Supplement – Public Questions

Surrey Pension Fund Committee

Date & time	Place	Contact	Chief Executive
Friday, 16 June 2023 at 10.30 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Angela Guest Tel angela.guest@surreycc.gov.uk	Joanna Killian We're on Twitter: @SCCdemocracy

SUPPLEMENTARY AGENDA PAPERS

4 QUESTIONS AND PETITIONS (Pages 1 - 4)

Public questions and responses are attached.

Joanna Killian
Chief Executive
Published: Thursday, 15 June 2023

This page is intentionally left blank

Surrey Pension Fund Committee – 16 June 2023

Item 4 - Public Questions

Q1 – submitted by Janice Baker

Investment in renewables, particularly solar PV and more recently wind power, has risen so significantly that they have been reported to account for more than half of the energy supplied in the UK. Is the Surrey Pension Fund going to take advantage of this growing market and significantly increase our investments in renewable energy?

Reply:

The Fund has been a long-term supporter of, and investor in, renewable energy and has deployed significant capital to the industry. For example, within the private market exposure, the Fund invested $25m in 2013 in the Capital Dynamics Clean Energy and Infrastructure Feeder Fund (see below), €45m in 2018 in Glennmont Clean Energy Fund Europe III (see below) and, most recently, committed £235m to BCPP Climate Opportunities, where renewable energy is a key investment theme.

Glennmont Clean Energy Fund Europe III SCSp is an €850m fund investing exclusively in renewable energy. To date it has invested €737m across solar PV, onshore wind and offshore wind – the portfolio is spread across five European geographies and consists of a mix of operating, construction and development assets. The operating portion of the portfolio has offset 723,155 tonnes of CO_2 as at 31 March 2023.

Capital Dynamics Clean Energy and Infrastructure LP was formed with the objective of investing directly in real assets in clean energy projects together with related infrastructure necessary to meet increased demand for clean and renewable energy in North America and Europe, with a particular focus on investments in the United Kingdom and the United States.

The Fund's exposure to renewable energy through private markets is not limited to these dedicated funds. Within the other private market funds there are investments in solar, wind, biomass, hydro and energy from waste projects.

The Fund also has investment in renewable energy through listed equities and debt, including through the increased capital expenditure into the industry by the large integrated energy companies.

The Fund expects investment opportunities in renewable energy to continue to be considered, within the managers risk and return frameworks.

Q2 – submitted by Kevin Clarke

How much does SPF have invested in the UK water companies, either directly or indirectly?

Indirectly simply means investments by SPF in companies that have invested in the UK water companies. Please provide details of the individual investments and not just the total.

4

Reply:

The ownership structure of UK water companies is very complex, but we are not aware of any investment in these companies.

Q3 – Submitted by Lindsey Coeur-Belle

15 out of 17 SDG's have one or more Means of Implementation targets that enable … or reinforce … climate action ". Fuso Nerili 2019

In light of this co-dependency will this Committee prioritise climate action in investment decisions going forward?

Reply:

The UN Sustainable Development Goals (SDGs) are interconnected, as the abstract from the research quoted, shown below, clearly expresses.

Abstract

The international community has committed to combat climate change and achieve 17 Sustainable Development Goals (SDGs). Here we explore (dis)connections in evidence and governance between these commitments. Our structured evidence review suggests that climate change can undermine 16 SDGs, while combatting climate change can reinforce all 17 SDGs but undermine efforts to achieve 12. Understanding these relationships requires wider and deeper interdisciplinary collaboration. Climate change and sustainable development governance should be better connected to maximize the effectiveness of action in both domains. The emergence around the world of new coordinating institutions and sustainable development planning represents promising progress.

This research highlights that fulfilling a single SDG can both help and hinder some of the others, depending on the specific actions taken. This is why the Committee attempts to take all the SDGs into account rather than focus on a single one. The Fund's recent consultation on its Responsible Investment Policy received very strong support for the Fund's approach regarding using the UN SDGs as the guiding principles in their entirety.

Q4 – Submitted by Jennifer Condit

- Surrey Pension Fund owns shares in Shell predominantly via its investment in the Border to Coast UK Equity Alpha fund but also in its portfolio managed by Newton Investment Management

- At the recent 2023 Shell AGM, BCPP and Surrey Pension Fund each voted your shares against management's Energy Transition plan, in part because the plan does not address scope 3 emissions, (that is oil and gas used by Shell's customers). Obviously the use of

Shell's oil and gas products represents by far the largest share of Shell's emissions and oil and gas essentially ARE carbon

- SPF has voted against Shell's energy transition plan for several years.

The committee has developed a new Responsible Investment Plan which includes the concept of escalation of engagement where investee companies do not respond to earlier attempts to modify corporate behaviour.

Could you please set forth steps you think should now be taken to further escalate your engagement with Shell, in light of the clear evidence that the company is not swayed in Its actions by shareholder resolutions? This is an excellent opportunity to put your new RI Plan to work. Please be as specific as you can.

Reply:

At the 2023 AGM, there were two climate related resolutions, a management one and a shareholder one. Shareholder support for the management's Energy Transition plan was 80.01%. Shareholder support for the shareholder resolution was 20.19%.

In April 2022, BCPP launched their 'Low Carbon Transition' engagement theme and their Shell engagement sits within this programme. They are now engaging with Shell both directly and collaboratively. This escalation to direct engagement is part of a three-year process, recognising its importance.

There has been escalation in 2023. Both Surrey and BCPP voted against the Chair at the 2023 AGM. Total votes against the Chair amounted to 6.92%.

All engagement and escalation are carried out by the Fund's investment managers and they will now reflect on the information released at Shell's Capital Markets Day on 14 June 2023.

Q5 – Submitted by Lucianna Cole

Study after study is calling for urgent action to reduce emissions and curb carbon emissions. With UN Secretary-General, António Guterres, warning that current climate policies are a 'death sentence' for the world.

On this note I was pleased to hear that the Surrey Pension Fund will have interim targets for their Net Zero date, which will be in line with the IPCC recommendations. The IPCC report calls for a 43% reduction by 2030.

Given this, do you have any information on the steps Surrey Pension fund will start taking now to reduce the portfolio's emissions year-on-year, to achieve a 43% reduction in emissions by 2030?

Reply:

The Surrey Pension Fund has not agreed to a net zero date yet, although at the June 2023 Committee meeting a recommendation from the Responsible Investment Sub Committee will be made for a date of 2050, or sooner.

BCPP has set a target of net zero by 2050 or sooner and is modelling progress against a science-based pathway. The IEA NZE2050, (International Energy Agency Net Zero

4 Emissions 2050) pathway is based on the IPCC P2 pathway and is supported by MSCI. This models a 41% reduction in emissions by 2030 and 82% by 2040, compared to 2019. Significant progress has already been made to reduce emissions and the funds currently modelled are tracking ahead of this pathway.

Importantly, however, reducing portfolio emissions does not necessarily mean reducing real world emissions which is why the Fund and BCPP prefer engagement over divestment. BCPP are engaging with companies which they consider to be lagging in their efforts to reduce their carbon footprint and encouraging them to improve. BCPP have set themselves a target for 80% of their investee company's emissions that are not already Paris aligned to be subject to engagement by 2025 and 100% by 2030. As of 31 March 2023, this figure stood at 73%.

Asset allocation decisions have already driven considerable reductions in emissions for the Fund and will continue to do so. The next step will be the expected switch from a passive to an actively managed portfolio for exposure to Emerging Market equity. Emerging Market equity exposure accounts for a disproportionate share of the Fund's total emissions. The exposure to this area helps ensure the Fund is meeting its fiduciary duty and has adequate diversification. Divestment could impact potential Fund returns, as well as having potential negative impacts for the other UN Sustainable Development Goals. However, switching to an actively managed product through BCPP maintains investment exposure, helps the regions development and, as a snapshot, reduces emissions by over 50%.

The Fund's TCFD report, TCFD (surreypensionfund.org), lays out the Fund's approach to carbon emissions and the resultant data.