SURREY PENSION FUND COMMITTEE – 13 SEPTEMBER 2019

PROCEDURAL MATTERS – QUESTIONS

1. Question submitted by Barry Staff

Question:

With your policy of engagement with the fossil fuel industry bringing a risible response from it (merely a "2-3% reduction in carbon over the next three years"), why don't you give a deadline – the very near future – by which time it should profoundly and irrevocably change its business model away from FF exploitation – with failure to do so resulting in your immediate divestment?

Response:

The Surrey Pension Fund fully supports and incorporates ESG issues when making investment decisions. ESG includes a whole range of factors, and we would like to emphasise that this isn't only limited to climate change.

Evidence of the range of ESG issues the Fund and its associated partners engage on can be found in our most recent Quarterly Company Engagement & Voting Report: https://mycouncil.surreycc.gov.uk/documents/s56836/Report.pdf

Currently, commitments made by countries under the Paris Agreement are expected to increase global temperatures by around three degrees. The IPCC report says in order to limit global warming to 1.5 degrees, we would need to cut global emissions by 45 percent by 2030 (comparable to 2010 levels) and bring them to net zero by 2050. This emphasises a few clear points:

- It is evident that countries and their national governments across the globe are not currently moving fast enough. Nationally Determined Contributions submitted under the Paris Agreement are not ambitious enough to limit global warming to 1.5 degrees.
- Consequently, engagement is required with regulators, governments and across industries, as well as with individual companies, who all need to move forward in the transition to a low carbon economy.
- Divesting a sector-wide strategy therefore downplays the importance all sectors play. Engaging with high emitting industries reliant on fossil fuels, in order to influence and change their behaviour, is equally as important as engaging with the suppliers; they are the companies who drive energy demand.
- Setting a target to reduce emissions by 45% by 2030 does not happen instantly for industries or governments. Shorter term targets of 3-5 years need to be set to reach the 20-year target.

Divesting from one specific industry will not mitigate climate change, it only reduces the amount Surrey Pension Fund have chosen to invest in a particular company or sector. While divesting addresses the moral dilemma of investing in contentious industries, it doesn't actually contribute to promoting better behaviours within those same industries. An example of this was the closure of 23 nickel mines in the Philippines in 2017. Improved battery technology is essential in reducing fossil fuel dependency, which in itself there are prominent environmental issues which need to be improved. The nickel mines in the Philippines produced approximately 8% of the world's nickel supply, which directly contributes to the production of battery technology, but the mines closed due to environmental concerns, more specifically deforestation. It demonstrates the need to engage with companies to improve their own behaviours, as these companies can potentially be the world's energy suppliers of the future. https://www.ft.com/content/9fefd91e-e96a-11e6-967b-c88452263daf

Surrey Pension Fund chooses to engage, and this is also the view backed by industry experts such as Robeco. "Divestment simply transfers a problem, and an investor cannot sell out of an entire sector if they want to make a long-term impact… Divesting an entire sector may lower the carbon footprint of a portfolio, but it makes absolutely no impact on the environment." https://www.robeco.com/uk/insights/2017/12/we-need-decarbonization-not-divestment.html

Surrey Pension Fund's Full Responsible Investment Policy can be found in our Investment Strategy Statement using the link below:
https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf