MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.30 am on 20 December 2019 at Ashcombe Suite, County Hall, Penrhyn Road, Kingston upon Thames, Surrey, KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

Ms Charlotte Morley
* Tim Evans (Chairman)
* Mr Ben Carasco (Vice-Chairman)
John Beckett
Mr David Mansfield
Hazel Watson

Co-opted Members:

* Borough Councillor Ruth Mitchell, Hersham
* District Councillor Tony Elias, Bletchingley and Nutfield
* Philip Walker, Employees

In attendance

Mr Nick Harrison, Chairman of the Local Pension Board

54/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from John Beckett, Hazel Watson and Charlotte Morley.

55/19 MINUTES OF THE PREVIOUS MEETING: 13 SEPTEMBER 2019 [Item 2]

The minutes were approved as an accurate record of the previous meeting.

56/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

57/19 QUESTIONS AND PETITIONS [Item 4]

Six questions were received from members of the public. The responses can be found as an annex to these minutes.

Supplementary questions were asked from five members of the public and verbal answers were provided.

Actions/further information to be provided:

In agreement with the Chairman, officers will provide written replies to questions one and six.

58/19 SCHEME ADVISORY BOARD REVIEW OF GOVERNANCE IN THE LGPS [Item 5]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) informed Members on the work the Fund were doing in conjunction with its governance consultant Hymans Robertson on compliance and future proofing the Fund going forward, in order to develop Phase III of the Fund's 'Good Governance' report.
2. The Chairman noted the importance of 'skills and training' within the Phase II Report, particularly the distinct separation between responsibilities to the Pension Fund as Members of the Committee and their responsibilities as councillors and employer/employee representatives.

RESOLVED:

The Committee noted the report.

Actions/further information to be provided:

None.

59/19 COMPANY ENGAGEMENT AND VOTING [Item 6]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist highlighted the progress made by the five-year initiative, Climate Action 100+ which operated across six different industries - not just fossil fuel industries - to facilitate low carbon transition.
2. The Chairman referred to positive progress by the largest steel manufacturer in the world, Arcelor Mittal in reducing its carbon usage and Glennmont Partners' recent investment in a 36 megawatt onshore wind farm in Italy.

RESOLVED:

The Pension Fund Committee:

Reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through;

- Commending the outcomes achieved for quarter ending 30 September 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 September 2019.
- Noting the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 30 September 2019.
- Supporting the work carried out by Climate Action 100+ in their engagement on ESG issues, and Darwin on their strong Environmental Credentials.

Actions/further information to be provided:

None.

60/19 LOCAL BOARD REPORT [Item 7]

Witnesses:

Nick Harrison - Chairman of the Local Pension Board
John Smith - Pension Governance and Employer Manager

Key points raised in the discussion:

1. The Chairman of the Local Pension Board noted the recommendations of the report to the Committee and added that monitoring the Key Performance Indicators (KPIs) entailed a substantial amount of work due to a backlog of cases and the difficulty in measuring old cases within that backlog.
2. The Strategic Finance Manager (Pensions) explained that in the past the Pension Administration Strategy was not an accurate measure towards improvement; the most recent revision addressed that as the Pension Fund team were more confident that the Pension Administration team could meet the KPIs.
3. The Chairman of the Local Pension Board noted that the programme of work was substantive, but adequate training resources for the Local Pension Board remained an issue and in response, the Chairman of the Committee stressed that the Committee would help with that.
4. The Chairman of the Local Pension highlighted the red risk affecting staff retention within the Administration Risk Register on the move of County Hall. In response to a Member's query on the risk grading, he stated that the red risk was graded before confirmation of the move to Woking. He acknowledged that the inherent risk could move from red to amber and the residual risk would remain at amber. The Strategic Finance Manager (Pensions) added the Pension Administration team could work flexibly from other sites but staff retention was being addressed in consultation with the Chief Executive.

RESOLVED:

The Pension Fund Committee:

1. Noted the progress of the administration service improvement plan II (SIP2).

2. Approved the draft Administration Strategy and allowed for a consultation with scheme employers.

3. Approved the draft Service Specification between the Pension Fund and the Pension Administration service.

4. Approved the proposed change to the risk register, as noted in the Risk Register section of the report.

5. Noted the minutes of the Local Pension Board meeting of 24 October 2019.

Actions/further information to be provided:

None.

61/19 2019 VALUATION UPDATE [Item 8]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)
Nick Harrison - Chairman of the Local Pension Board

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) informed Members of the significant changes from 2016 to the Funding Strategy Statement (FSS):
    - That colleges and higher education institutions were affected due to the decrease in their recovery periods – similar to private companies.
    - The previous distinction between multi-academy and single academy trusts had been removed.
    - Actuarial improvements were not expected to return to employers due to the McCloud judgement.
    - The early cessation of admission bodies had been included.
    - Tailored employer investment strategies would be brought to the Committee in March 2020 for approval, the Fund was working on its draft strategies with its investment consultant, Mercer and its governance consultant, Hymans Robertson prior to consultation with scheme employers.
2. The Chairman of the Local Pension Board was pleased that the Surrey Pension Fund were moving away from a single investment strategy as that issue had been raised by the Local Pension Board.
3. The Vice-Chairman queried whether officers could advise on anything controversial in the report, in response the Strategic Finance Manager (Pensions) noted that officers were already in consultation to explore solutions to the issues affecting colleges and higher education institutions - those issues were however not material to the Fund.

RESOLVED:

The Pension Fund Committee:

Approved the draft Funding Strategy Statement (FSS) to enable it to be shared with scheme employers in a 30 day consultation.

Actions/further information to be provided:

None.

62/19 CASH-FLOW ANALYSIS [Item 9]

Witnesses:

Ayaz Malik - Pensions Finance Specialist
Clare Chambers - Pensions Service Delivery Manager

Key points raised in the discussion:

1. The Pensions Finance Specialist explained that the contributions received and net cash-flow were significantly higher in quarter two than quarter one.
2. The Chairman stressed that the six month period between quarters did not generate a detailed trend so suggested a cash-flow analysis covering an eighteen month period. The Strategic Finance Manager (Pensions) responded that a more comprehensive report on the benefits paid, the contributions received and the Fund's cash-flow scenario with illiquid investments would be provided to the Committee next year.
3. The Chairman queried the large increase in deferred members between quarter one and quarter two and in response the Pensions Service Delivery Manager acknowledged that the approximately 3,000 difference in deferred members was due to the backlog being processed and would continue to steadily increase as well as the contributions from deferred pensions.
4. The Vice-Chairman suggested the addition of a third recommendation to include more a detailed cash-flow analysis over a longer period of time and specific targets set in relation to the processing of the Fund's membership, the contributions received and benefits paid out.

RESOLVED:

The Pension Fund Committee:

1. Noted the cash-flow position for quarters one and two.
2. Determined that no change was required to the investment or funding strategy as a result of the current cash-flow position.

Actions/further information to be provided:

None.

63/19 COMPETITION & MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT (IC) STRATEGIC OBJECTIVES [Item 10]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Anthony Fletcher - Independent Advisor (MJ Hudson)
Neil Mason - Strategic Finance Manager (Pensions)
Steve Turner - Investment Consultant (Mercer)

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist reported that the draft Strategic Objectives identified by the Fund for its Investment Consultants formed the basis of scoring upcoming tenders to employers - March/April 2020.
2. The Chairman questioned if the Strategic Objectives applied to the Independent Advisor, in response the Independent Advisor stated that the Strategic Objectives acted as a guideline for him and that other local authorities had set objectives that mirrored their Investment Consultants.
3. The Strategic Finance Manager (Pensions) explained that the Fund's Investment Consultant was up for retender next year with a review by the Competition Markets Authority (CMA), which would be discussed in conjunction with the Fund's Independent Advisor.
4. The Vice-Chairman sought clarification on the more detailed interaction between the Committee and Fund with the Independent Consultants in practice and how the Fund could be more informed on its more technical applications. In response, the Chairman proposed that the Committee add to the recommendation its request for further development of the draft Strategic Objectives to set out more specific interactions between the Fund and its Investment Consultants.
5. The Investment Consultant (Mercer) informed Members that from a technical perspective the Committee were asked to approve the draft Strategic Objectives which would then be sent to the Fund's Investment Consultants (Mercer). That would then allow the Fund to accept advice from Mercer from January 2020 in order to develop those Strategic Objectives further.

RESOLVED:

The Pension Fund Committee:

Approved the Draft Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements.

Actions/further information to be provided:

None.

64/19 RESPONSIBLE INVESTMENT POLICY REVIEW [Item 11]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Neil Mason - Strategic Finance Manager (Pensions)
Anthony Fletcher - Independent Advisor (MJ Hudson)
Andrew Stone - Border to Coast

Key points raised in the discussion:

1. The Chairman commented that although the Fund was working closely with the Border to Coast Pension Partnership (BCPP), the Fund had its own clear view of Responsible Investment. The Strategic Finance Manager (Pensions) echoed the importance of the Fund's close relationship with BCPP as it was crucial to the Fund's whole investment policy.
2. The Strategic Finance Manager (Pensions) explained that the BCPP's Responsible Investment Policy 2020 and Corporate Governance and Voting Policy represented the joint agreement with the twelve partner funds. In addition to those documents, Surrey Pension Fund identified the need for a Committee sub-group on the Fund's own approach towards Responsible Investment - as indicated in the third recommendation. The sub-group would clearly express the Fund's core beliefs on Environmental, Social and Governance issues (ESG) and Members of the Committee had been invited to be a part of it.
3. The Chairman questioned how far the Fund would go on the Spectrum of Capital with the use of its capital to deliver Responsible Investment. In response, the Strategic Finance Manager (Pensions) commented that an independent Engagement Specialist to support the work of the sub-group and measure the Fund's performance against the United Nations Sustainable Development Goals (SDGs) was being employed and the Fund were committed to ensuring it addressed Environmental, Social and Governance issues (ESG).
4. The Vice-Chairman expressed unease with the differing definitions of Responsible Investment within the Spectrum of Capital from 'Traditional' to 'Philanthropic' as it categorised the traditional category as being irresponsible. The other approach of mapping the Fund against the SDGs was useful but only a handful of SDGs could align with the Fund's investment approach.
5. The Independent Advisor noted that the Pensions for Purpose Director would argue that a Pension Fund should not move beyond the fourth SDG as that would exceed the Fund's fundamental fiduciary duty of ensuring sustainable financial returns not detrimental to its beneficiaries.
6. The representative from Border to Coast commented that policies on Responsible Investment were broad church but it was good practice to

include ESG issues to ensure the management of risks and sustainable long term returns.

RESOLVED:

The Pension Fund Committee:

1. Noted the results of the ShareAction survey regarding the Fund's approach to Responsible Investment and Climate change.
2. Approved the revised BCPP Responsible Investment (RI) Policy 2020 and Corporate Governance & Voting Guidelines 2020.
3. Approved for a Committee sub-group to be convened to develop the Fund's RI Approach (and define RI). To include, but not limited to:

    - The Fund's positioning of Responsible Investment in its Core Investment Beliefs
    - The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets
    - The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP
    - The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM)
    - Reaching a recommendation on the position of The Fund on the Spectrum of Capital (Paragraph 16)
    - Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs) (Paragraph 17), carried out by an independent provider

Actions/further information to be provided:

None.

65/19 EXCLUSION OF THE PUBLIC [Item 12]

RESOLVED:

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 3 of Schedule 12A of the Act.

66/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 13]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman noted that the report showed the summary of the funding level for the most recent quarter and the rolling three year performance, but that more information on how well investments were performing and consistent statistics were needed going forward to measure the Fund's performance following transitioning to the BCPP. The Strategic Finance Manager (Pensions) replied that investment manager issues and performance updates of assets and liabilities were shared with the BCPP. Surrey Pension Fund officers were also working closely with the Performance Manager at BCPP to get clear performance and management risk factors for future years.

RESOLVED:

The Pension Fund Committee agreed the recommendations outlined in the Part 2 report.

Actions/further information to be provided:

None.

67/19 PRIVATE MARKET REVIEW [Item 14]

Witnesses:

Anthony Fletcher - Independent Advisor (MJ Hudson)
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Independent Advisor informed the Committee that asset diversification was extremely important for good returns with less risk. He provided the Committee with examples of the Private Market Funds that Surrey Pension Fund had investments in.
2. In response to a Member query on the illiquidity of the new Private Credit class of assets and if the Fund was recommended to put more money into Border to Coast than individual managers, the Independent Advisor explained that it was beneficial to invest in Private Credit taking advantage of to the opportunity for BCPP to offer fee savings.
3. The Independent Advisor also noted the variability in return according to 'vintage year' and that overall the long term strategy of investment in private equity had proved beneficial.
4. In response to a Member query on the Fund's asset allocation of Private Equity as of September 2019, the Independent Advisor noted that there was a J-Curve effect. That meant that returns took time and were often negative in the early years as capital is paid out to make investments, cover associated transaction costs and pay management fees.

RESOLVED:

The Pension Fund Committee agreed the recommendations outlined in the Part 2 report.

Actions/further information to be provided:

None.

68/19 BORDER TO COAST UPDATE [Item 15]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)
Andrew Stone - Border to Coast
Mr Nick Harrison - Chairman of the Local Pension Board
Steve Turner - Investment Consultant (Mercer)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) reported that the Fund met all the necessary conditions before investment in the new asset class of Private Debt.
2. The Chairman of the Local Pension Board queried the Fund's savings through pooling with the BCPP rather than using individual managers. In response, the representative from Border to Coast stated that it was too early to judge, but BCPP looked at legacy fees with comparable mandates for fund launches. Compared to BCPP, individual managers in the Private Market charged on assets committed not invested and it would take a few years to assess cost savings.
3. In response to the Chairman of the Local Pension Board's question on where the money was kept between investments as it took time to invest in Private Equity, the Strategic Finance Manager (Pensions) explained that money was kept in the Fund until it was called upon.
4. The Strategic Finance Manager (Pensions) noted that the Fund would have a clearer indication of the Government's direction of travel in the New Year and that the priority of pooling was to get enhanced risk-adjusted returns with competitive transition and management charges across a wide range of assets.
5. The representative from Border to Coast explained that from a value perspective, BCPP would continue to work with the Pension Fund team and the Independent Advisor to add useful capabilities for the cash-flow management of future drawdowns and the streamlining of the management process to reduce risks.
6. In response to a Member question on whether there were greater risks for the new asset class of Private Debt, the representative from Border to Coast commented that although that asset class was illiquid, the diversification of return sources and risk profiles was advantageous.
7. The Investment Consultant informed the Committee that the long term investment in illiquid assets such as Private Debt was no longer as expensive or complicated as indicated by the Fund five years ago, as a result of the Fund's cost-efficient partnership with Border to Coast.
8. The Strategic Finance Manager (Pensions) indicated that he would share the PowerPoint slides on Private Debt presented at the recent BCPP Joint Committee training session for the Committee.

RESOLVED:

The Pension Fund Committee agreed the recommendations outlined in the Part 2 report.

Actions/further information to be provided:

The Strategic Finance Manager (Pensions) will share the PowerPoint slides on Private Debt presented at the recent BCPP Joint Committee training session for the Committee.

69/19 DATE OF NEXT MEETING [Item 16]

The next meeting of the Surrey Pension Fund Committee will take place on 13 March 2020.

Meeting ended at: 12.24 pm

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Chairman

SURREY PENSION FUND COMMITTEE – 20 DECEMBER 2019

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

1. Question submitted by Chris Neill

At the meeting of the full Council on December 10 2019 Surrey's Greener Future Task Group and Finish report and Call to Action* document were adopted. Call to Action 7 states that Surrey County Council will "Work with pension funds and other investors to divest from fossil fuels and increase investment in energy efficiency, renewable energy, low carbon transport and low carbon heat solutions". Given the urgency of acting on climate change and the commitment, within this document to divest from fossil fuels please could you let me know how the pension committee will be taking this forward, the concrete actions they will be taking and the timeline they envisage for divestment to take place?

*https://mycouncil.surreycc.gov.uk/documents/s64848/Item%2011%20-%20SGF%20Annex%201%20Call%20for%20Action.pdf

Response:

Please accept the following statement from the County Council regarding Surrey's Greener Future Task Group and Finish report and Call to Action:

"Surrey County Council is in the process of developing a climate change strategy and action plan for the county, as well as our own estate, which will be published in April 2020. This is in response to the County's declaration in July 2019 of a Climate Change Emergency and our commitment to be zero carbon by 2050. The strategy is being informed by evidence gathered from a number of sources including our residents, partners and experts.

Following a period of detailed research, conducted by the Greener Futures Member Task Group, a Call to Action was produced in November 2019. This consisted of a list of recommendations and was designed to influence the strategy which is currently being developed. One of the recommendations was to work with the pension fund, and other investors, to divest from fossil fuels and increase investment in energy efficiency, renewable energy, low carbon transport and low carbon heat solutions. The recommendations in the Call to Action are not set in stone and are currently being reviewed and worked up as we develop our strategy.

Surrey County Council recognises that the pension fund is already taking measures to move towards greener investments. We understand that decisions about the pension fund are made by the Pension Fund Committee and that the Committee represents the pension fund members. We commit to working with, and supporting, the fund in continuing to identify and benefit from green investment opportunities."

The Surrey Pension Fund welcomes the declaration of a Climate Emergency by Surrey County Council and Surrey's Greener Future Task Group and Finish report and Call to Action. The Fund was consulted by the Task Group and will continue to engage closely and collaboratively with the County Council. However, the Fund refutes the assertion that Call to Action is consistent with establishing a timetable for divestment from fossil fuels for the Surrey Pension Fund.

The Surrey Pension Fund chooses to engage and not divest. This view is backed by industry experts such as Robeco:

"Divestment simply transfers a problem, and an investor cannot sell out of an entire sector if they want to make a long-term impact… Divesting an entire sector may lower the carbon footprint of a portfolio, but it makes absolutely no impact on the environment."

https://www.robeco.com/uk/insights/2017/12/we-need-decarbonization-not-divestment.html

Engagement with companies through large collaborative initiatives such as Climate Action 100+ (CA100+) and the Transition Pathway Initiative (TPI) have already driven some of the largest fossil fuel companies to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change risks and opportunities. Global collaborative engagement on such a scale sends a powerful signal that investors are expecting companies to respond to climate change. It is crucial that engagement with high emitting companies across many industry sectors continues as it is unlikely that the world can move away from using fossil fuels in a only a few years. Initiatives such as these provide realistic goals and targets for companies to meet by 2030 and 2050 and by being responsible stewards in the companies that we own we can continue to drive that change and keep them accountable.

It is also important to bear in mind that the interaction between carbon footprint, and investment in renewables, can be complex. Many power suppliers are mixed energy producers, combining both fossil fuels and renewable energy within their asset portfolio. Excluding power producers purely on their ownership of fossil fuels can inadvertently exclude finance to major renewable energy providers. The Fund is faced with ongoing pressures from investors, regulators, governments, and/or customers to reduce its carbon footprint and to divest its most carbon intensive assets over a sensible time frame, and/or to increase its investment in renewable energy production.

Surrey Pension Fund's Full Responsible Investment Policy can be found in our Investment Strategy Statement using the link below:

https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

2. Question submitted by Barry Staff

Of the approximately £230 million that Surrey Pension Fund invests in the hydrocarbon industry, part of your aggregated total within the Border to Coast initiative, would it be possible to disengage and divest that sum, if you wanted to?

Response:

It is not possible to divest from specific company shares within the Border to Coast pooled sub-funds in isolation, without the support of all fellow partners invested in the sub-fund.

The Surrey Pension Fund chooses to engage and not divest. This view is backed by industry experts such as Robeco:

"Divestment simply transfers a problem, and an investor cannot sell out of an entire sector if they want to make a long-term impact… Divesting an entire sector may lower the carbon footprint of a portfolio, but it makes absolutely no impact on the environment."

https://www.robeco.com/uk/insights/2017/12/we-need-decarbonization-not-divestment.html

Surrey Pension Fund's Full Responsible Investment Policy can be found in our Investment Strategy Statement using the link below:

https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

3. Question submitted by Isobel Griffiths

I am concerned about our investments in financial companies, which are themselves exposed to fossil fuel companies. What demands do you place on our managers to obtain sufficient information on the energy sector exposures of their financial sector investments?

Response:

The Surrey Pension Fund recognises and considers all environmental, social and governance (ESG) issues that can impact the Fund, including exposure to fossil fuel companies.

The Fund has already begun transitioning its assets over to Border to Coast Pensions Partnership, who integrate ESG Factors when selecting Fund Managers. Border to Coast actively considers how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. Climate change poses potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. As a result, companies across multiple sectors will be affected more than others, notably energy, utilities and sectors highly reliant on energy. This will undoubtedly bring about winners and losers within each sector, posing a financial risk from an investor's perspective. This also emphasises the point to engage with companies to improve current practices, establish the best in class from an investor's perspective and protecting the value of the Fund's investments for members of the Fund as we transition to a low-carbon economy.

Some of the work Border to Coast carries out in addressing ESG issues include, but is not limited to;

- ESG incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engaging with companies as active shareholders.
- Incorporating climate considerations into the investment decision making process. Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

For existing assets held within Surrey Pension Fund, Fund Managers are regularly requested to provide ESG monitoring reports which are then summarised for our Pension

Fund Committee in the Quarterly Company Engagement & Voting Report. This includes, but is not limited to;

- Shareholder resolutions in collaboration with other investors.
- Voting outcomes for the most recent quarter.
- Details of direct engagement fund managers have had with companies.
- How ESG factors are integrated into their strategies/ decision making.

4. Question submitted by Jenifer Condit

Surrey Pension Fund and Border to Coast have both stated that rather than using **divestment** as a policy to address climate change, you prefer to **engage** with companies you invest in to influence the management of climate change risks. I would like to explore the nature of your engagement practices:

*Do you practice any direct engagement with companies you own? If so could you review the sorts of engagement you have conducted in the past year?

Response:

Direct engagement has been through our membership of collaborative responsible investment initiatives which includes Climate Action 100+ and the 30% Club Investor Group. Climate action 100+ engagements have taken place with companies which are the biggest emitters of carbon across the following sectors: Oil & gas, automobiles, mining, utilities, transport, chemicals, construction and industrials. The 30% Club Investor Group has engaged with companies considered to be laggards regarding gender diversity and the number of women on boards. Border to Coast portfolio managers also meet companies and engage on ESG specific issues.

*If your engagement is delegated to investment managers or other specialists, what reporting do you require they provide to you on the actual amount of engagement going on?

Response:

Border to Coast appointed Robeco as its Voting & Engagement Partner in 2018 ahead of assets being transferred from our Partner Funds, such as Surrey. We are updated on active engagements as and when they take place on a confidential basis; we receive quarterly engagement reports which are made publicly available on our website. We also receive quarterly updates from our external managers and include an overview in the Border to Coast Stewardship Quarterly which is also available to view on our website.

*Do you know, by manager, how many of your portfolio companies the managers have met with to discuss de-carbonization plans?

Response:

Seventeen companies across the UK Equity Alpha and Global Equity Alpha Funds, which Surrey invest in through Border to Coast.

*How many times have each of your managers voted to support climate risk recommendations raised at Annual Meetings in the past year?

Response:

We have supported two climate-related shareholder resolutions at companies in the sub-funds that Surrey are invested in.

5. Question submitted by Kirsty Clough

Has the Surrey Pension Fund members met, in the past year, with any independent advisors who specialise in the opportunities presented by decarbonising the pension fund portfolio?

Response:

Surrey Pension Fund regularly reviews its investment strategy with its Investment Consultant and Independent Advisor and how Environmental, Social and Governance (ESG) issues can be integrated into its portfolio.

This advice supported to the Pension Fund Committee approving a recommendation on 8 June 2018 to allocate 8.5% of the Total Fund Value, to Legal & General's Indexed Low Carbon Fund. The transition had then occurred on 12 January 2019 with the value as at 30 September 2019 being approximately £367m.

Please see Agenda Item 11 for the 20 December 2019 Pension Fund Committee meeting for more information on what the Committee is doing in establishing the Fund's own Responsible Investment approach, consistent with Border to Coast Pensions Partnership.

6. Question submitted by Linda Parker

Does BCPP require its managers to review all of their holdings - as opposed to simply energy companies- to exposures to climate change? Do these reviews explicitly address, physical, transition, migration and catastrophe risk, as well as the more obvious risk of stranded assets?

Response:

BCPP consider how the shifting regulatory environment around climate change and the potential macroeconomic impact will affect investments. We consider climate change to be a systemic risk and therefore consider what the exposure to climate risk is across all sectors. When assessing climate risk and opportunities we consider various risks including but not restricted to transition risk, supply chain, technology change, impact of potential regulatory change, litigation and physical risk. Transition to a low-carbon economy will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

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Annex B

SURREY PENSION FUND COMMITTEE – 20 DECEMBER 2019

PROCEDURAL MATTERS – SUPPLEMENTARY QUESTIONS AND RESPONSES

1. Supplementary Question asked by Chris Neill

Question:
The Surrey's Greener Future Task and Finish Group concluded that the Council "will work with the pension fund to divest from fossil fuels" and increase investment in energy efficiency and renewables, and recognised the urgency of acting on climate change. On the other hand, the Climate Change Working Party set up by the Pension Fund Committee concluded that there is no need to review policy until next year (Responsible Investment Policy Review, p187, para 14). How does this position of the Fund reflect the urgency of acting on climate change, recognised by the Greener Future Task Group? Also, is there not a clear contradiction and mismatch between the Task Groups statement that is will "work with the pension fund to divest" and the Committee's written response to my original question, that it's policy is "not to divest, but to engage"?

Supplementary Response:
The Climate Change Working Party is a group comprising partner funds of the Border to Coast Pension Partnership. Although the Surrey Pension Fund was an active contributor to this group, the Pension Fund Committee was not responsible for setting it up. While the group takes account of the interests of its constituent partner funds and their associated Councils, it is not obliged to shape its policy specifically in accordance with any particular one of its stakeholders. Having said that, Surrey Pension Fund and Surrey County Council share its general aims and conclusions, recognising that more work is required to understand Climate Change and other sustainability related issues, as assessable risks/ opportunities for the Fund.

Indeed in order to take it further, The Surrey Pension Fund Committee recognises the urgency of climate action and approved the following actions in its meeting of 20 December 2019 which reflect this:

"a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:

- *The Fund's positioning of Responsible Investment in its Core Investment Beliefs*
- *The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets*
- *The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP*
- *The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM)*
- *Reaching a recommendation on the position of The Fund on the Spectrum of Capital*
- *Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs), carried out by an independent provider"*

Work on these actions has already started and an update will be brought to the next Pension Fund Committee meeting.

In response to the original question, the Surrey Pension Fund Committee included a statement from the Greener Future Task Group which acknowledged that the recommendations of this group are under review;

"the recommendations in the Call to Action are not set in stone and are currently being reviewed and worked up as we develop our strategy."

The Greener Future Task Group also acknowledges that the Pension Fund Committee and not the Greener Future Task Group is responsible for determining Pension Fund policy:

"We understand that decisions about the pension fund are made by the Pension Fund Committee and that the Committee represents the pension fund members".

While the policy intent of the Greener Future Task Group to divest from fossil fuels, might superficially appear to contradict that of the Pension Fund Committee to engage with the industry to effect change, in response to the original question, the Greener Future Task Group included a stated commitment:

"to working with, and supporting, the fund in continuing to identify and benefit from green investment opportunities."

The Pension Fund Committee shares this commitment in establishing a policy that provides a more meaningful contribution to the transition to a sustainable future, than simply divesting, which we maintain makes absolutely no impact on the environment.

6. Supplementary Question asked by Chris Neill on behalf of Linda Parker

Question:
Surrey Pension Fund has stated that less than 5% of its assets is invested in fossil fuel companies, which does not sound much, but my understanding is that the 'Energy Sector' share of world equity markets (as measured by the MSCI World Index) was itself only 4.8% at the end of November. Moreover SPF seems to have a disproportionate exposure to the UK market (the Surrey Pension Fund Investment Strategy statement says that 17.4% of the fund is invested in listed UK equities). The UK market is heavily exposed to fossil fuels (double the level of other markets). SPF is clearly not in a leading position with regard to reducing carbon exposure, while the world, including Surrey County Council, is making increasing efforts to address the climate emergency by reducing or eliminating consumption of fossil fuels. Surrey pensioners' assets are still exposed to fossil fuel companies whose business models are becoming obsolete and their assets unsaleable. What is the scope and timing of your plan to reduce this unnecessary portfolio risk?

Supplementary Response:
Although Surrey Pension Fund doesn't routinely measure its exposure to fossil fuel investments, its exposure compared to the Total Fund Value as at 31 May 2019 was 3.53%, which is below the quoted 4.8% share the Energy Sector has across the MSCI World Index as at the end of November. The Fund expects this to reduce even further once it transitions the remainder of its UK equities to Border to Coast.

Holding zero fossil fuel investments in the Fund's portfolio has no impact whatsoever in reducing the impact of Climate Change, and on the contrary, there is a more serious risk of those stranded assets being sold to unlisted companies with poor governance and no accountability in reporting their Carbon emissions.

The Fund's target allocation to UK Equities is a strategic decision, and choosing to solely divest equities out of the UK based on fossil fuel exposure is a single minded approach to how it addresses environmental and sustainability related risks to its portfolio when investing its assets. It is for this reason the Fund has approved, in the 20 December Responsible Investment Policy Review (Recommendation 3) the process of procuring a provider to

understand how to map all potential environmental, social and governance risks and opportunities to its portfolio, and how it can contribute further to the United Nation's Sustainable Development Goals.

https://mycouncil.surreycc.gov.uk/documents/s65129/Item%2011%20%20Responsible%20Investment%20Policy%20Review.pdf

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