MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 23 September 2016 at Members Conference Room.

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

Elected Members:
(*Attended)

* Ms Denise Le Gal (Chairman)
  Mr Alan Young (Vice-Chairman)
* Mr W D Barker OBE
* Mr Tim Evans
* Mr Stuart Selleck
* Mrs Hazel Watson

Ex officio Members:

Mrs Sally Ann B Marks, Chairman of the County Council
Mr David Hodge, Leader of the Council
Mr Peter Martin, Deputy Leader and Cabinet Member for Economic Prosperity
Mr Nick Skellett CBE, Vice-Chairman of the County Council

Co-opted Members:

* Mr Tony Elias, Borough/District Representative
  Ian Perkin, Office of the Surrey Police and Crime Commissioner
* District Councillor Peter Stanyard, Borough/District representative
  Philip Walker, Employees

Substitute Members:

None in attendance

In attendance

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)
Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
John Harrison, Independent Advisor
Vicky Hibbert, Cabinet Business Manager

55/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies for absence were received from Alan Young, Philip Walker and Ian Perkin.

The Chairman informed the Committee that she had regrettably received a letter of resignation from Ian Perkin. The Committee thanked Mr Perkin for his invaluable contribution over the years.

56/16 MINUTES OF THE PREVIOUS MEETING [11 JULY 2016] [Item 2]

The Minutes of the meeting held on 11 July 2016 were approved as a correct record.

57/16 DECLARATIONS OF INTEREST [Item 3]

Councillor Bill Barker declared that he was in receipt of a pension from British Petroleum.

Councillor Tim Evans declared that he was in receipt of a small pension from the Surrey Pension Fund.

John Harrison declared that he was in receipt of a pension from UBS.

58/16 QUESTIONS AND PETITIONS [Item 4]

Four questions had been received from Councillor Jonathan Essex and responses to these can be found at **Appendix 1**.

Mr Essex had a supplementary question in relation to his first question asking whether the Committee would consider bringing in experts to better inform the Surrey Pension Fund to provide advice on the carbon tracker report. The Chairman replied that she was entirely satisfied and that this was already done through the LAPFF.

Mr Essex asked a further supplementary in relation to his third question regarding whether the Committee would consider not investing in fossil fuels. The Chairman stated that future investments would be considered by the Committee and a debate held before a decision was made and she could not give that assurance.

Mr Essex asked a final supplementary question in relation to his fourth question and asked whether the Committee would consider complimenting different investments to which the Chairman replied that this would not happen at the moment.

59/16 ACTION TRACKING AND FORWARD PLAN [Item 5]

Key points raised during debate:

1. The Committee reviewed the Action Tracker and the Strategic Finance Manager informed the Committee that the submission had been sent on time and that a further meeting would be taking place in due course to move the project forward.
2. The Forward Plan was reviewed and it was agreed that an item on valuation would be added to the November meeting. It was also requested that the AGM meeting is added to the Forward Plan.

RESOLVED:

That an item on valuation be added to the 11 November 2016 Committee meeting and that the Annual General Meeting be added to the Forward Plan.

60/16 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

Key points raised during debate:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report and informed Members that it was a summary of all manager issues that need to be brought to the attention of the Pension Fund Committee, as well as manager investment performance.
2. The Committee were informed that the funding level was 86.3% and that improvement resulted from changes in the assumptions around future salary growth, CPI future pension growth and the discount rate.
3. One member queried whether the salary growth took the latest pay and reward position into account and the Committee were informed that this was based on the position as at 31 March 2016.
4. Members considered the fund performance and were updated on the outcomes of interviews with fund managers. It was agreed that an interview should be held with Franklin Templeton as a matter of urgency.
5. A discussion was held around the impact of Brexit and the upcoming US elections it was agreed that an additional meeting would take place to consider the impact of these issues further.
6. The Committee reviewed the asset allocation in light of Marathon's allocation having a variance of 3.5% and agreed to rebalance the portfolio to ensure that they remained in line with the fund's policy control limits.
7. A discussion was held around the performance of the individual fund managers and the Committee were informed that there were some concerns around Ballie Gifford. It was agreed that an update be provided on this at the next meeting of the Committee.

RESOLVED:

That the Pension Fund Committee:

1. Noted the submitted report.
2. Agreed to rebalance the asset allocation as follows:
    - Marathon (Global) -2.7%
    - Legal and General (UK) +1.7%
    - Majedie (UK) +1%

Recommendation 3 was considered after the debate on item 10 – Private Equity Investment Performance Review.

RESOLVED:

3. Approved a $50m USD commitment to Goldman Sachs Vintage VII.

Reasons for decisions:

In order to achieve best possible performance alongside operational risk.

[The Committee adjourned for a comfort break at 11.00am]

61/16 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE [Item 7]

[The Committee reconvened at 11.12am]

Key points raised during debate:

1. The Senior Advisor (Pension Fund) introduced the Pension Fund Committee members to the Pension Fund key performance indicators (KPIs) report and reminded them that these were reviewed on a quarterly basis, covering investment and administration outcomes.
2. He informed Members that the Orbis Pension Service Team had put in a bid to join the Norfolk LGPS Framework and that any future opportunities would be communicated to this committee. Members stressed that it was important to ensure that the administration team were adequately prepared and that the effect on the Surrey Fund was considered before any future partnerships were contemplated.

RESOLVED:

That the Pension Fund Committee noted the submitted report and the KPI statement shown in Annex 1.

Reason for decision:

To comply with best practice.

62/16 PENSION FUND RISK REGISTER [Item 8]

Key points raised during debate:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report and informed Members of the Committee that there had been one new risk added (no.19) concerning breaches to regulatory obligations. The Committee were informed that the breach policy would be brought to the next meeting of the Committee for review and approval.
2. One Member of the Committee queried what was happening with the phasing out of paper files (no.20) and the Strategic Finance Manager (Pension Fund and Treasury) agreed to look into this and report back.

RESOLVED:

That the Committee assessed and approved the revised Risk Register as attached at Annex 1 of the submitted report.

Reason for decision:

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

63/16 SHARE VOTING [Item 9]

Key points raised during debate:

1. The Strategic Finance Manager (Pension Fund and Treasury) informed the Committee that this report provided a summary of the Fund's share voting process in Q1 of 2016/17 (1 April 2016 to 30 June 2016).

RESOLVED:

That the Pension Fund Committee noted the submitted report.

Reason for decision:

The Pension Fund Committee must be aware of the voting actions pertaining to the segregated portfolios of shares held within the pension fund.

64/16 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW [Item 10]

Key points raised during debate:

1. The Strategic Finance Manager introduced the report and informed Members that this was an annual review of the Surrey Pension Fund's commitment to invest 5% of the fund in private equity. He highlighted that the data was to 31 Marc h 2016 and the report looked at the performance of the individual opportunities invested. Members were informed that the public market equivalent (PME) return was an annualised 11.7% in comparison to the MSCI 7.1% and this resulted in a healthy outperformance of 4.7%.
2. Members were referred to the Goldman Sachs Vintage VI which had an IRR of 15.7% over three years and was widely judge as doing well.
3. The Committee were informed by the Independent Advisor that making a commitment each year was an essential part of private equity and that it was important to be opportunistic and commit funds to managers in this area as the results would not be known for five years and it was not possible to draw conclusions now.

[The Chairman moved back to item 6 on the agenda and asked Members to consider the recommendation to approve an investment of $50m USD to Goldman Sachs Vintage VII].

RESOLVED:

1. That the Committee noted the current position on the Fund's Private Equity investment performance.
2. That the Fund continued to commit to draw downs of the existing private equity schemes and to consider new opportunities to the Pension Fund Committee for approval as and when they arise.

Reasons for decisions:

A solid framework of review is required in order to benefit from this long term asset category.

65/16 PENSION FUND ACCOUNTS 2015/16 [Item 11]

Key points raised during debate:

1. The Chairman introduced the item and thanked the Senior Accountant for his work on the accounts. Members were informed that this report presented the audited financial statements of the Pension Fund for the year ended 31 March 2016, with respect to the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.
2. The Committee were informed that the accounts had already been reviewed by the Audit and Governance Committee and that the external auditor (Grant Thornton) had issued an unqualified opinion on the accounts.
3. The Senior Accountant drew Members attention to the audit findings within the report and to an issue that had been highlighted regarding the rounding of small balances. The Committee were informed that this had now been corrected.

RESOLVED:

That the Pension Fund Committee:

1. Noted and approved the financial statements set out in Annex 1 of the submitted report.
2. Noted the content of the External Audit Findings for Surrey Pension Fund Report as set out in Annex 2 of the submitted report.
3. Noted the Letter of Representation as set out in Annex 3 of the submitted report.

Reasons for decisions:

The Pension Fund Committee must approve all financial statements produced for the Pension Fund.

66/16 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 12]

Key points raised during debate:

1. The Strategic Finance Managers (Pension Fund and Treasury) informed the Committee that there was a single change to the Statement of Investment Principles (SIP) as a result of the private equity opportunity approved at the last meeting of the Committee.
2. Members were informed that the SIP would be phased out from 1 April 2017 and would be superseded by a new investment strategy statement of which work on this had started already. Members queried how different this would be and were informed that it would be a significant re-write and would contain a menu of areas to be included.
3. It was agreed that the SIP needed to be amended to include mention of 'Surrey Leader's Group' rather than Surrey Local Government Association and that the date should read 2016/17.

RESOLVED:

That the Pension Fund Committee:

1. Reviewed and approved the Statement of Investment Principles as shown in Annex 1 of the submitted report subject to the changes above being made.
2. Reviewed and approved the Core Belief Statement shown in Annex 2 of the submitted report.

Reasons for decisions:

The Pension Fund Committee must review and approve all working documents produced for the Pension Fund.

67/16 ACTUARIAL ASSUMPTIONS: 2016 VALUATION [Item 13]

Key points raised during debate:

1. The Strategic Finance Manager (Pension Fund and Treasury) informed Members that the report reviewed the actuarial assumptions to be used in the next actuarial valuation of the Pension Fund as at 31 March 2016. He stated that it included:
    - A comparison for three years ago
    - Assumption of salary increases
    - Assumption on pension increases
    - Assumption on pensioner longevity
    - Assumption on the discount rate and asset outperformance.
2. The Committee were informed that the discount rate would be 4.2% and that there would be an opportunity to ask the actuary more about this in November.

RESOLVED:

That the Pension Fund Committee noted the report and approved the actuarial assumptions as set out in the submitted report.

Reason for decision:

To comply with best actuarial valuation practice.

[Bill Barker left the meeting at 12.10pm]

68/16 STATEMENT OF POLICY FOR ADMINISTERING AUTHORITY PENSION DISCRETIONS [Item 14]

Key points raised during debate:

1. The Senior Advisor (Pension Fund) introduced the report and informed Members of the Committee that it provided details of a written policy statement in respect of the discretions that can be exercised by the Administering Authority (AA) in relation to the Local Government Pension Scheme (LGPS) Regulations. He explained that it was not

asking for approval of changes to discretionary policy but that it was part of good governance to publish the discretions.

2. The Chairman thanked the team for their work and expressed that it was a good piece of work. One member queried discretion 2.11 regarding the death grant and asked for assurance that the individual identified as the delegated decision maker would be protected in the event of a dispute and whether there was provision for these cases to come to the Surrey Pension Fund Committee for decision. It was agreed that this would be discussed further and clarified by officers.

RESOLVED:

That the Pension Fund Committee:

1. Noted the report and approved in principle the draft Administering Authority Discretions Statement of Policy, included as Annex 1 of the submitted report
2. Approved the publication of the Administering Authority Discretions Statement of Policy for consultation with the Fund's Scheme Employers with a further report to be brought back to the Pension Fund Committee with the results of the consultation, and a final statement of policy (including any amendments arising from the consultation exercise) for approval.

Reasons for decisions:

The Pension Fund Committee must be aware of the discretions that can be exercised by the administering authority under the LGPS Regulations. The publication of an AA Discretions Statement of Policy allows the AA to demonstrate a transparent decision making process and clarity of governance.

69/16 CONSULTATION ON AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS: RESPONSE OF THE COUNCIL [Item 15]

Key points raised during debate:

1. The Committee were informed that this report summarised the proposed changes to the Local Government Pension Scheme (LGPS) Regulations included in the consultation document issued by the Department for Communities and Local Government (DCLG) in May 2016.
2. Members were informed that the response by the Director of Finance to this consultation on behalf of the Council was now with the Department for Communities and Local Government for consideration.

RESOLVED:

That the Pension Fund Committee noted the report.

Reason for decision:

The Pension Fund Committee must be aware of all LGPS Regulations for the administration of the Surrey Pension Fund.

70/16 CONSULTATION ON DEVELOPING AN INSOLVENCY REGIME FOR HIGHER EDUCATION COLLEGES: RESPONSE OF THE COUNCIL [Item 16]

Key points raised during debate:

1. The Committee were informed that the report summarised the proposed development of an insolvency regime for the further education sector within a consultation document issued by the Department for Business, Innovation and Skills (DBIS) on 6 July 2016 along with the detailed response to this consultation by the Council.

RESOLVED:

That the Pension Fund Committee noted the submitted report.

Reason for decision:

The Pension Fund Committee must be aware of the risks presented to the Fund by the potential insolvencies of the employers within the Surrey Pension Fund.

71/16 DATE OF NEXT MEETING [Item 17]

It was noted that the next meeting would be held on 11 November 2016.

Meeting ended at: 12.28pm

_____

Chairman

This page is intentionally left blank

SURREY PENSION FUND COMMITTEE

FRIDAY 23 SEPTEMBER 2016

ITEM 4 QUESTIONS AND PETITIONS

MEMBER QUESTIONS

(1) MR JONATHAN ESSEX TO ASK:

Surrey Pension Fund recently stated that, 'through its participation in the Local Authority Pension Fund Forum (LAPFF) it aims to push for an orderly carbon transition by requiring companies to identify and tackle carbon risks in their business models'. This differs from the commitments and statements made by London's new mayor and his Conservative mayoral challenger, Zac Goldsmith. London's new mayor has committed to 'take all possible steps to divest the London Pension Fund Authority of its remaining investments in fossil-fuel industries'[1], a stance echoed by his Conservative opponent Zac Goldsmith[2]. Meanwhile, distinguished close observers including Sir Mark Moody-Stuart (for eight years chairman of Shell UK) and Sir Jonathan Porritt are on record despairing that any substantive amendment by global hydrocarbon companies of their climate-damaging practices and extractions will take place, including those funded in part by Surrey's Pension Fund.

i) In light of this, what specific evidence can the Surrey Pension Fund, its advisors or committee identify where an extractive programme or programmes has been halted by a hydrocarbon company, or a change or changes of policy, or a business model or models being amended by a hydrocarbon company, as a consequence of LAPFF's 'engagement strategy'?

ii) Please supply as many examples as possible, and with details.

Reply:

The Local Authority Pension Fund Forum (LAPFF) aims to push for an orderly carbon transition by requiring companies to identify and tackle carbon risks in their business models. Company actions are in response to a number of factors including engagement with a wide variety of shareholders and stakeholders, so it is not possible to cite them as a direct or sole consequence of engagement by LAPFF. However, LAPFF has been undertaking research and engaging on climate risk since 2001. The following are examples of companies LAPFF has engaged with and changes, actions and initiatives companies have taken in recent years.

Programmes halted

- Shell halted its Alberta Oil Sands Project (Carmon Creek) in October 2015. The company justified its actions on commercial grounds, given the high cost of this project set against the low oil price and the need to cut costs.

Change or changes of policy

[1] See www.sadiq.london/a_greener_cleaner_london.
[2] See www.theguardian.com/environment/2016/apr/22/zac-goldsmith-backs-fossil-fuel-divestment-movement-london-mayor

LAPFF engages with companies in the influencing of policy on climate change.

- Glencore: now referring publicly to carbon pricing and explaining its approach to stranded assets. Prior to 2015, this was not the case.
- BP, ENI, Shell, Total and others are all members of the Oil and Gas Climate Initiative and have stated publicly 'we are researching what scenarios intended to limit the global temperature rise to 2C or below mean for the oil and gas industry. Our ultimate aim is to identify the most effective levers for oil and gas companies to help deliver this goal collectively and transform ourselves individually.'
- BP, BHP Billiton, Shell, Eni, Total and others are members of the World Bank's Carbon Pricing Leadership Coalition.
- BP, BG, ENI, Shell, Statoil and Total all signed a joint letter to UN Framework Convention on Climate Change calling for carbon price (2014).
- BP has made a notable shift away from oil and towards gas.

Business model or models

LAPFF funds co-filed shareholder resolutions on strategic resilience to climate change to BP and Royal Dutch Shell in 2015, and to Rio Tinto, Glencore and Anglo American in 2016. These resolutions all have five elements including asking for companies to provide an assessment of the company's portfolio of asset resilience against the range of International Energy Agency scenarios and/or other relevant post 2035 scenarios to be outlined to investors in routine reporting from 2016

- BP: LAPFF has engaged with BP over a number of years. BP formerly only set out one 'scenario' for the energy transition. In BP's 2016 Energy Outlook, a 'base case scenario' is outlined but, also for the first time, it sets out a 'faster transition' scenario. Whilst this falls short of the International Energy Agency 450 Scenario (limiting emissions to 2 degrees), it goes further than the pledges previously made.

- Total: LAPFF has met with Total individually over the years. Total issued a dedicated report 'Integrating Climate into our Strategy' at its May 2016 AGM. Of all these type of reports issued to date, Total's appears the most advanced for an oil company by publicly aligning its strategy with a two degree scenario. It sets out that it will move 20% of its portfolio to renewable energy over the next 20, will invest 7.4bn USD in the next four years on research and development including cleantech and will not get involved in Arctic drilling. They have also bought a 1.1bn USD stake in a battery company and continue to increase their solar manufacturing and ownership.

- ENI: Recently released its Sustainability Report that had an enhanced section on climate change. This includes very granular detail on its cost structure for resource development and operating expenditure. ENI has also set up a new business line called Energy Solutions that aims to complement and supplement traditional sources of energy with production from renewable sources.

Other points

- It is important to emphasise the long term nature of engagement on carbon risk in that there is no specific end point where 'success' can be identified across all companies. LAPFF recognises that succeeding in getting companies to disclose against shareholder strategic resilience resolutions is not sufficient in itself, so LAPFF is now analysing these scenarios, to inform ongoing engagement with these companies. In particular, LAPFF will now be asking for evidence of how

companies stress test their portfolios against the scenarios they devise, and how this informs their investment decisions.

- LAPFF continues engaging on companies' public policy positions in recognition of the power and influence that these companies hold, e.g., asking BHP to reconsider its membership of the Minerals Council of Australia and the Business Council of Australia (BHP AGM 2015) and asking BP to reconsider its membership of the American Petroleum Institute (BP AGM 2016). Whilst neither company has responded positively so far, LAPFF aims to continue to engage on these issues, alongside other investors.
- LAPFF also continues to push for improvements in the link between climate change and executive pay, and will be picking this up in engagement over the next year.

(2) MR JONATHAN ESSEX TO ASK:

Research such as by The Grantham Institute of Climate Change and the Environment (Unburnable Carbon: Wasted capital and stranded assets, 2014)[3] highlight the risk of 'stranded assets' due to investment in fossil fuels. This particular report calls for investors to re-evaluate energy business models against carbon budgets, to prevent a $6 trillion carbon bubble in the next decade. In response:

i) What specialist advice has either the SPF committee, or alternatively the Local Government Pension Scheme, sought in the past 24 months relating to the increasingly systemic danger recognised by investment professionals of investments in high-carbon companies becoming 'stranded assets' and thus ultimately worthless? And

ii) What investment actions - including sales and liquidations - has the Surrey Pension Fund or the LGPS taken in the past 24 months, in consequence of the 'disclosure of climate risks' cited by the county's leader as a benefit of the LAPFF's 'engagement policy'?

Reply:

LAPFF and Carbon Tracker launched the report 'Engaging for a Low Carbon Transition' in July 2016, which addresses the issue of stranded assets under different demand trends, noting that companies can face both physical and financial stranding. The report notes 'the implication of these demand trends is that, should the fossil fuel industry continue with a business as usual approach, supplies of oil and gas could outpace demand. Companies will then face the choice between shutting in capacity or starting a price war to force others to do so. Both choices will lead to stranded assets: the first leads to physical stranding, the latter to financial stranding.

A Carbon Tracker Initiative report in 2015 estimated that the fossil fuel industry could waste investments of 2tn USD by 2035 if it continued to invest under a growth model. It is already too late for coal with no new projects needed under a two-degree demand scenario. But the oil and gas industry has time to avoid the massive value destruction

[3] See www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-2-Web-Version.pdf

seen in the coal industry, but only by curtailing capital expenditure and returning any additional cash generated to shareholders.

This is supported by the LAPFF policy position that 'LAPFF will continue to press companies on aligning their business models with a 2°C scenario. For coal, oil and gas companies, particular attention is given to carbon asset risk, by promoting a low carbon transition. For oil and gas companies, the focus should be on value at risk, particularly from high cost projects and support can be given to returning capital to investors where appropriate'.

An example of LAPFF promoting this strategy in practice is voting advice provided on shareholder resolutions to Chevron in 2015 and 2016, supporting the request that the board adopt a dividend policy increasing the amount authorised for capital distribution to shareholders in light of the risk of the Company having stranded assets in the future. Surrey's Statement of Investment Principles (SIP) delegates full authority for purchase and sales decisions to its external investment managers and meets with them regularly to discuss such decisions in the light of their research and analysis.

(3) MR JONATHAN ESSEX TO ASK:

Given the specific, widely confirmed environmental dangers of oil extraction from tar sands (which from extraction to use is one of the most damaging fossil fuels), how does the Surrey Pension Fund justify its continued £3 million holding in Suncor Ltd, a firm engaged in tar sands extraction in the Canadian Arctic?

Reply:

A shareholder resolution to Suncor at its 2016 AGM asked the company to report on assessing and ensuring long term corporate resilience in a future low carbon economy. The resolution was supported by the company board and a report is expected later this year.

Having engaged with the external fund manager, the Fund is advised that Suncor's investment case is underpinned by strong financial characteristics, specifically funding almost all its capital expenditure and dividend payment from operating cash flow in the current low oil price environment. Consistent operational excellence, capital discipline, investment decisions and excess cash returned to shareholders make the company stand out within the oil industry.

(4) MR JONATHAN ESSEX TO ASK:

Many different organisations have set out why they feel divestment is compatible with their fiduciary duty, for example as set out to the pension fund of the University of Toronto (March 2014)[4]. Reasons why divesting allow one's fiduciary duty to be met are

[4] See http://d3n8a8pro7vhmx.cloudfront.net/to350/legacy_url/54/fossil-fuel-divest.pdf?1418320739, Section 4.

outlined by various reports including by Smith School, University of Oxford (2013)[5], IMPAX Asset Management (2013)[6], HIP Investor Inc. (2013)[7] and Aperio Group LLC (2016)[8]. These state that divestment can remove exposure to significant risk without significantly increasing exposure to other risks, as well as evidencing that fossil free portfolios tend to perform better rather than worse than those which include fossil fuels.

Given the above please could you confirm and explain Surrey Pension Fund's current position regarding whether it believes that selling its investment in the top 200 fossil fuels companies[9] would be compatible with it meeting its fiduciary duty?

Reply:

The LAPFF statement on Climate Change states 'LAPFF members are supportive of investment opportunities afforded by a low carbon future which increases diversification and provides long term returns.'

Divesting is not necessarily the action of selling all of an investment (although it can be) but, rather, it is the action of selling at least a portion of an investment. In this way, LGPS funds are likely to participate in divestment regularly.

Fiduciary duties set out the broad parameters within which the Pension Fund Committee (and the council officers, fund managers and investment consultants appointed) must exercise their discretionary powers with regard to pension fund governance. These duties affect the exercising of discretion to make and manage investments, and require trustees and their agents to act prudently and for a proper purpose.

In the case of the Surrey Pension Fund, the proper purpose is ultimately to pay future pension promises to its members and therefore obtain sufficient returns with which to do so, as set out in the Fund's Statement of Investment Principles. The Fund aims to be at or above a 100% funding level in order that it is able to meet its current and future liabilities and, to this end, the Committee will seek investment returns that are consistently strong and outperform or match those available in the major investment markets and are comparable with other institutional investors.

Surrey's SIP makes clear that environmental, social and governance (ESG) considerations should be delegated to the Fund's external fund managers. The Fund encourages its managers to view and consider ESG factors where it is thought that long-term performance may be enhanced by such consideration and, under current arrangements, such consideration and resultant stock choices will be the responsibility of the external managers employed to select investment on the Pension Fund's behalf.

Fund managers will always need to consider ESG matters in the context of the overriding fiduciary duty of the Pension Fund Committee and investment performance targets.

---

[5] See www.smithschool.ox.ac.uk/research-programmes/stranded-assets/SAP-divestment-report-final.pdf
[6] See https://s3.amazonaws.com/s3.350.org/images/Impax--20130704_white_paper_fossil_fuel_divestment_uk_final.pdf
[7] See https://s3.amazonaws.com/s3.350.org/images/Resilient-Portfolios-and-Fossil-Free-Pensions-ByHIPinvestor-GoFossilFree-vFinal-2013Oct31.pdf
[8] See www.aperiogroup.com/resource/138/node/download
[9] As defined by the Fossil Free Index: fossilfreeindexes.com/wp-content/uploads/2015/11/CU200_Final_29-Oct-2015.pdf

This page is intentionally left blank