Public questions to Surrey Pension Fund Committee – 10 November 2017

1. I was pleased to read in the report tabled at the last meeting that there is a desire within both the Pensions Board and Committee to take a more active ownership of environmental, social and governance issues. The report highlights three options for doing this: introducing allocations to Low Carbon Indexation, Sustainable Infrastructure and Social Impact Investing. Could the Committee confirm that when they seek to reduce risk as reflected by this aspiration they will prioritise taking funds out of the fossil fuel interests they currently invest in, and move to investments that are better future proofed as they are not based on environmental and social harm?

Submitted by Vicki Elcoate

Response

Surrey Pension Fund is a founder member of the Border to Coast Pensions Partnership (BCPP), a collaboration of twelve Local Government Pensions Schemes (LGPS) that will pool together its funds to form a £42bn national investment pool. BCPP has recently approved its own Responsible Investment policy which, in turn, is due to be considered by the Surrey Pension Fund Committee at its meeting on 10 November 2017.

As part of its policy setting, BCPP will actively consider how climate change, the shifting regulatory environment and potential macro-economic impact will affect its investments. There is acceptance that these issues pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes.

BCPP will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable;
- Incorporate climate considerations into the investment decision making process;
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with (Task Force on Climate-related Financial Disclosure (TCFD) recommendations;
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.

In the run-up period (probably a two-year period) to transitioning stocks across to the Border to Coast pool, the Surrey Fund will continue investigating its own strategy with regard to Responsible Investment issues, whilst accepting that such change will have a limited shelf life before the Border to Coast changes are implemented. At its meeting on 10 November 2017, the Pension Fund Committee will consider further the recommendation of the Surrey Local Pension Board to establish the Pension Fund's exposure to climate change and carbon risk through the commissioning of a carbon audit of the Fund's portfolios.

With regard to the possible future prioritisation of taking funds out of oil stocks, as part of its investment strategy, there is currently no negative screening of any stocks imposed by the Fund on its external investment managers. Instead, the Fund engages with a wide range of companies (including oil companies) through its association with the Local Authority Pension Fund Forum (LAPFF) in order to influence climate change policy and actions that will improve future impacts on the environment. There are no current plans to change this policy.

2. I am a Surrey Pension Fund member and a Surrey resident concerned about the impacts of climate change. From my correspondence with your former chair, Denise Le Gal, and reading of the report you commissioned from Mercer, I know that the Surrey Pension Fund views climate change as a financially material risk and aims to be an active shareholder in the exercising of its company share voting rights to promote good corporate governance principles. What opportunities do you see for exercising these rights in the coming year, and in particular, what are your specific engagement goals for the oil and gas corporations in which you have holdings?

Submitted by Sarah Finch

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Reference current and future plans for engagement with global oil companies, the Local Authority Pension Fund Forum (LAPFF) issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at energy firms. The alerts follow the signing of the Paris Agreement under which countries agreed to limit the global average temperature rise to below 2 degrees Celsius. The objective of the resolutions have been that companies should undertake analysis and produce publically available reports on the impact that a 2 degree scenario is likely to have on their business and shareholder value.

The Surrey Pension Fund voted its Royal Dutch Shell shares on 23 May 2017 with one of the resolutions (Surrey voted For) that requested the Shell Board set and publish targets for reducing greenhouse gas emissions that are aligned with the Paris Climate Agreement. The LAPFF has also signed a joint letter with 200 global investors (representing $15 trillion AUM), urging the G7 to stand by the Paris Agreement and push ahead with its implementation.

During 2017, the LAPFF has had several meetings with oil companies about their strategies for the low carbon transition. As part of collaborative engagement with the Institutional Investors Group on Climate Change (IIGCC) corporate programme, a meeting with senior managers at BP explored the implications of scenario planning for a faster transition and how this related to their core businesses. The LAPFF was also represented at a meeting with the chairman, Carl-Henric Svanberg, where useful discussions were held over a number of topics including low-carbon transition and climate related elements of remuneration policies.

At the BP 2017 AGM, remuneration remained a focus following the defeat of the 2016 remuneration report vote. The LAPFF representative attended and thanked the BP Board for responding to shareholder concern over the perceived disconnect between pay and performance, and welcomed the changes that had been made, particularly the clearer strategic link to rewarding progress towards a low carbon transition. He then pushed for more information on how the board would ensure an appropriate pace for its low carbon transition. The BP Chairman answered in part by indicating that the 20% allocation for strategic targets could be raised to 30%, but cautioned against the use of targets which can have unintended consequences.

The LAPFF attended the Total AGM in Paris and was represented by former Surrey Pension Fund Committee Chairman (Cllr Denise Le Gal). Her questioning revolved around whether Total would be willing to report its oil and gas resources in resource-neutral gigajoules in order to compare better the value of these reserves with the value of renewables for the company. Cllr Le Gal also asked how oil and gas companies could contribute to a meaningful carbon price. Total has offered LAPFF a follow up meeting (still to be arranged) to explore these issues in more detail.

During 2017, LAPFF announced that it is partnering with the 50/50 Climate Project. The new partnership will enhance the LAPFF's actions to promote climate competent boards and enhance collective investor action advocating better climate strategies and decision-making at board level.

Tim Evans
Chairman – Surrey Pension Fund Committee