SURREY PENSION FUND COMMITTEE – 20 DECEMBER 2019

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

1. Question submitted by Chris Neill

At the meeting of the full Council on December 10 2019 Surrey's Greener Future Task Group and Finish report and Call to Action* document were adopted. Call to Action 7 states that Surrey County Council will "Work with pension funds and other investors to divest from fossil fuels and increase investment in energy efficiency, renewable energy, low carbon transport and low carbon heat solutions". Given the urgency of acting on climate change and the commitment, within this document to divest from fossil fuels please could you let me know how the pension committee will be taking this forward, the concrete actions they will be taking and the timeline they envisage for divestment to take place?

*https://mycouncil.surreycc.gov.uk/documents/s64848/Item%2011%20-%20SGF%20Annex%201%20Call%20for%20Action.pdf

Response:

Please accept the following statement from the County Council regarding Surrey's Greener Future Task Group and Finish report and Call to Action:

"Surrey County Council is in the process of developing a climate change strategy and action plan for the county, as well as our own estate, which will be published in April 2020. This is in response to the County's declaration in July 2019 of a Climate Change Emergency and our commitment to be zero carbon by 2050. The strategy is being informed by evidence gathered from a number of sources including our residents, partners and experts.

Following a period of detailed research, conducted by the Greener Futures Member Task Group, a Call to Action was produced in November 2019. This consisted of a list of recommendations and was designed to influence the strategy which is currently being developed. One of the recommendations was to work with the pension fund, and other investors, to divest from fossil fuels and increase investment in energy efficiency, renewable energy, low carbon transport and low carbon heat solutions. The recommendations in the Call to Action are not set in stone and are currently being reviewed and worked up as we develop our strategy.

Surrey County Council recognises that the pension fund is already taking measures to move towards greener investments. We understand that decisions about the pension fund are made by the Pension Fund Committee and that the Committee represents the pension fund members. We commit to working with, and supporting, the fund in continuing to identify and benefit from green investment opportunities."

The Surrey Pension Fund welcomes the declaration of a Climate Emergency by Surrey County Council and Surrey's Greener Future Task Group and Finish report and Call to Action. The Fund was consulted by the Task Group and will continue to engage closely and collaboratively with the County Council. However, the Fund refutes the assertion that Call to Action is consistent with establishing a timetable for divestment from fossil fuels for the Surrey Pension Fund.

The Surrey Pension Fund chooses to engage and not divest. This view is 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

Engagement with companies through large collaborative initiatives such as Climate Action 100+ (CA100+) and the Transition Pathway Initiative (TPI) have already driven some of the largest fossil fuel companies to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change risks and opportunities. Global collaborative engagement on such a scale sends a powerful signal that investors are expecting companies to respond to climate change. It is crucial that engagement with high emitting companies across many industry sectors continues as it is unlikely that the world can move away from using fossil fuels in a only a few years. Initiatives such as these provide realistic goals and targets for companies to meet by 2030 and 2050 and by being responsible stewards in the companies that we own we can continue to drive that change and keep them accountable.

It is also important to bear in mind that the interaction between carbon footprint, and investment in renewables, can be complex. Many power suppliers are mixed energy producers, combining both fossil fuels and renewable energy within their asset portfolio. Excluding power producers purely on their ownership of fossil fuels can inadvertently exclude finance to major renewable energy providers. The Fund is faced with ongoing pressures from investors, regulators, governments, and/or customers to reduce its carbon footprint and to divest its most carbon intensive assets over a sensible time frame, and/or to increase its investment in renewable energy production.

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

2. Question submitted by Barry Staff

Of the approximately £230 million that Surrey Pension Fund invests in the hydrocarbon industry, part of your aggregated total within the Border to Coast initiative, would it be possible to disengage and divest that sum, if you wanted to?

Response:

It is not possible to divest from specific company shares within the Border to Coast pooled sub-funds in isolation, without the support of all fellow partners invested in the sub-fund.

The Surrey Pension Fund chooses to engage and not divest. This view is 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."

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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

3. Question submitted by Isobel Griffiths

I am concerned about our investments in financial companies, which are themselves exposed to fossil fuel companies. What demands do you place on our managers to obtain sufficient information on the energy sector exposures of their financial sector investments?

Response:

The Surrey Pension Fund recognises and considers all environmental, social and governance (ESG) issues that can impact the Fund, including exposure to fossil fuel companies.

The Fund has already begun transitioning its assets over to Border to Coast Pensions Partnership, who integrate ESG Factors when selecting Fund Managers. Border to Coast actively considers how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. Climate change poses potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. As a result, companies across multiple sectors will be affected more than others, notably energy, utilities and sectors highly reliant on energy. This will undoubtedly bring about winners and losers within each sector, posing a financial risk from an investor's perspective. This also emphasises the point to engage with companies to improve current practices, establish the best in class from an investor's perspective and protecting the value of the Fund's investments for members of the Fund as we transition to a low-carbon economy.

Some of the work Border to Coast carries out in addressing ESG issues include, but is not limited to;

- ESG incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engaging with companies as active shareholders.
- Incorporating climate considerations into the investment decision making process. Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

For existing assets held within Surrey Pension Fund, Fund Managers are regularly requested to provide ESG monitoring reports which are then summarised for our Pension

Fund Committee in the Quarterly Company Engagement & Voting Report. This includes, but is not limited to;

- Shareholder resolutions in collaboration with other investors.
- Voting outcomes for the most recent quarter.
- Details of direct engagement fund managers have had with companies.
- How ESG factors are integrated into their strategies/ decision making.

4. Question submitted by Jenifer Condit

Surrey Pension Fund and Border to Coast have both stated that rather than using **divestment** as a policy to address climate change, you prefer to **engage** with companies you invest in to influence the management of climate change risks. I would like to explore the nature of your engagement practices:

*Do you practice any direct engagement with companies you own? If so could you review the sorts of engagement you have conducted in the past year?

Response:

Direct engagement has been through our membership of collaborative responsible investment initiatives which includes Climate Action 100+ and the 30% Club Investor Group. Climate action 100+ engagements have taken place with companies which are the biggest emitters of carbon across the following sectors: Oil & gas, automobiles, mining, utilities, transport, chemicals, construction and industrials. The 30% Club Investor Group has engaged with companies considered to be laggards regarding gender diversity and the number of women on boards. Border to Coast portfolio managers also meet companies and engage on ESG specific issues.

*If your engagement is delegated to investment managers or other specialists, what reporting do you require they provide to you on the actual amount of engagement going on?

Response:

Border to Coast appointed Robeco as its Voting & Engagement Partner in 2018 ahead of assets being transferred from our Partner Funds, such as Surrey. We are updated on active engagements as and when they take place on a confidential basis; we receive quarterly engagement reports which are made publicly available on our website. We also receive quarterly updates from our external managers and include an overview in the Border to Coast Stewardship Quarterly which is also available to view on our website.

*Do you know, by manager, how many of your portfolio companies the managers have met with to discuss de-carbonization plans?

Response:

Seventeen companies across the UK Equity Alpha and Global Equity Alpha Funds, which Surrey invest in through Border to Coast.

*How many times have each of your managers voted to support climate risk recommendations raised at Annual Meetings in the past year?

Response:

We have supported two climate-related shareholder resolutions at companies in the sub-funds that Surrey are invested in.

5. Question submitted by Kirsty Clough

Has the Surrey Pension Fund members met, in the past year, with any independent advisors who specialise in the opportunities presented by decarbonising the pension fund portfolio?

Response:

Surrey Pension Fund regularly reviews its investment strategy with its Investment Consultant and Independent Advisor and how Environmental, Social and Governance (ESG) issues can be integrated into its portfolio.

This advice supported to the Pension Fund Committee approving a recommendation on 8 June 2018 to allocate 8.5% of the Total Fund Value, to Legal & General's Indexed Low Carbon Fund. The transition had then occurred on 12 January 2019 with the value as at 30 September 2019 being approximately £367m.

Please see Agenda Item 11 for the 20 December 2019 Pension Fund Committee meeting for more information on what the Committee is doing in establishing the Fund's own Responsible Investment approach, consistent with Border to Coast Pensions Partnership.

6. Question submitted by Linda Parker

Does BCPP require its managers to review all of their holdings - as opposed to simply energy companies- to exposures to climate change? Do these reviews explicitly address, physical, transition, migration and catastrophe risk, as well as the more obvious risk of stranded assets?

Response:

BCPP consider how the shifting regulatory environment around climate change and the potential macroeconomic impact will affect investments. We consider climate change to be a systemic risk and therefore consider what the exposure to climate risk is across all sectors. When assessing climate risk and opportunities we consider various risks including but not restricted to transition risk, supply chain, technology change, impact of potential regulatory change, litigation and physical risk. Transition to a low-carbon economy will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

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