Public questions received for 14 September 2018:

1. *Question submitted by Janice Baker:* Delighted that the SPF has started to decrease investments in fossil fuel, I still consider 3% to be only a small decline in the Fund's massive fossil fuel investment portfolio. Would the committee please indicate how wide its investigation into alternative types of investment has been, to what extent the alternatives were uncompetitive, and can we expect such investigation to broaden out further in the coming year?

RESPONSE

We understand that the 3% deduction you refer to in your question relates to the estimated decrease in overall carbon exposure brought about by commitments to a low carbon index tracker rather than a direct disinvestment in fossil fuel.

The Committee, with guidance from its investment consultant and independent advisor, is committed to investigate all viable investment options.

A current consideration is to commit a new investment to funds with a focus on sustainable or renewable energy.

2. *Question sub mitted by Richard Essex:* There is growing body of evidence to suggest that current engagement policies between asset owners, such as the Surrey Pension Fund, and fossil fuel companies are failing to avoid the real possibility of runaway climate change. In particular, engagement terms are largely favoured towards those fossil fuel incumbents.

   As a result, is it not the Fiduciary Duty of the Surrey Pension Fund to now divest from fossil fuels?

   Surely Fiduciary Duty is not just about providing a monetary pension for members but fundamentally about contributing towards a healthy, stable planet in which those pensions can be enjoyed!

   Please comment

RESPONSE

The Surrey Fund's approach to the issue of climate change is incorporated in its Investment Strategy Statement within the regulatory and legal context. This includes our ESG policy and the adoption of the Responsible Investment Policy (RIP) of Border to Coast Pensions Partnership (BCPP). The RIP of BCPP explicitly states the following approach to climate change:

- 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 TCFD recommendations
- Encourage companies to adapt their business strategy in alignment with a low carbon economy

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In establishing these policies, both the Surrey Pension Fund Committee and BCPP have regard to the views of the Local Authority Pension Fund Forum and it remains our belief that the approach to the challenge of climate change is nuanced and that a tactic of divestment alone is a blunt tool that deprives investors of leverage to influence companies.

The Surrey Fund is now deep in the process of transitioning its assets in to BCPP, an asset pool comprised of 12 partner LGPS pension funds. BCPP has recently become a member of the Local Authority Pension Fund Forum (LAPFF) as well as a signatory to Climate Action 100+, and supporter of the Task Force on Climate-related Financial Disclosures and 30% Club Investor Group.

As part of achieving its objective to make a difference to long-term investment outcomes for its Partner Funds, BCPP has appointed Robeco, the international asset manager, to perform its voting and engagement services. Robeco is an experienced partner with similar values to work with to ensure active ownership across all its investments, both internally and externally managed.

Robeco is engaging with Exxon, Shell, Total and BP and collaborating with other large investors through the Climate Action 100+ initiative.

The Surrey Pension Fund supports engagement rather than divestment. We believe that divestment removes the chance to influence and change behaviour by selling to disinterested shareholders. Engagement requires time, as trust needs to be built with companies and relationships developed to get access to the relevant decision makers within a company. In this view we are entirely consistent with BCPP and the LAPFF and we have no plans to deviate from this approach.

However, in addition to engagement, the Pension Fund Committee recently commissioned an audit of the Fund's carbon footprint and also considered low carbon alternatives in its equity portfolio. A carbon footprint audit at the meeting of 8 June 2018, showed the Surrey Pension Fund to be, in some cases, significantly underweight in carbon related exposure when compared with its benchmarks. In addition to this the Committee agreed at this meeting to reduce its exposure to carbon related assets by moving approximately 17% (c£400m) of its current passive equity portfolio in to a low carbon fund and to reallocate its active portfolio from UK to global assets, further reducing the Fund's carbon exposure.

The question of tackling climate change in the wider ESG context continues to be on the agenda for the Pension Fund Committee, but, it is our firm belief that reduction in carbon should be through an integrated approach and that divestment alone, while offering some symbolic successes, at worst can divert campaigning and political attention away from the multiple causes of climate risk and remove potential allies from positions of shareholder influence. This is a critical time for engagement and holding companies to account, along with linking remuneration incentives to climate-related targets. The Surrey Pension Fund is of the belief that it is time to increase pressure on companies and get them to set concrete targets and that walking away is entirely counterproductive to the aim of tackling climate change.

The Surrey Pension Fund does not agree with your proposition that engagement is an ineffective tool in combating climate change and we are of the view that our current policy is entirely consistent with our fiduciary duty.

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3. *Question submitted by Irene Ridgeon:* The UK Law Commission, in its 2014 report *The Fiduciary Duties of Investment Intermediaries*, stated that 'there is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material.' In May 2018, Stanford University scientists calculated that, if the world's nations adhered to the Paris Climate Agreement, and temperatures only rose 2.5 percent, then global GDP would fall 15 percent and developed economies would be significantly affected. When will the Surrey Pension Fund committee be taking action to reduce the threat to the financial security of its members by withdrawing investment from the fossil fuel industry?

RESPONSE

Please refer to the answer given to the previous question. In the particular the following:

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