Supplementary Agenda

Surrey Pension Fund Committee

Date and Time	Place	Contact	Web:
Friday, 13 September 2024 11.15 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Amelia Christopher, Committee Manager amelia.christopher@surreycc.gov.uk	Council and democracy Surreycc.gov.uk **X:** @SCCdemocracy

Committee Members:

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

Co-opted Members
Cllr Nirmal Kang (Borough & Districts), Cllr Claire Malcomson (Borough & Districts), Kelvin Menon (Employers) and Duncan Eastoe (Employees)

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 Amelia Christopher, Committee Manager on amelia.christopher@surreycc.gov.uk.

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https://surreycc.public-i.tv/core/portal/home

If you would like to attend and you have any special requirements, please email Amelia Christopher, Committee Manager on amelia.christopher@surreycc.gov.uk. Please note that public seating is limited and will be allocated on a first come first served basis.

SUPPLEMENTARY AGENDA

4	**QUESTIONS AND PETITIONS** b) Five public questions were received and the responses are attached.	(Pages 1 - 8)

Terence Herbert
Chief Executive
Published: Thursday, 12 September 2024

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SURREY PENSION FUND COMMITTEE – 13 SEPTEMBER 2024

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

Item 4b - Public Questions

1. Question submitted by Janice Baker

A surprising number of people we have met at Surrey Climate Commission stalls this summer are unaware of Surrey Pension Fund (SPF) investment in fossil fuels. The amount appears to be at least £55 million for the largest 25 companies alone.

Will the Committee be publishing an article disclosing and explaining the extent of SPF fossil fuel investments on the public-facing Surrey Pensions website?

RESPONSE:

The Fund is keen to be as transparent as possible regarding all of its underlying investments. It does not determine disclosure by asset class or sector, but rather discloses information on all positions where possible, reflecting the Fund's broad range of stakeholders and their interests.

The Fund revised its standing Investment and Funding Committee Paper in June 2022 to improve information flow and clarity, found here for June 2024 (Public Pack)Agenda Document for Surrey Pension Fund Committee, 21/06/2024 11:15 (surreycc.gov.uk)

The relative sector positions for all sectors for the actively managed funds, as at December 2023, can be found on the website, follow this link Investment | Surrey Pension Fund. Going beyond disclosing sector information, the Fund publishes all of the direct equity holdings and underlying holdings within the pooled assets. They can also be found on the website, allowing all stakeholders complete disclosure of actively managed listed investments.

The question demonstrates the disclosure levels of the Fund, as the exposure to the largest 25 oil companies by turnover was indeed approximately £55m as at 31 March 2024 and this was published in the Responsible Investment Update Committee Paper in June 2024, found through this link, (Public Pack)Agenda Document for Surrey Pension Fund Committee, 21/06/2024 11:15 (surreycc.gov.uk) Also published for all stakeholders to read was the total exposure to energy for all listed mandates and how that weighting compares to the market in general.

The Fund has voluntarily produced a Task Force on Climate-related Financial Disclosures report (TCFD) for 4 years, giving a holistic view on the Funds carbon exposure rather than focusing on specific companies and sectors. The latest report shows a decline in the weighted average carbon intensity of over 75% since 2018. The Fund and its investment managers are on track to reach the Fund's target of Net Zero by 2050 or sooner. Last year's TCFD can be found on the website, here, Surrey TCFD report September 2023 (surreypensionfund.org)

2. Question submitted by Jenifer Condit

At the Committee's June 2024 meeting you provided a summary of the fossil fuel investments held by SPF at your various investment managers. My question focusses on such holdings at Legal & General Investment Management.

Several years ago, the Committee went through extensive analysis and discussion before deciding to shift funds previously held elsewhere at LGIM, into the LGIM Future World Fund. The intention, I believe, was to achieve a lower carbon intensity profile. The option of selecting an even lower carbon intensity fund (a Paris aligned fund) was considered but rejected, I believe. With the disclosure in June, it became apparent that the LGIM Future World fund has holdings in 16 of the 25 largest fossil fuel companies, as determined by Mercer. These 16 investments appear to make up about 1.1% of the fund's value. SPF's Future World investment of £1.3 billion is SPF's largest fund concentration.

Was the Committee aware that it would be buying into 16 of the largest 25 fossil fuel companies with this investment, and would you now consider shifting these assets into a yet lower carbon fund, given your oft expressed concern for the financial risk presented by the accelerating climate emergency?

For clarity these are the 16 fossil fuel holdings:

Stock	**Amount Held (£000)**
Shell	2,355
Total	1,155
BP	998
Chevron	1,494
Marathon	5,602
Phillips 66	315
Valero	548

Reliance	1,139
Petrobras	1,031
ENI	252
Eneos	13
PTT	29
Orlen	20
Repsol	145
Idemitsu Kosan	93
SK Innovation	61
TOTAL	15,253

RESPONSE:

The Fund uses the UN Sustainable Development Goals (SDGs) to underpin its responsible investment. Therefore, investment managers are expected to consider a wide range of environmental, social and governance (ESG) factors in determining financial risk.

The LGIM Future World Global fund mirrors an index that excludes pure coal miners, manufacturers of controversial weapons and companies in perennial breach of the UN Global Compact. It is subject to the LGIM Climate Impact Pledge found in the following link,Climate Impact Pledge | Climate change | LGIM Institutional , and uses thirty-four different ESG factors to generate investment tilts accordingly. A passive management approach is then used to mirror this adjusted index. Therefore, it is expected that the majority of companies in the index will be held, but at varying proportions compared to the unadjusted benchmark. This is the case for all companies. The Committee in very familiar with the product and received dedicated training on it in June 2024.

Ultimately, the aim of the fund is to have equity-like risk and return whilst also having more attractive ESG characteristics, across a broad spread of factors, than the unadjusted benchmark. The fund has delivered on this aim.

3. Question submitted by Jackie Macey

My question relates to the Government's plans to introduce a Pension Scheme Bill. I understand that this review of pension schemes and possible consequent legislation aims to consolidate funds, increase investment in UK infrastructure projects and achieve cost savings through economies of scale and a review of fees incurred.

Is this a topic of discussion with BCPP and does the Surrey Pension Fund Committee consider these proposed changes will reduce their control over investments, or affect any endeavours to reduce holdings in fossil fuel companies?

RESPONSE:

The Fund has no preferential insight into the Government's future plans regarding a Pensions Scheme Bill.

The Committee will continue to invest in the best interests of the membership, whilst following UK law.

The Fund continues to engage with Border to Coast Pensions Partnership and the other Partner Funds within the pool to make sure the Fund can be positioned as well as possible for any potential changes in the industry.

4. Question submitted by Lucianna Cole

Food and agriculture is responsible for almost a third of global emissions and is the leading driver of deforestation. BloombergNEF's Agri-Food Corporate Sustainability Indicators Tool has recently been published, examining the environmental targets and commitments of 136 food and agricultural firms. While 68% have a net-zero target in place and 78% have committed to absolute emissions reduction targets, fewer are science-based. Even if all targets are hit, the sector would still be above a 2C pathway, implying the urgent need for stronger action.

In light of this, are you able to share any information on engagement that the Surrey Pension Fund Committee or BCPP have had with food and agriculture companies that encourages them to take stronger action on cutting emissions and protecting biodiversity?

RESPONSE:

Engagement is carried out by the Fund's investment managers or collaborative partners.

BCPP have worked with Robeco, their voting and engagement partner, to engage across many different areas. BCPP provides input into the annual engagement theme review conducted by Robeco on issues considered to be financially material. This allows them to leverage Robeco's support on existing thematic priorities whilst also ensuring engagement scope can be broadened to other, financially material, areas. Robeco has undertaken active engagement on BCPP's behalf on issues including biodiversity, labour practices, human rights, and corporate governance.

Three examples follow:

Curbing deforestation to preserve biodiversity.

Biodiversity loss is one of the major global environmental risks. More than half of the world's GDP is dependent on nature and its services, and the unprecedented loss of biodiversity places this value at risk. In June 2023, Robeco, closed a three-year engagement programme with 12 companies exposed to forest risk commodities, namely cocoa, paper and pulp, soy, rubber, and beef. Four BCPP held companies were covered by the engagement. It targeted companies active across consumer staples, consumer discretionary, healthcare, and materials supply chains, and was structured around five key engagement objectives: zero deforestation, biodiversity impact assessment, biodiversity restoration and circular economy, sustainability reporting, and social management.

Progress was made across the objectives with most companies setting time-bound deforestation commitments by 2030 and improving sustainability reporting. Three of the twelve companies will remain under engagement. Robeco will continue to engage on minimising biodiversity loss through other biodiversity-related themes and is continuing sovereign engagement work focused on supporting government agencies in their efforts to reduce deforestation rates in Brazil and Indonesia. Robeco is also supporting the new Nature Action 100 initiative.

Biodiversity engagement with Mondelez International (Held in the Global Equity Alpha Fund)

Mondelez is one of the world's largest snacks companies. Many of its products are based on chocolate and the company is a major importer of cocoa, one of the five key forest-risk commodities. There has been an ongoing dialogue with Mondelez, engaging it in particular on the integration of forest restoration into its operating model. In 2023, under the company's new sustainable cocoa sourcing models, Mondelez has, for the first time, included clear off- and on-farm

4 restoration targets. While affected areas continue to be insignificant in the context of the company’s sourcing footprint, this is considered a first step to a more ambitious biodiversity approach.

New engagement theme

Whilst the deforestation engagement theme has closed, Robeco continues to engage on biodiversity. In 2024, it launched a new engagement theme on ocean biodiversity. Robeco will engage sectors that contribute to ocean biodiversity loss, for example, unsustainable fishery practices deplete fish stocks, aquaculture can impact coastal ecosystems, and deep-sea mining is an emerging risk

5. Question submitted by Lindsey Coeur-Belle

A growing number of European institutional investors are stripping oil and gas stocks from their portfolios in order to reduce the risk of stranded assets and financial losses. These include the following:

1. PFA Pension (Pensionsforsikringsonstalten); Denmarks largest pension fund with US$110 billion assets; has recently offloaded its US$170 million stake in Shell because of their worryingly low expenditure on renewables.

2. The Dutch Stichting Pensioenfonds ABP; is one of the world’s largest funds with assets over €600 billion, has exited from all its liquid assets in oil, gas and coal worth US$10.8 billion and has plans to divest a further US$5 billion of less liquid fossil fuel investments.

3. In France new sustainable investment requirements mean asset managers will need to divest from an estimated US$7.5 billion in combined fossil fuel assets; impacting companies such as TotalEnergies and Shell.

4. Sweden’s AP7 (Sjuide AP-fonden) with assets over US$100 million has exclusion policies targeting a range of oil producers including Saudi Aramco and India’s oil and natural gas corporation and has black listed Exxon Mobil.

5. The Danish Pension fund AkademekerPension axed the last remaining oil and gas holdings from its US$20 billion portfolio at the end of 2023 and is now divesting from companies which provide equipment to fossil fuel producers.

The examples cited here are evidence of a growing trend in fossil fuel divestment by pension funds seeking to align with the Paris Agreement and protect their investments.

Does this Committee agree that fossil fuel divestment is a sound business decision worthy of serious consideration and that the obvious risk of stranded assets is contrary to your fiduciary duty?

RESPONSE:

The Committee believes in an 'Engagement with Consequences' approach towards its investments - constructively engaging with investee companies on any identified environmental, social and governance (ESG) and responsible investment (RI) issues, rather than immediate divestment. As the Fund is externally managed, the actual implementation of the 'engagement with consequences' approach in relation to individual investments falls to its investment managers. Engagement is a legitimate step by our managers in an escalation process where issues are identified, communicated to company management and their responses are assessed.

If initial engagement does not lead to the desired results, escalation by the managers may be necessary. Options for this escalation include collaborating with other investors, supporting shareholder resolutions, voting against directors or other relevant meeting agenda items, attending Annual General Meetings (AGMs) in person to raise concerns, publicly expressing concerns and co-filing shareholder resolutions. If, after the escalation process, the investment case is still seen as fundamentally weakened, the decision may be taken by the manager to sell the company's shares. Regulatory, legal, reputational, environmental, social and governance issues are all risks that may be considered.

The Fund's RI policy can be found through this link, Surrey RI Policy (surreypensionfund.org)

Discussions regarding revising this policy, including divestment, are taken extremely seriously and happen regularly. The Fund's RI policy is aligned with its fiduciary duty and takes into account a wide range of risks.