

SURREY PENSION FUND COMMITTEE – 20 DECEMBER 2019

PROCEDURAL MATTERS – SUPPLEMENTARY QUESTIONS AND RESPONSES

1. Supplementary Question asked by Chris Neill

Question:

The Surrey's Greener Future Task and Finish Group concluded that the Council "will work with the pension fund to divest from fossil fuels" and increase investment in energy efficiency and renewables, and recognised the urgency of acting on climate change. On the other hand, the Climate Change Working Party set up by the Pension Fund Committee concluded that there is no need to review policy until next year (Responsible Investment Policy Review, p187, para 14). How does this position of the Fund reflect the urgency of acting on climate change, recognised by the Greener Future Task Group? Also, is there not a clear contradiction and mismatch between the Task Groups statement that it will "work with the pension fund to divest" and the Committee's written response to my original question, that its policy is "not to divest, but to engage"?

Supplementary Response:

The Climate Change Working Party is a group comprising partner funds of the Border to Coast Pension Partnership. Although the Surrey Pension Fund was an active contributor to this group, the Pension Fund Committee was not responsible for setting it up. While the group takes account of the interests of its constituent partner funds and their associated Councils, it is not obliged to shape its policy specifically in accordance with any particular one of its stakeholders. Having said that, Surrey Pension Fund and Surrey County Council share its general aims and conclusions, recognising that more work is required to understand Climate Change and other sustainability related issues, as assessable risks/ opportunities for the Fund.

Indeed in order to take it further, The Surrey Pension Fund Committee recognises the urgency of climate action and approved the following actions in its meeting of 20 December 2019 which reflect this:

“a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:

- The Fund's positioning of Responsible Investment in its Core Investment Beliefs*
- The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets*
- The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP*
- The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM)*
- Reaching a recommendation on the position of The Fund on the Spectrum of Capital*
- Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs), carried out by an independent provider”*

Work on these actions has already started and an update will be brought to the next Pension Fund Committee meeting.

In response to the original question, the Surrey Pension Fund Committee included a statement from the Greener Future Task Group which acknowledged that the recommendations of this group are under review;

“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.”

The Greener Future Task Group also acknowledges that the Pension Fund Committee and not the Greener Future Task Group is responsible for determining Pension Fund policy:

“We understand that decisions about the pension fund are made by the Pension Fund Committee and that the Committee represents the pension fund members”.

While the policy intent of the Greener Future Task Group to divest from fossil fuels, might superficially appear to contradict that of the Pension Fund Committee to engage with the industry to effect change, in response to the original question, the Greener Future Task Group included a stated commitment:

“to working with, and supporting, the fund in continuing to identify and benefit from green investment opportunities.”

The Pension Fund Committee shares this commitment in establishing a policy that provides a more meaningful contribution to the transition to a sustainable future, than simply divesting, which we maintain makes absolutely no impact on the environment.

6. Supplementary Question asked by Chris Neill on behalf of Linda Parker

Question:

Surrey Pension Fund has stated that less than 5% of its assets is invested in fossil fuel companies, which does not sound much, but my understanding is that the 'Energy Sector' share of world equity markets (as measured by the MSCI World Index) was itself only 4.8% at the end of November. Moreover SPF seems to have a disproportionate exposure to the UK market (the Surrey Pension Fund Investment Strategy statement says that 17.4% of the fund is invested in listed UK equities). The UK market is heavily exposed to fossil fuels (double the level of other markets). SPF is clearly not in a leading position with regard to reducing carbon exposure, while the world, including Surrey County Council, is making increasing efforts to address the climate emergency by reducing or eliminating consumption of fossil fuels. Surrey pensioners' assets are still exposed to fossil fuel companies whose business models are becoming obsolete and their assets unsaleable. What is the scope and timing of your plan to reduce this unnecessary portfolio risk?

Supplementary Response:

Although Surrey Pension Fund doesn't routinely measure its exposure to fossil fuel investments, its exposure compared to the Total Fund Value as at 31 May 2019 was 3.53%, which is below the quoted 4.8% share the Energy Sector has across the MSCI World Index as at the end of November. The Fund expects this to reduce even further once it transitions the remainder of its UK equities to Border to Coast.

Holding zero fossil fuel investments in the Fund's portfolio has no impact whatsoever in reducing the impact of Climate Change, and on the contrary, there is a more serious risk of those stranded assets being sold to unlisted companies with poor governance and no accountability in reporting their Carbon emissions.

The Fund's target allocation to UK Equities is a strategic decision, and choosing to solely divest equities out of the UK based on fossil fuel exposure is a single minded approach to how it addresses environmental and sustainability related risks to its portfolio when investing its assets. It is for this reason the Fund has approved, in the 20 December Responsible Investment Policy Review (Recommendation 3) the process of procuring a provider to

understand how to map all potential environmental, social and governance risks and opportunities to its portfolio, and how it can contribute further to the United Nation's Sustainable Development Goals.

<https://mycouncil.surreycc.gov.uk/documents/s65129/Item%2011%20%20Responsible%20Investment%20Policy%20Review.pdf>

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