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Sent via email.

11 March 2020

This letter is in response to the open letter of 2nd March 2020 from the following counter signatories:

Extinction Rebellion Surrey
 Friends of the Earth
 Campaign to Protect Rural England
 Federation of Surrey Green Parties
 Frack Free Surrey
 South East Climate Alliance
 Centre for the Understanding of Sustainable Prosperity
 Guildford Environmental Forum
 Youth Strike for Guildford
 Haslemere Climate Alliance
 Waverley Friends of the Earth
 Friends of the Earth Croydon
 Friends of the Earth Elmbridge
 Weald Action Group

The Surrey Pension Fund (the Fund) welcomes the letter and interest from the aforementioned groups, as is does from all Surrey stakeholders.

The Fund's primary duty is to invest to optimise returns to meet the pension obligations of its members, as well as providing best value for the taxpayer. It is run for nearly 300 organisations, including Surrey County Council, other public bodies and has over 100,000 members.

Environmental, social and governance issues, are fundamental to the Fund's approach as embedded in the Fund's Mission Statement and we constantly look to enhance our consideration of these factors.

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. This 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.

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).

The Fund agrees with the counter-signed that "Engagement between shareholders and companies is an important tool to encourage companies, as energy users, to adapt their businesses to a carbon free future". It also accepts the limitations in how this has led to changes in the core business model of fossil fuel companies in switching their business models away from fossil fuels including the risks of 'stranded assets', which is considered as part of the Fund's fiduciary duty.

However, we firmly believe that engagement does influence company behaviour and strategy, if they are serious about being in business in the future. Long-term constructive and collaborative engagement in tandem with using voting rights has the ability to make a difference. By divesting the Fund is simply opting out of its responsibility as responsible investors.

A small number of Local Government Pension Scheme (LGPS) Funds have committed to divest, but, the strategies used vary significantly. Some only exclude companies with revenues from coal or fossil fuels over a certain level, some exclude entire sectors and others look at reducing portfolio carbon emissions.

The Fund's asset pool provider, Border to Coast, employs Robeco as our engagement provider. Robeco see Climate Action100+ as a key collaborative engagement program with global investors. Since its launch in December 2017, the initiative has grown into one of the world's largest investor-led engagement initiatives, with more than 450 investor signatories with more than \$40 trillion in assets under management.

The initiative's first progress report published end of 2019 provides a sector-by-sector analysis of progress to date in a number of companies. The collaborative engagement by investors with the world's highest emitters has brought important commitments to curb greenhouse gas emissions. Leaders of the energy transition have begun to differentiate themselves from peers by adopting stronger commitments to decarbonize their business operations. Furthermore, we have seen some breakthrough commitments from companies in hard to abate sectors and a raft of disclosure commitments on corporate lobbying on climate change.

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

We again thank the counter-signed for their interest in the Fund and remain open to working with all our stakeholders as we transition to a greener future.

Yours faithfully,

The Surrey Pension Fund Committee

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