

SURREY PENSION FUND COMMITTEE – 7 JUNE 2019**PROCEDURAL MATTERS – QUESTIONS****1. Question submitted by Kathy Higham**

As a resident and contributor to a Surrey Pension Fund I would like to know what percentage of this fund is being directly invested into renewable energy investments and ethical organisations?

Reply:

The Surrey Pension Fund currently invests £18,490,322.34 in the Capital Dynamics Clean Energy and Infrastructure Fund (with a commitment to a further £675,000), £10,596,907.25 in the Pantheon infrastructure fund (with a commitment to a further £46,712,000) and has a commitment of £40,000,000 in the Glennmont Clean Energy fund. It also invests £352,108,754 into the LGIM passive low carbon index tracker.

Our Low Carbon and Infrastructure Funds combined therefore make up 8.9% of our current Total Fund Value.

The Fund's policy on environmental, social and governance issues can be found in the Surrey Pension Fund's Investment Strategy Statement and also its policy on responsible investment.

This can be found at: <https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf>

2. Question submitted by Stephen McDonald

Last week, climate movement history was made. On Friday, hundreds of thousands of students went on strike in over 1600 cities across the globe to demand bold steps to prevent climate breakdown. We are leaving it up to our children and teenagers to take actions whilst so called responsible adults in power seem oblivious to see the problem and continue, as the Surrey Pension Fund does, to invest c. £140m in climate wrecking fossil fuels. Whilst it is accepted that there is a fiduciary duty to seek strong investment returns – which to my knowledge has never been questioned – the moral implications of your irresponsible actions are rapidly being communicated across the county, as you are no doubt aware, and reflect on individual Trustees, the Pension Fund Committee as a whole and Surrey County Council, as was made very clear last week at the full Council meeting. When will the Trustees finally get the message and remove all direct investments in this industry?

3. Question submitted by Chris Neill

As a Surrey resident concerned about the climate crisis I am appalled at the Surrey Pension Fund in continuing to invest £145m directly into the fossil fuel industry. Given that the international scientific community has declared that we have less than 12 years to change course in order to avoid an ecological catastrophe, and given that the UK parliament has now declared a climate emergency, will the Committee confirm that it will take urgent and immediate steps to divest this very large sum of money from the fossil fuel industry and to invest it instead in infrastructure for renewable energy?

4. Question submitted by Barry Staff

With parliament declaring a climate emergency and implementing policies to achieve a carbon neutral economy before 2050, what are you doing to dissuade the fossil fuel industries that you continue to invest in to desist from exploring for new oil reserves to exploit in the future?

5. Question submitted by Jeannette Bayliss

What is the earliest date by which it is technically and legally possible to divest pension fund monies from the fossil fuel industry, and what is your timetable for doing so?

COMBINED RESPONSE TO QUESTIONS 2-5:

Questions 2-5 address the same central theme of whether the Surrey Pension Fund considers a policy of divestment as the most effective way of managing its Environmental, Social and Governance (ESG) policy, specifically in relation to the issue of climate change.

The Surrey Pension Fund fully supports and incorporates ESG issues when making investment decisions. ESG includes a whole range of factors, including climate impact.

This is evident in the Fund's current investment in Private Equity Infrastructure funds, such as Capital Dynamics Clean Energy, Pantheon and Glennmont, in addition to the Fund's planned commitment to infrastructure through Border to Coast Pensions Partnership.

However, we believe that the best way to help influence ESG is through engagement and not divestment.

Divestment is a blunt tool. If this course of action is taken, management of these companies will not change and it may be counter-productive if a company is taking action to transition to a more sustainable model. In addition, if company valuations get lower, then private companies may be encouraged to enter the market. These buyers could potentially be more profit related and transparency could be diminished.

We will generally not divest from companies exclusively on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance and environmental policies by constructive shareholder engagement and the use of voting rights.

An example of the success of this approach was evidenced in December 2018 when our asset pool, Border to Coast's engagement partner, Robeco and Shell announced a joint statement with investors on how they would move forward. In March 2019, Shell announced their three-year target to reduce their net carbon footprint (NCF) by 2%-3% compared to 2016 and linking this to executive remuneration. They also announced that they will cease membership of American Fuel and Petrochemical Manufacturers and have started engagement with nine other industry bodies. Robeco believes that Shell now leads the sector in terms of planning and positioning for the energy transition and plans to ask other companies to follow suit.

Other examples include:

- BP have agreed to back a shareholder resolution – they have committed to reducing emissions but still need to demonstrate the strategy to investors
- Glencore have also committed to cap coal production
- VW have made a complete turnaround – now largest investment on electric vehicles. Battery-electric vehicles will be their focus. They have persuaded the VDA, the German Association of Automotive Industry, to do so too

This is not to say that there must be a process and clear policies in place if a company does not act; divestment is the final action. Institutional investors should use their voting policies wisely to effect change by voting against the Chair or other members of the board. This is the best way as a responsible investor to achieve the goals that we set.

Engagement is an ongoing process and we always have the power to withdraw and re-engage at a later stage if the company improves.

The Quarterly Company Engagement and Voting Report summarises the engagement work the Fund has carried out, in addition to its Fund managers, BCPP, Robeco and the Local Authority Pension Fund Forum. The BCPP Climate Change Working Party is also doing work to understand how best to incorporate climate risk into its investment decision making.

Please refer to Committee meeting minutes on the Surrey County Council website to view previous and upcoming Company Engagement reports:

<https://mycouncil.surreycc.gov.uk/ieListMeetings.aspx?Committeeld=334>

Please also refer to the Surrey Pension Fund website to view the Surrey Pension Fund's Investment Strategy Statement and also its policy on Responsible Investment:

<https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf>

6. Question submitted by Ruth Allen

I would like to know what interests, if any, are held by the members of the Pensions Committee, as well as any fund managers brought in to oversee this fund. This refers to interests in fossil fuel companies or other investments, shares and interests in companies that may have a stake in the continued use of fossil fuels.

Reply:

Members of the Surrey Pension Fund Committee are required to regularly register their interests, and details of these can be found on the Surrey County Council website:

<https://mycouncil.surreycc.gov.uk/mgDeclarationsHome.aspx>

Likewise, our investment managers, consultants, actuaries and advisors are obliged to comply with the rules of various regulatory bodies, including the Financial Conduct Authority and MiFID II. These have prescribed rules regarding conflicts of interest including a requirement to produce and maintain a conflicts of interest policy.

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