based ESG approaches to actively target a positive responsible outcome. They incorporate ESG tilts to LGIM-designed indices in order to reduce exposure to companies with poor ESG practices and increase exposure to those better ESG practices. The Fund removes any securities which are included within the Future World Protection List (FWPL). This has been specifically developed for the Future World fund range. It captures companies failing to meet globally accepted business practices on human rights and sustainability, or LGIM's minimum requirements on the carbon transition. For the Future World funds, they continue to engage with investee companies in climate critical sectors rather than divest, because they believe these industries, such as the oil and gas sector, still have a role to play in the low-carbon transition in line with the goals of the Paris Agreement on climate change.

Q3 – submitted by Clive Teague

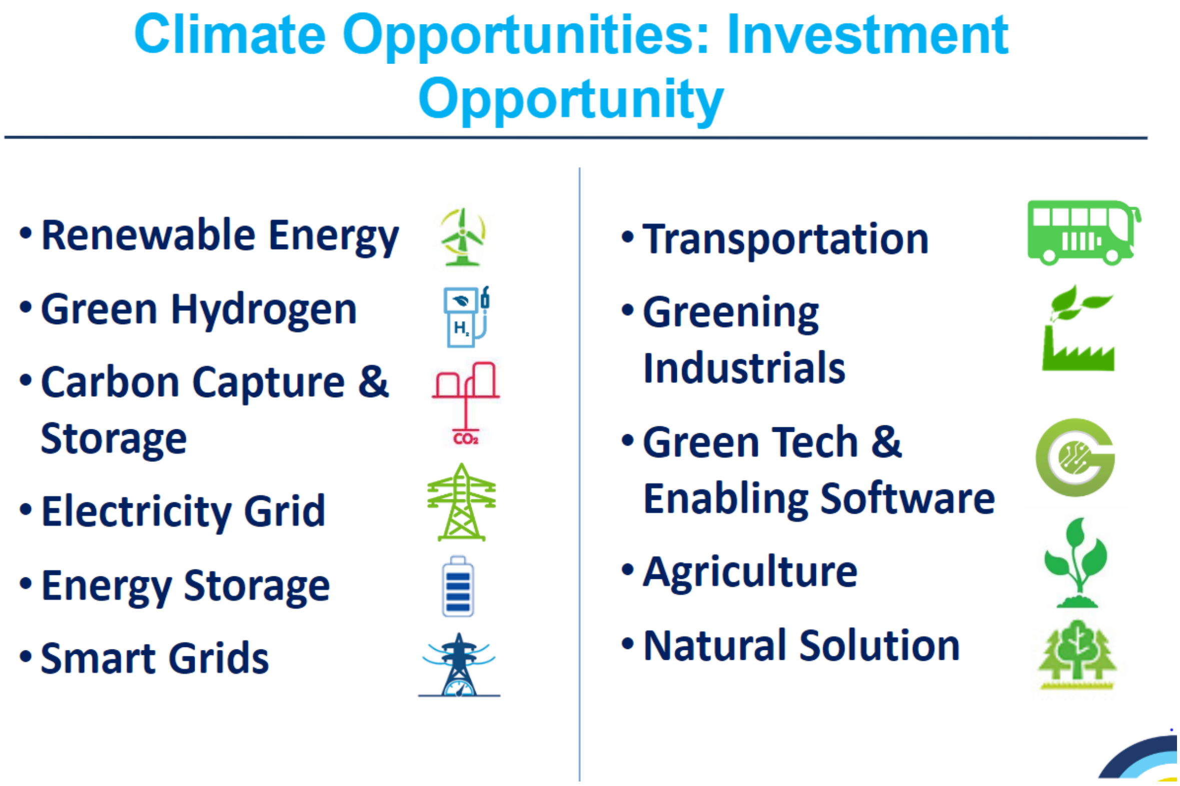
" Surrey residents have been calling for SPF to sell your investments in shares and debt of fossil fuel companies for years. While acknowledging that you have reduced - though unfortunately not eliminated - your exposure to fossil fuels in publicly listed investments, it would be even more troubling if the fund were to make new investments in fossil fuels.

You have committed to invest in new private investment funds launched by Border to Coast. Did you seek assurances from BCPP that those funds would not be invested in fossil fuels? What has been the response from BCPP?"

Reply:
The Surrey Pension Fund has not asked Border to Coast Pensions Partnership, BCPP, to exclude fossil fuel investments. The Fund does not have a policy of exclusion but expects its investment managers to fully integrate Environment, Social and Governance issues into their decision-making process. BCPP are held to the same high standard and have published their own Responsible Investment Policy and documents supporting how they integrate these factors.

These investments will give exposure to renewables (via Infrastructure) and to a wider range of investments which will support the energy transition and pathway to a low carbon economy (Climate Opportunities Fund). They invest into blind pool vehicles and do not have control over underlying investment decisions. It is possible that some strategies could provide a degree of exposure to assets with fossil fuel exposure (oil and gas pipelines are possible in infrastructure, for example).

The most recent commitment to private market investment through BCPP is £235m to their Climate Opportunities Fund. The categories of targeted investment opportunities are shown in the slide below. It is possible that some of the Climate Opportunities managers will invest in fossil fuel related assets with the express purpose of reducing their emissions (for example acquiring public transport assets and accelerating the switch to EVs or other low carbon fuels, or buying electricity utilities and increasing the roll-out of renewables to replace existing fossil fuel generation).



Q4 – submitted by Lindsey Coeur-Belle

In April 2022 the IPCC published its latest Working Group Report which stated, "it's now or never if we want to limit global warming to 1.5% - without immediate and deep emissions reductions across all sectors, it will be impossible". According to Carbon tracker we are nowhere near this target and to achieve a 1.5% warming outcome with a 66% chance of success there are only 9 years left at current rates. We are therefore a long way from the production decline required. Investment in fossil fuels is not climate compatible.

In the light of this stark reality will this Committee agree to immediate divestment from all fossil fuel investment?

Reply:
The Surrey Pension Fund has reduced its carbon exposure and is significantly below the respective benchmarks when considering the actively managed listed equity portfolios. As at 31 March 2022, the weighted average carbon intensity of the Border to Coast UK Listed Equity Alpha Fund was 99.4 tCO2e/$M revenue, compared with 132.4 tCO2e/$M revenue

for the benchmark. The corresponding figures for the Border to Coast Global Equity Alpha Fund were 89.5 and 159.6. By using the LGIM Future World Global Equity Index for global passive investment, exposure to carbon emissions is reduced by 58% compared to the standard global index.

The Fund expects its investment managers to make climate risk a key component of any engagement process regarding Surrey Pension Fund's investments. The Committee also believes in a 'Just Transition' to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of rapid, wholesale industrial change. The Paris Agreement acknowledges *"the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities"* and highlights the importance of workers in responding to climate change. Furthermore, the just transition concept links to 14 of the 17 Sustainable Development Goals, explicitly drawing together SDGs 13 – climate action, 10 – reduced inequalities, 8 – decent work and economic growth, and 7 - affordable and clean energy. If everyone immediately divests from oil and gas assets and stops using them, the impact of this would disproportionately impact workers, communities, Governments, and countries that are currently heavily dependent on oil & gas revenues. It took 250 years to build the global economy that is currently based on carbon intensive sources of energy. We cannot reasonably expect to dismantle it immediately, as the global economy will continue to need fossil fuels as we transition to a more sustainable way of operating.

As you may be aware, the Surrey Pension Fund is in the process of drafting its standalone Responsible Investment Policy. The Committee recognises that, having gone through a thorough escalation process, the ultimate sanction for a company not complying with this policy is its exclusion or divestment from the Fund's portfolio, subject to pooling restrictions. The Fund pooling partner, BCPP, believes in engagement rather than divestment and that by doing so can effect change at companies. Their investment approach is not to divest or exclude entire sectors, however there may be specific instances when they will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement.

Q5 – submitted by Jenifer Condit

My question focuses on bank financing of fossil fuels and the role of SPF in protecting stakeholders from undue risk in its bank sector investments.

First a bit of context:

*Antonio Guterres, the Secretary General of the United Nations, and hence the guardian of the UN's SDG's, tweeted on March 22 that "Those in the private sector still financing coal must be held to account. Their support for coal could not only cost the world its climate goals. It's a stupid investment – leading to billions in stranded assets."

*Andrew Bailey, Governor of the Bank of England, has repeatedly warned of the undue risk being taken by banks which do not heed the call to reduce their lending and other exposure to fossil fuel companies.

*In the US, the SEC has released its draft of long-awaited regulatory changes, demanding enhanced disclosure of climate risk by securities issuers.

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For SPF, the growing realisation of the need to curb bank lending to fossil fuel companies provides both risk and opportunity. Via BCPP and directly, you hold shares in most of the world's largest banks, including both those who have been dangerously increasing their lending to fossil fuel companies and those who have listened better and have begun to pare down their exposures.

So my question is:

How is SPF seizing this moment to protect your stakeholders while contributing to your own climate emergency goals?

- Have you instructed your managers to consider shifting bank investments away from those whose FF exposure is growing (eg Standard Chartered, Paribas, among banks whose shares you own) towards more climate friendly institutions?

- Has SPF directed its managers to increase engagement activities with the banking sector, specifically regarding climate risk? I'm happy to see BCPP's recent vote against Credit Suisse management in regard to the inadequacy of it's climate risk disclosure, but would like to see more of the same.

- Will SPF exclude from its portfolio banks which engage in greenwashing regarding their contribution to climate change, as has been alleged by the UK advertising watchdog about HSBC, whose shares you own?

Reply:
Investment management decisions are delegated to the Fund's investment managers, and so neither the Pension Fund Committee nor Officers have any direct influence over individual stock picking. However, the Fund does expect its external investment managers to take ESG factors into consideration when making and holding investments on its behalf. Voting and Engagement activity that addresses ESG factors is expected of the Fund's managers. Information on these activities is reported back to the Fund, and regularly shared with the Pension Fund Committee through Committee Reports. Greenwashing is an area of concern for the Pension Fund Committee, and it expects its external investment managers to be critical of any ESG/RI claims made by investee companies, which need to be supported by evidence and subject to appropriate scrutiny by the investment manager. Ultimately it is up to the external investment managers to decide on the long-term viability of individual investments made on behalf of the Fund, and Officers regularly engage with the Fund's managers to discuss ESG issues, amongst other matters.

An example of engagement, and its feedback, taking place between one of our managers, Newton Investment Management, and Barclays plc is given below.

''For Barclays which we do hold, we recently had a joint IIGCC engagement meeting with the Chief of Staff, the Head of Sustainability and the ESG Investor Relations representative to discuss their decarbonisation plans, particularly around their loan book. We were encouraged that they had listened to previous feedback and had brought forward the net zero transition date for their loan book to 2050 versus their original target date of 2070. They also set a decarbonisation target range, with the top end of the range being aligned to limiting global warming to 1.5 degrees which again was encouraging. However, the bottom of the range was not nearly ambitious enough and we made it clear to the Barclays representatives that this aspect was not well received. As such, Barclays remains a work in progress, and we would hope that these frank exchanges help bring about a positive outcome.''

The Local Authority Pension Fund Forum, LAPFF, also engages with companies on our behalf. The Chair of the Surrey Pension Fund Committee contacted the LAPFF in February 2022 to emphasise the importance of engaging with financial institutions regarding their exposure to projects that negatively impact on climate change and to make sure this was included in the LAPFF 2022/3 workplan. The workplan states that the ''LAPFF will continue to engage with banks on aligning business practices with the Paris agreement, including HSBC and Barclays as well as a number of Asian-based financial institutions (e.g., Mizuho, Sumitomo Mitsui). Engagement with insurance companies will continue with a focus on physical climate impacts and the implications for insuring companies with coastal assets.''

The LAPFF have also given feedback regarding recent financial company engagements, shown below.

Bank Meetings and Voting Alerts

Objectives**:** In April, LAPFF had a useful meeting with the Standard Chartered Chair, José Viñals, to determine how the company was progressing its work with clients on carbon emission reductions and aligning them with its approach to the energy transition. A meeting with Barclays representatives sought to better understand progress made on the company's climate change strategy, as well as how the company was addressing identified gaps. A meeting was also held with HSBC representatives to determine progress on climate transition planning, given the commitment to publish a bank-wide plan in 2023.

Achieved: On the debate of absolute versus intensity targets, Standard Chartered considered that having absolute emissions targets may restrict helping clients reduce emissions in the long run. A voting alert was issued to members on the 'pathway to net zero by 2050' resolution. LAPFF advised members not to support due to the lack of targets in place to demonstrate the transition is fully aligned with a 1.5°C scenario.

At Barclays, progress was welcomed on setting some financed emission targets and provision of a timeline for setting others. There was also support for the company climate strategy focussing on net zero operations and supply chain pathways. A voting alert was issued recognising this, but due to concerns of intensity emission reduction targets rather than absolute targets, members were advised to oppose the resolution to approve the 2022 Climate Strategy.

The HSBC meeting focussed on client transition plans and how investments can help drive their climate agendas.

In Progress: For all the banks, targets have been set for some sectors and plans are in place to set them for remaining sectors. A focus of engagement remains, particularly on around the new financing for the oil and gas sector given that the International Energy Agency has said that no new oil and natural gas fields are needed in the net zero pathway.

Asia Research and Engagement

Objective: As part of the Asian Transition Plan collaborative initiative, LAPFF supports company engagement in Asia's financial markets, focussing on carbon and coal risks at financial institutions, as well as coal-exposed power companies.

Achieved: Statements were made at the annual meetings of Huaneng Power International, Huadian Power, Industrial and Commercial Bank China, and Bank of China. The power

4 companies‘ statements requested commitments to stop coal power capacity addition and to phase out existing coal power capacity. The bank statements asked for commitments to net zero financed emissions in line with China’s targets, sector specific pathways in line with national policies, and sustainable finance targets.

In Progress: Regular meetings continue with the coordinating group to progress company engagement meetings.

During 2022, in addition to supporting the shareholder proposal on ‘Fossil Fuel Financing’ at Credit Suisse, BCPP have supported similar climate-related shareholder proposals at financial institutions such as Bank of America, Citigroup and Standard Chartered. BCPP is engaging with companies on several climate-related engagement themes including “Net-Zero Carbon Emissions” and “Climate Transition of Financials”. Banks have a key role to play in enabling the transition to a low-carbon future and the Climate Transition of Financials theme aims to accelerate Banks’ disclosure on the Task Force on Climate-related Financial Disclosure (TCFD) recommendations for Banks on Governance, Strategy, Risk Management and Targets/Metrics. The engagement is expected to last for three-years and is due for completion in 2024. Engagement is being undertaken with a number of global financial institutions.

Our passive portfolios managed by Legal and General Investment Management are managed under their Climate Impact Pledge and this includes the banking sector. Under their Climate Impact Pledge, they employ their “structured engagement with consequences” model. The Pledge covers c.1,000 companies using a data-driven assessment and a traffic light system to assess companies on pre-defined metrics and sector-specific metrics. Companies will automatically receive a letter highlighting their rating and any potential sanctions. They have established minimum standards that apply for all companies within the "climate critical" sectors of the MSCI ACWI sectors. Companies not meeting the minimum standards are subject to voting sanctions. They believe there has been a much-needed step-change in banks and other large financial institutions recognising their key role in accelerating the transition to a low-carbon economy. Initially a ‘laggard’ sector under their annual Climate Impact Pledge rankings, in 2021 they saw more banks signing up to the Net-Zero Banking Alliance and publishing decarbonisation commitments.

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Q6 – submitted by Lucianna Cole

I first wanted to thank Surrey Pension Fund for the response to my recent FOI request on your fossil fuel holdings.

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Now that BCPP provide quarterly disclosure of all it's find holdings on its website, would it be possible for Surrey Pension Fund to routinely disclose your portfolio on a quarterly basis? I would really welcome the improved transparency and I'm sure it's something many members would appreciate too.

Reply:
Thank you for the acknowledgment regarding the FOI request.

The Surrey Pension Fund Committee will always consider ways to improvement transparency to its members and the public. The possible information that could be routinely disclosed, the timing of that disclosure, and the location of its disclosure will be reviewed. (Please note, BCPP report holdings every six months with a lag before publishing, not quarterly.)

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