

SURREY PENSION FUND COMMITTEE – 13 DECEMBER 2024**PROCEDURAL MATTERS – QUESTIONS AND RESPONSES****Item 4b - Public Questions****1. Question submitted by Shasha Khan (Reigate and Banstead Borough Councillor)**

The month of October marked the one-year anniversary of the Israel/Gaza conflict. Every life lost in this conflict is one too many. Earlier this year, the International Court of Justice ruled that it is plausible Israel's ongoing attacks on the Palestinian people in Gaza breach the Genocide Convention, and ruled that Israel must take steps to prevent genocide from occurring while the case is ongoing.

As a signatory to the Genocide Convention, the UK has a duty to prevent genocide and ensure the Convention is upheld.

Members of this Committee will be aware that the war has now spread to Lebanon and UN peacekeepers were attacked last week. A spokesperson for the UN Secretary General said, "Attacks on peacekeepers are in breach of international law, including humanitarian law, including international law. They may constitute a war crime."

A YouGov poll found that 56 percent of Britons would support the UK ending the sale of arms to Israel for the duration of the conflict in Gaza. Belgium, Italy, Spain and the Netherlands have already suspended arms transfers to Israel.

Arguably, local government pension fund committees also have a duty to better represent their current and former employees by divesting from arms companies that sell components and arms to Israel, especially if the UK government and UK arms companies, are found to be complicit in the war crimes Israel is plausibly committing.

Following a FOI request to Border to Coast, I have received the below document detailing it's 'defense exposure.' The company with the highest weighting, BAE Systems PLC, produces components for weapons sold to Israel, including the F35 combat aircraft.

The Pension Fund Committee is responsible for determining policy for investment.

Will the Committee consult external service providers to divest from arms companies that sell components for weapons that are sold to Israel?

Border to Coast - Defense Exposure					
BORDER TO COAST UK LISTED EQUITY FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
AE SYSTEMS PLC	GB0002634946	43,700,475.0	3370000	1.23%	
CHEMIRING GROUP PLC	GB00B45C9X44	14,263,850.0	3460000	0.40%	
MELROSE INDUSTRIES PLC	GB00BNGDN821	23,620,518.0	4013000	0.67%	
QINETIQ GROUP PLC	GB00B0WMMVD03	17,246,670.0	3570000	0.49%	
		98,831,513.00		2.79%	
BORDER TO COAST EM HYBRID FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
BHARAT ELECTRONICS LTD	INE263A01024	12,080,137.06	4106727	0.94%	
		12,080,137.06		0.94%	
BORDER TO COAST OVERSEAS DEVELOPED FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
AIRBUS SE	NL0000235190	35,692,307.1	302684	0.49%	
RTX CORP	US75513E1010	29,725,668.3	325098	0.41%	
SAFRAN SA	FR0000073272	27,405,625.8	160130	0.38%	
THALES SA	FR0000121329	12,592,501.6	101734	0.17%	
		105,416,102.80		1.45%	
BORDER TO COAST GLOBAL EQUITY ALPHA FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
ROLLS-ROYCE HOLDINGS PLC	GB00B63H8491	65,089,402.50	14480401	0.96%	
		65,089,402.50		0.96%	
BORDER TO COAST UK ALPHA FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
AVON PROTECTION PLC	GB0000667013	1,026,027.9	78263	0.09%	
CHEMIRING GROUP PLC	GB00B45C9X44	2,639,352.3	640231	0.24%	
QINETIQ GROUP PLC	GB00B0WMMVD03	2,092,277.1	433094	0.19%	
		5,757,657.34		0.51%	
BORDER TO COAST MULTI ASSET CREDIT FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
EMBRAER NETHERLANDS FINANCE BV 7% 20300728	USN29505AB53	415,840.1	505	0.01%	
ROLLS-ROYCE PLC 3.625% 20251014	US77578JAB44	1,538,167.0	2000	0.04%	
ROLLS-ROYCE PLC 5.75% 20271015	US77578JAC27	7,573,433.1	9450	0.19%	
ROLLS-ROYCE PLC 3.375% 20260618	XS0944831154	2,035,870.1	2098	0.05%	
ROLLS-ROYCE PLC 5.75% 20271015	XS2244321787	3,094,337.5	3000	0.08%	
SPIRIT AEROSYSTEMS INC 9.375 11/30/2029	US85205TAN00	2,935,247.6	3430	0.07%	
TRANSDIGM INC. 5.5% 20271115	US893647BL01	2,012,148.8	2585	0.05%	
TRANSDIGM INC 4.875% 20290501	US893647BQ97	1,239,366.9	1650	0.03%	
TRANSDIGM INC 6.75% 20280815	US893647BR70	1,039,766.6	1270	0.03%	
TRANSDIGM INC 7.125% 20311201	US893647BT37	634,150.5	775	0.02%	
		22,518,328.26		0.57%	
BORDER TO COAST STERLING INVESTMENT GRADE FUND					
Defense Exposure					
	ISIN	Market Value	Position	31/07/2024	
				Weight %	
GE CAPITAL UK FUNDING 5.875% 20330118	XS0340495216	10,465,653.8	9710	0.27%	
GENERAL ELECTRIC COMPANY 4.875% 20370918	XS0229561831	4,767,698.3	4883	0.12%	
		15,233,352.11		0.40%	
BORDER TO COAST EM ALPHA FUND					
NO DEFENSE HOLDINGS					
BORDER TO COAST STERLING INDEX LINKED FUND					
NO DEFENSE HOLDINGS					
BORDER TO COAST LISTED ALTS FUND					
NO DEFENSE HOLDINGS					

"Defense exposure is defined as companies classified as Aerospace and Defense under GICS Industry for Equity and Listed Alts and Aerospace/Defense under Bloomberg Classification Level 4 for Fixed Income. Data collected on 31 July 2024."

Market Values stated are presented in accordance with the Border to Coast Valuation Policy.
Data collected as at 31 July 2024.

The material in this Factsheet has been prepared by Border to Coast Partnership Ltd ("Border to Coast") and is current at the time of this Factsheet. This information is in summary form and does not purport to be complete. Information in this factsheet should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities instruments and do not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document. All securities and financial product or instrument transactions involve risk, which include (amongst others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk. Past performance is not a reliable indication of future performance. The information in this Factsheet is provided "as is" and "as available" and is used at the recipient's own risk. This Factsheet is not to be distributed further without the prior permission of Border to Coast and is for Investors' sole use. To the fullest extent available by law, Border to Coast accepts no liability (including tort, strict liability or otherwise) for any loss or damage arising from use of, or reliance on, any information provided in this Factsheet however caused. This investment is for Professional investors only and therefore is not available for Retail investors.

RESPONSE:

The Committee's approach to Responsible Investing (RI) can be found in the Fund's RI policy via the following link.

[Surrey RI Policy Update](#)

There are no blanket exclusions of defence companies.

Other than market weighted index funds, the Fund's listed asset investment managers exclude companies involved in certain weapons such as cluster munitions. For example, for investments through Border to Coast Pensions Partnership (BCPP), the Fund's pooling partner, there will be no investment in companies contravening the Convention on Cluster Munitions (2008). This includes investment in companies where there is evidence of manufacturing cluster munition whole weapons systems and those manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions. On this basis, BCPP have excluded 14 companies.

BCPP is monitoring the UK Government's legal and policy response to the Israel/Palestine conflict and will respond to any relevant developments. They rely on the UK Government's interpretation of international law.

Outside of defence, a current theme of BCPP engagement (through their engagement partner Robeco) covers the human rights due diligence processes of companies operating in Israel, Palestine and the Occupied Palestine territories.

2. Question submitted by Jackie Macey

The World Meteorological Organization has recently presented its annual State of the Global Climate report to the United Nations. It gives cause for grave concern with greenhouse gas concentrations continuing to rise steadily resulting in 2024 and 2023 being the two hottest years on record. Catastrophic events have been seen across flooding, drought, sea level rise, the loss of sea ice and crop failures.

Does Surrey Pension Fund Committee see the probable changes to pension fund regulations as helping or hindering the urgent need for divestment from fossil fuels?

RESPONSE:

The Committee does not believe in blanket divestment, preferring an engagement with consequences approach. The Committee is not aware of any regulatory changes regarding the investment or divestment of fossil fuel investments.

3. Question submitted by Janice Baker

The recent Government budget has stipulated there will be no new licences for oil, gas or coal exploration.

Is the Surrey Pension Fund monitoring compliance by all Fossil Fuel companies, such as BP, Shell and Harbour Energy, and ceasing investment immediately?

RESPONSE:

The Surrey Pension Fund expects all its investee companies to abide by all relevant laws and direction from enforcement authorities related to those laws.

The Surrey Pension fund does not have a blanket divestment policy related to fossil fuel companies. Its Responsible Investment (RI) approach can be found in the Fund's RI policy found via this link.

[Surrey RI Policy Update](#)

4. Question submitted by Kevin Clarke

Following the request by the Surrey Pension Fund, Mercer considered what potential impact excluding the top 25 fossil fuel companies would have. Given the summary by Mercer in their subsequent June 2024 report* which includes:

“This variation is not material, with the central best estimate return of 5.9% p.a. remaining the same.”

And

“Overall, we consider the impact of the estimated tracking error as a result of the exclusions being considered to be relatively small.”

Then why does SPF not proceed to immediately divest all oil and gas investments, not just the top 25 fossil fuels companies?

*Fossil Fuel Exclusion Impact Analysis

RESPONSE:

The Surrey Pension Fund does not have a blanket divestment policy for any sectors, preferring an engagement approach. This is laid out in the Fund's Responsible Investment (RI) policy found via the following link.

[Surrey RI Policy Update](#)

The Committee regularly discusses its position relating to divestment and the report mentioned in the question was part of that process. The report was the result of a proposal made by one Committee member to consider the impact of

excluding the largest 25 fossil fuel companies. The Fund has not agreed to divest these 25 companies.

5. Question submitted by Lindsey Coeur-Belle

Biodiversity underpins the global economy, combats climate change and supports the food systems we rely on. However, we are witnessing an unprecedented crisis as habitats disappear and up to a million species face extinction.

The Government fully intends to meet the international agreements on biodiversity and therefore I ask: will the Surrey Pension Fund Committee integrate biodiversity as a standalone topic into the investment process thus placing a responsibility on investment managers given that it is essential for sustainable development?

RESPONSE:

The Surrey Pension Fund deliberately and explicitly does not have single topics of concern, focus and engagement in its responsible investment programme. The Fund has a long-standing approach that looks to encompass all the UN Sustainable Development Goals, including biodiversity, appreciating that they are heavily interlinked. The Fund is encouraged that more stakeholders and commentators are now considering these interconnections and moving away from single issue engagement.

The Fund's approach can be seen through the largest single mandate, LGIM Future World Global. This fund applies 34 different responsible investment factors to tilt the portfolio exposures, including three specifically related to nature – Biodiversity, Deforestation and Water Management.

Earlier this year, the Fund's pooling partner, Border to Coast Pensions Partnership (BCPP), commissioned an external consultant to prepare a report that provided a high-level assessment and gap analysis of their current approach to biodiversity and nature-related risks and opportunities. The report also reviewed practices by the external managers and BCPP's current reporting versus the Taskforce for Nature-related Financial Disclosures (TNFD) recommendations.

The report highlighted that integration and stewardship of biodiversity and nature-related risks is at an early stage across asset managers. The report however did highlight some clear examples of good practice at BCPP on nature-related issues particularly in the stewardship approach – including activities under the priority waste and water stewardship theme – and the integration of material nature risks into internal stock selection. These elements of good practice are a function of their focus on integrating all financially material ESG factors into decision making.

6. Question submitted by Jenifer Condit

My question relates to a written reply from the Surrey Pension Fund Committee to a question which had been raised at the Committee meeting of 13 September 2024. That question in brief, asked for demonstration that fossil fuel producers in your portfolio have credible transition plans to meet Paris Agreement objectives of reducing funding of their polluting businesses.

The Committee's response included a detailed explanation of various tools used by BCPP to assess the adequacy of Paris alignment of its oil and gas holdings. The explanation concludes with the statement that per 'NZIF alignment criteria' BP and Shell are 'aligning to a net zero pathway' and 'ConocoPhillips is classified as committed to aligning'.

This field is admittedly complex, with any number of analytic tools available to assess Paris alignment, not all of which are in agreement on all points. However, it seems to me that the idea that BP, Shell and Conoco are somehow working towards being part of the solution to the climate crisis is wildly misleading, given recent behaviour and statements from all three companies that they intend to expand fossil fuel production and reduce commitment to alternative energy investments.

Given the Committee's interest in avoiding portfolio losses via investments in companies which have a negative future business outlook, I want to focus your attention on an assessment, not of each company's woolly 'commitment', but rather on a more hard-nosed measure of how much of its business is at risk to the climate crisis. In Climate Action 100+ most recent Company Assessments they present a projection of each company's implied oil and gas production level in the 2030's vs a 2023 baseline if they follow the path to Paris alignment by that time.

(1). These are their results:

BP: *24% Reduction in production*

Conoco Phillips: *48% Reduction in production*

Shell: *30% Reduction in production*

It seems apparent that these levels of production decline cannot coexist with a robust company share price outlook. That - in a nutshell - explains why these companies are all backtracking on Paris. So SPF, BCPP and all other investors for that matter, can have their cake or they can eat it. BUT NOT BOTH. If these oil and gas players comply with Paris they will be poor investments. If they are to be good investments, they will not be able to align with Paris. So they have made their choice. Now it is the turn of investors.

Will the Surrey Pension Fund seize this moment while it still has the chance - that is prior to enactment of impending change to the LGPS framework - to insist that BCPP instruct its managers to exclude these companies from its funds?

BCPP's claim that they are motivated to sustainable investing while owning these shares is hollow.

(1) <https://www.climateaction100.org/whos-involved/companies/>
Oil and Gas sector - Alignment Assessments Spreadsheet

RESPONSE:

The Surrey Pension Fund engages with Border to Coast Pensions Partnership (BCPP) regarding responsible (RI) in accordance with the Fund's agreed RI policy.

The policy's position is to favour engagement over blanket divestment. The policy can be found via the following link.

[Surrey RI Policy Update](#)

BCPP's approach to engagement and divestment is aligned to the Fund's policy and all investment managers are expected to take into account all risks in making responsible investment decisions.

BCPP, as an active owner, continues to engage with the highest emitters in the portfolios. They have escalated engagement with BP, Shell and ConocoPhillips over the last two years. This has included voting against the re-election of all three Chairs of the Board due to climate concerns, supporting independent shareholder resolutions aligned with the objectives of the Paris climate agreement, voting against management resolutions that present inadequate transition plans and publicly pre-declaring votes against management on climate issues. They were also the only Climate Action 100+ investor that publicly commented on BP's revisions to its climate commitments in October 2024.

This page is intentionally left blank