

SURREY PENSION FUND BOARD**FRIDAY 13 FEBRUARY 2015****ITEM 4 QUESTIONS AND PETITIONS****MEMBERS' QUESTIONS****(1) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:**

The Statement of Investment Principles 13/14 for the Pension Fund, under Stewardship and Responsible Investment states that:

"The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, and that whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues ... external fund managers could deploy ESG considerations in deciding upon selection".

Please can you confirm in what way the external fund managers are required to do this by Surrey County Council and to what extent this is reflected in Surrey County Council's current stockholdings.

Reply:

The Council maintains an influence on issues of environmental, social or governance (ESG) concerns. Officers, advisors and Board members meet with Fund Managers on a regular basis to discuss investment and ESG issues. The Fund uses the services of a specialist governance advisor to identify potential areas of concern, and the firm advises on various ESG issues via bulletins issued at the time of AGMs and voting resolutions. Managers are expected to contact officers directly by e-mail or telephone if any current reputational issues could bring an issue into public debate. Officers will write to Board members if a particularly contentious issue is current or where a vote is required at an AGM.

In terms of the Fund's current stockholdings, there is no current policy of negative screening. All holdings exist on the fund managers' best judgement as to future returns and ESG issues are expected to part of managers' stock selection criteria. If ESG issues are a current factor in stock selection, then the outcome will be reflected in the managers' stock selection process.

The Fund also participates in all of the votes in its actively managed portfolios, according to its own Responsible Investment and Stewardship Policy. This policy is reviewed annually. A summary voting report is tabled at each quarterly meeting.

(2) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:

The Statement of Investment Principles 13/14 for the Pension Fund, under Stewardship and Responsible Investment states that:

“The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria”.

With this in mind, please can you confirm how the decision making and risk framework for the Pension Fund currently addresses the issue of stranded assets: i.e. those shares that will become worthless at some point, such as those of fossil fuel companies in the future?

Reply:

Stranded assets are those investments which are made but which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return, as a result of changes in the market and regulatory environment. Fund managers are required to assess the timing at which such assets can be sold in order to achieve the best outcome for the Fund.

Managers are required to take a long term view when assessing the merits of a particular investment in which market, regulatory and technological factors would be considered.

(3) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:

Please can you confirm what is the process of reviewing the pension fund principles, and how this will include active participation of those with shareholdings in the fund? In particular, please can you confirm the process whereby the Fund would engage in strengthening its ESG policies and fund management in the future, such as introducing a policy of positively investing in ethical stocks and the process of acting to divest in stocks with specific ESG issues.

Reply:

The Statement of Investment Principles and Core Belief Statement is reviewed at every quarterly meeting. Minutes of the meetings are published online. The Fund holds an AGM every November to which every employer organisation is invited. Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection. The Fund is a member of the Local Authority Pension Fund Forum, a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.