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Our Ref: Responsible Investment in the LGPS  
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Bob Holloway  
Scheme Advisory Board

By email

10 January 2020

Dear Bob,

## **RE: Responsible investing in the Local Government Pension Scheme**

Surrey County Council (Surrey) welcomes the opportunity to respond to the draft guidance on Responsible Investment (RI) issued by the Scheme Advisory Board (SAB).

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £4billion and includes nearly 300 employers.

We are supportive of much of the guidance and understand that it is limited to the current regulatory framework and trust law and does not reflect any anticipated recommended changes to the Ministry of Housing, Communities and Local Government (MHCLG). We have made some observations which are contained in this document.

### **Introduction and purpose**

Surrey supports the stated purpose of the guide is not to provide operational direction and recognises that there will be a difference in the approaches of administering authorities.

We welcome the identification of the term "Spectrum of Capital", as this is a useful tool for Funds to understand how RI fits with their core investment beliefs. It should be noted that the

“Spectrum of Capital” should not be seen as linear definition of policy intent and the guidance would benefit from using an alternative descriptor to “journey” to avoid this being inadvertently insinuated.

Surrey commends the identification of the role of the Local Pension Board in the context of their statutory duty to assist the administering authority in complying with their Investment Strategy Statement (ISS) and its statutory compliance.

### **1A. What is Responsible Investment?**

Surrey notes the use of the Principle for Responsible Investment (PRI) definition of Responsible Investment, but, would welcome further work in this area, linking this definition specifically to the LGPS policy framework. We are aware of the drafting of the second part of this guidance and the intent to include a “toolkit” for Funds and we would hope that further guidance could develop this.

### **1B. What are ESG factors?**

This section would benefit from a general introduction to the three themes, rather than providing limited examples. More comprehensive examples could then be referred to as an Annex.

### **1C. What about climate risk?**

The highlighting of this risk is justified, although, it should be acknowledged that this is only one risk within the wider ESG landscape. Reference should also be included to the opportunity for Funds to report in accordance with TCFD requirements.

### **1D. Financially Material Factors?**

Surrey notes the absence of a statutory definition of Financially Material Factors for the LGPS and supports the application of the definition included in the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018.

### **1E. Non-Financial Factors**

A clearer definition of what might constitute “significant financial detriment” would be a useful addition to this section and is something the SAB could engage with the investment industry and LGPS funds to understand, in order to identify a range of tolerances in the sector.

### **1F. Asset Stewardship**

It is desirable to add reference to the new version of the FRC Stewardship Code and how this may affect Funds.

### **2B. Statutory Guidance**

The emphasis on the statutory requirement for Funds to publish their policies on how ESG considerations are taken in to account is welcome.

### **2D and 2E. What an Administering authority should and may do**

There needs to be a recognition that arrangements will differ depending on the agreement within respective LGPS pools. While Funds “should” strongly encourage their fund managers to vote their company shares in line with their policy, this may be problematic if the policies of different Funds in pooled funds are not consistent.

### **3C. Elected member code of conduct**

The relevance of this section is not immediately clear in the context of the pre-eminence of statutory compliance.

### **Part 4 – Recent developments in trust based pensions**

The comparison of the LGPS with legislative measures applicable to trust based schemes is useful and it would be desirable in the future for best practice on RI in the trust based sector to be included in statutory guidance to the LGPS and applicable to LGPS funds.

Surrey welcomes a number of elements in this draft guidance, but, also recognises its limitations. It is hoped that the second part of the guidance will address more clearly the expectations by the SAB around what practical steps administering authorities should be taking in the area of RI.

Yours sincerely



**Anna D'Alessandro**  
Director of Corporate Finance

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