

SURREY PENSION FUND COMMITTEE – 13 MARCH 2020

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

1. Question submitted by Jenifer Condit

I congratulate the Surrey Pension Fund for having broadly outperformed world markets over the stated time periods in your most recent annual report.

However I also observe, per the 2018/19 report, that all of the four actively managed equity pools (Majedie, Marathon, Western and BCPP) are being assessed against indices which are not 'low carbon' or 'sustainable' in nature. Only an unstated portion of the assets being passively managed by Legal & General are being assessed against a low carbon index. This means that well less than half of equity funds are being measured against a low carbon index.

Given the fact that low carbon indices have been outperforming those for the whole market:

-Would not the performance of the Fund have been even better if all equity assets had performed as well as any of the major low carbon indices available?

-Given the fiduciary responsibility of the Pension Fund Committee to consider all financial risks, including that presented by Climate Change (noted repeatedly by Mark Carney among others), why would it not be proper for all equity funds to be invested in low carbon investments as defined by the Transition Pathway Initiative?

Response:

Although the Fund welcomes the performance of its Low Carbon Fund, The Fund's primary duty is to invest to optimise returns to meet the future pension obligations of its members, as well as providing best value for the taxpayer. Part of this involves reviewing all aspects of its asset allocation to minimise risk and maximise returns, not just Indexed Equity Funds (Low Carbon Fund). This also covers active equity funds, property funds, fixed income and private market assets. It is run for nearly 300 organisations, including Surrey County Council, other public bodies and has over 100,000 members.

The Fund recognises that different people have different opinions about where it should invest. As of 31 December 2019, less than 3% of the total fund is invested in businesses associated with fossil fuels. The Fund has also recently reduced its exposure to carbon related assets, as well as committing to invest in assets with a focus on sustainable or renewable energy. There is an acknowledgement of the fact that sustainable energy investment opportunities exist primarily in private equity and infrastructure markets, as opposed to publicly listed companies, so sourcing these investment opportunities does not directly compare with the Fund's publicly listed holdings. Despite this, The Fund will continue to seek sustainable investment opportunities, provided they can deliver a competitive risk-adjusted return.

2. Question submitted by Simon Hallett

I understand that the below open letter (**Annex B**) will be going to the Committee as circulated to the Committee and personally I find much force in the arguments therein. Therefore I ask:

Does the Surrey Pension Fund Committee accept the arguments made in this letter, and will they work to fully divest fossil fuel investments by the end of 2020?

Response:

Please see the Pension Fund's response to the open letter (**Annex B**).

3. Question submitted by Isobel Griffiths

Climate change poses a risk to the value of assets over the next 20 years. Has the Surrey Pension Fund assessed the likely impact of this risk and if so has it been judged to be negligible, moderate, substantial or extreme? How well do our investment choices reflect that answer?

Response:

Surrey Pension Fund understands and recognises the severity of Climate Change as an environmental and financial risk. The Fund has become a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD), where the Fund will report against Climate Related Financial Disclosures in its 2019/20 Annual Report
<https://mycouncil.surreycc.gov.uk/documents/s62861/Report.pdf>

4. Question submitted by Kirsty Clough

I note that the sub-group convened to develop the Fund's Responsible Investment approach are considering commissioning an analysis which would map the fund's portfolio to see if it is in line with the UN's Sustainable Development Goals. In addition to this, will this group also please consider either including within this analysis or commissioning separate research which looks at to what extent the Fund's portfolio is aligned with the UN's Paris Agreement on climate change?

Response:

The Fund has already become a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD), where the Fund will report against Climate Related Financial Disclosures in its 2019/20 Annual Report
<https://mycouncil.surreycc.gov.uk/documents/s62861/Report.pdf>

5. Question submitted by Nik Huddy

In the Committee response to a question posed at the meeting on 20 December 2019, the Committee stated that "...initiatives such as Climate Action 100+ (CA100+)...have already driven some of the largest fossil fuel companies to curb emissions..." However in their latest 2019 report, Climate Action 100+ state that "...while these commitments...represent important progress, no company in the sector has yet comprehensively explained to investors how its business profile...fits with achieving net zero emissions by mid century" (see <http://www.climateaction100org/>). This appears to be at odds with the Committee's interpretation of what Climate Action 100+ has supposedly already achieved. Could the Committee give specific examples where the Surrey Pension Fund's engagement with fossil fuel companies has produced tangible results for decarbonisation in order to achieve the net zero targets set out in the Paris Agreement?

Response:

The Climate Action 100+ Report also reported 2018 GHG emissions, based on information submitted to the Carbon Disclosure Project (CDP) per sector. It shows that approximately 70% of total reported emissions in 2018 were from sectors outside of Oil and Gas.

<https://climateaction100.files.wordpress.com/2019/10/progressreport2019.pdf>

Sector	Oil & Gas	Mining & Metals	Transportation	Industrials	Electric Utilities	Consumer Products
2018 reported GHG Emissions (Gigatonnes)	8.8	3.6	4.6	4.1	2.8	6.0
Market Cap (\$bn) (Bloomberg, June 2019)	2,410	530	1,119	829	1,476	1,780

Divesting as a sector-wide strategy is therefore seen as more of a symbolic move as opposed to making a tangible difference in reducing the world's carbon emissions. It ignores 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. 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.

As part of ongoing consideration of responsible investing (RI), at its meeting of 20 December 2019, the Surrey Pension Fund committee commissioned further work on the Fund's RI Approach. This included:

- Establishing the Fund's positioning of Responsible Investment in its Core Investment Beliefs
- The Fund's relationship with its asset pool manager, Border to Coast, more specifically Border to Coast's RI approach to the Fund's pooled assets
- The Fund's RI approach to existing legacy portfolios yet to be transitioned to Border to Coast
- The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management
- 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).

As part of the development of RI, we plan to strengthen our approach to engagement.

6. Question submitted by Chris Neill

In relation to the open letter to the Surrey Pension Fund Committee asking the Fund to divest from fossil fuels. Is the Committee not worried, that with the growing effort of society to reduce the use of fossil fuels, the value of oil & gas stocks will keep going down?

Response:

Please see the Pension Fund's response to the open letter (**Annex B**).