Supplement to agenda – public questions

Surrey Pension Fund Committee

Date and Time	Place	Contact	Web:
Friday, 8 September 2023 11.15 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Angela Guest angela.guest@surreycc.gov.uk	Council and democracy Surreycc.gov.uk We're on Twitter: @SCCdemocracy

Committee/Board Members:
Elected Members

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

Co-opted Members:
Duncan Eastoe (Employees), Robert King (Borough & Districts), Kelvin Menon (Employers) and Steve Williams (Borough & Districts)

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

SUPPLEMENTARY PAPERS – PUBLIC QUESTIONS

4 QUESTIONS AND PETITIONS (Pages 1 - 6)

Public questions and responses are attached.

Joanna Killian
Chief Executive
Published: Thursday, 7 September 2023

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Surrey Pension Fund Committee – 8 September 2023

Item 4 - Public Questions

Q1 – submitted by Lindsey Coeur-Belle

The Convention on Biodiversity, in force since December 1993, is an international legally binding treaty requiring all governments to safeguard biodiversity and focuses on sustainable development without threatening plant and animal life on Earth.

The Convention covers all life on earth however it's estimated a million plants and animal species are on the brink of extinction. If we do not address this crisis there will be serious consequences for the planet's ability to provide clean air and water, food, medicines and materials-all of which are vital for human survival.

The future of rare species is heavily predicated on the market value of soybeans, palm oil, beef, corn, sugar and coffee; whose production drives habitat loss to the greatest extent especially in South East Asia and Brazil.

Given the Committee's commitment to sustainable development I expect you are aware of these facts however what investments does the Fund have in the above products?

Reply:

Biodiversity loss is increasingly seen as posing a risk to financial markets. Over half of global GDP is dependent on nature-based services, and looking ten years out, six of the top ten global risks identified by the World Economic Forum are climate and environmental related.

All of the Fund's listed equity investment managers have biodiversity as one of their key engagement themes.

From 2020 to 2023 for example, Robeco, the external engagement service provider for Border to Coast Pensions Partnership (BCPP), engaged on their behalf with a number of companies significantly exposed to forest risk commodities, including beef, soy, pulp and paper, cocoa and natural rubber. Their dialogues targeted companies active across consumer staples, consumer discretionary, healthcare and materials supply chains. The link to the quarterly engagement report with an update on biodiversity can be found below.

Border-to-Coast-Public-Engagement-Report-2023-Q2.pdf (bordertocoast.org.uk)

The raw materials listed permeate a vast range of supply chains and whilst the Fund does not invest in a commodity fund specifically, it is exposed to them regardless. However, determining the exact exposure to companies that may derive revenue from the production or distribution of these commodities is extremely challenging given the data available.

BCPP currently source biodiversity-specific data from their ESG data provider MSCI. Biodiversity, including 'Land Use' and 'Raw materials Sourcing', is factored into a company's overall assessment where it is expected to be financially relevant to the company. Overall, 85% of constituents of the MSCI ACWI Index were assessed on at least one of the biodiversity-linked Key Issues (as of January 18, 2023). This means that the majority of BCPP's portfolio companies are screened and assessed for Biodiversity risk. Furthermore, they continually assess controversies involving the impact of company operations, governance practices, and/or products and services that allegedly violate national or international laws, regulations, and/or commonly accepted global norms. This includes controversies associated with impact on natural capital/ biodiversity.

Given the focus on palm oil production globally over recent years, data availability is more advanced for this commodity from the list. As at July 2023, the Legal and General Investment Management, LGIM, Future World Global Equity Index had a 0.01% exposure to companies that derive revenue from palm oil production and distribution. LGIM is also a signatory of the Finance for Biodiversity Pledge and a member of the Finance Sector Deforestation Action initiative.

Q2 – submitted by Jenifer Condit

Al Gore has taken off the gloves in his most recent TED Talk, “What the fossil fuel industry doesn’t want you to know”. Backed by a staff of fact-checkers, Gore provides an updated and scary picture of the current state of affairs on the carbon/climate front. With emission STILL rising, he is evidently frustrated at the obstacles to progress and lays the greatest blame at the feet of the FF industry. He calls them out for fraud and falsehoods on an industrial scale in the quest for profit. He levels specific charges at BP and Shell (both of which we own at SPF). To wit -

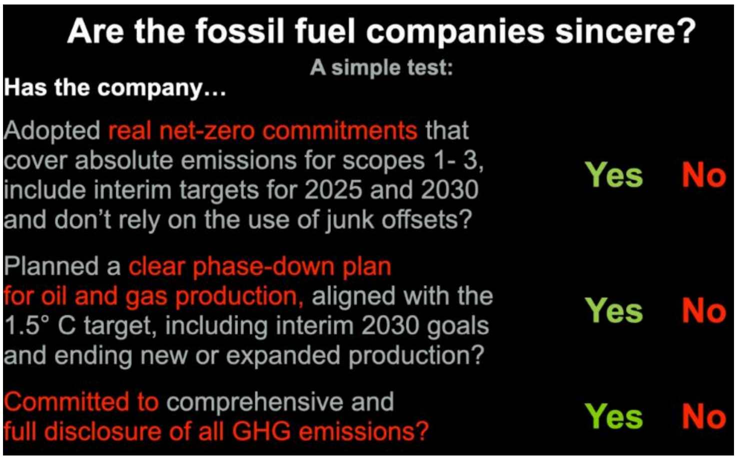
BP in 2020: “We are heading to net zero. There is no turning back”

BP in 2023: Rolled back its 2020 commitments to reduce FF production and emissions.

Shell in 2023: Reversed its prior commitments to invest in renewables and will redirect these investments to focus on further expansion of fossil fuels.

Here is a link to the full talk: https://www.ted.com/talks/al_gore_what_the_fossil_fuel_industry_doesn_t_want_you_to_know?language=en

Gore fumes at the role FF interests will play at the upcoming COP. He proposes a seven part questionnaire for COP participants. - any No answers being a bar to entry. They are:



Used windfall profits to invest substantially in clean energy technologies and adaptation / mitigation funding for developing economies?	Yes	No
Committed to complete transparency in all corporate lobbying and ending all anti-climate lobbying?	Yes	No
Ended greenwashing, including the labeling of "carbon neutral" or "net zero" fossil fuels?	Yes	No
Supported reform of the COP negotiating process to remove the requirement for total unanimity?	Yes	No

These are great tests for investment as well.

Will the SPF Committee please consider subjecting its fossil fuel investments to these tests, only continuing to own those which can pass with flying colours?

Reply:

Thank you for the information relating to Al Gore's views on assessing the ongoing suitability of fossil fuel investments. The Fund's investment managers integrate responsible investment into their investment processes such that environmental, social and governance factors are accounted for in the investment decision, whether fossil fuel companies or not.

When voting on climate transition plans, the Fund considers the strength of a company's climate ambitions, including whether it has set a net zero ambition, set quantitative short-term and medium-term targets and has had its targets validated as credible and science based. Other items that are considered include climate governance (board + remuneration linkage), disclosure of emission data, commitment to align lobbying with the goals of the Paris Agreement and whether there is a commitment to align capex with the Paris Agreement.

Additionally, the Fund will consider voting against the annual report where there are no disclosures on how the board oversee ESG risks and opportunities, the company does not disclose Scope 1 & 2 emission data or an emission reduction target, or where there is no reference to the TCFD guidelines in corporate reporting.

Border to Coast Pensions Partnership, BCPP, make it clear in their voting policy that they will vote against the Chair of the Board of oil and gas companies which fail to meet one of the first four indicators of the Climate Action 100+ benchmark (a form of checklist, which complements their voting analysis). This includes short, medium, and long-term emission reduction targets. The Climate Action 100+ benchmark also helps to inform the points for engagement as part of their Low Carbon Transition engagement theme, focusing on higher carbon emitters.

BCPP therefore voted against the Chairs of both BP and Shell, in line with their climate voting policy, as they failed to fully meet indicators 3 and 4 of the CA100+ Net Zero Company Benchmark (specifically, both companies failed sub-indicators 3.3 and 4.3).

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Q3 – Submitted by Kevin Clarke

BCPP has a significant investment in their Multi Asset Credit Fund in Barclay's Bank who are known to fund oil exploration.

It is understood that some of SPF's funds are invested in BCPP's Multi Asset Credit Fund and therefore SPF is also invested in Barclays Bank. This in addition to SPF's ownership of Barclays shares via your investment in the BCPP UK Equity Alpha fund which held £21m of Barclays shares in March 2023.

Does SPF have any plan to lobby BCPP to sell their investments in Barclays Bank (and also any other bank that supports exploration of fossil fuels).

Reply:

There are currently no plans to lobby BCPP to ask the underlying fund managers to exclude Barclays, nor any other individual company. The Fund's managers integrate environmental, social and governance factors into their investment processes and individual investment decisions are delegated to the managers. The Fund's policy is to favour engagement over divestment.

Border to Coast Pensions Partnership, BCPP, recognise that banks play a pivotal role in the transition to a low carbon economy. They can drive change by financing sustainable projects and transitioning away from fossil fuels. Banks can provide funding for renewable energy, energy efficiency and other climate solutions. They can also promote sustainable business practices by offering incentives and setting standards for companies to meet. Banks can also play a role in helping businesses transition to a low carbon economy by providing financing, advisory services, and risk management tools. Through their actions, banks can have a significant impact on reducing greenhouse gas emissions and promoting a more sustainable future.

BCPP therefore ensured that they integrated the banking sector into their Low Carbon Transition engagement theme, which launched in April 2022. This theme aims to engage companies in high-emitting sectors and banks identified as key to financing the transition to a low-carbon economy. The primary objective is to encourage companies to adapt their business strategy to align with a low-carbon economy and reach net zero by 2050 or sooner. The areas they consider include climate governance, strategy and Paris alignment, Board oversight and incentivisation, TCFD disclosures and scenario planning, Scope 3 emissions and the supply chain, capital allocation alignment, climate accounting, a just transition, and exposure to climate-stressed regions.

Q4 – Submitted by Lucianna Cole

In the last committee meeting you shared the really encouraging news that SPF has already seen reductions in emissions that would meet the percentage reduction that BCPP has adopted as a 2030 target. Given this, do you plan to set a more ambitious interim target, and what steps will you be taking to further reduce Surrey Pension Fund's fossil fuel holdings?

Reply:

The Fund has recently agreed a Net Zero target of 2050, or sooner, for all investment. This aligns with BCPP's aspiration, which includes science-based interim targets. There are currently no plans for the Fund to set interim targets inconsistent with these science-based targets, but it is encouraging to see that some of the data points evidence falls in carbon emissions ahead of these targets.

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