MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 13 March 2020 at Council Chamber, County Hall, Penrhyn Road, Kingston upon Thames, Surrey, KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:
(Present = *)

* Ms Charlotte Morley
* Mr Tim Evans (Chairman)
* Mr Ben Carasco (Vice-Chairman)
* Mr John Beckett
* Mr David Mansfield
* Mrs Hazel Watson

Co-opted Members:

Borough Councillor Ruth Mitchell, Hersham
District Councillor Tony Elias, Bletchingley and Nutfield
* Philip Walker, Employees

In attendance

Mr Nick Harrison - Chairman of the Local Pension Board

1/20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Tony Elias and Ruth Mitchell.

2/20 MINUTES OF THE PREVIOUS MEETING: 20 DECEMBER 2019 [Item 2]

The Minutes were approved as an accurate record of the previous meeting.

3/20 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/20 QUESTIONS AND PETITIONS [Item 4]

The Chairman noted that the Committee had received a large number of additional correspondences relating to the Fund's investment in fossil fuels, which would be replied to in due course. He explained that the Fund's position on the matter was outlined in the Committee's response to the open letter (Annex B) and he also read out a short statement concerning investment decisions as it was of widespread interest:

All investment decisions are in accordance with the published fund Investment strategy. This is to protect the Fund's interests and is in line with our fiduciary duty. This Committee makes the final decisions on any changes to the strategy following due process of consultation and discussion.

Surrey Pension Fund Committee members have received many representations through attendance at our meetings, email and other means of communications. Many of these relate to Environment, Social and Governance (ESG) matters and investments.

In response, the Committee, at the meeting of 20 December 2019, authorised a sub-group to review our Responsible Investment Policy and make recommendations to enhance the focus on ESG.

I can announce to the Committee and the public that this process has started and indeed the Strategic Finance Manager (Pensions) has spent much of this week moving this forward. Project planning and resource organisation are both well advanced.

The objective is to develop a holistic approach to all ESG considerations and develop robust guidelines that will guide our future investment choices.

This Committee will consider all recommendations brought forward by the sub-group and determine which, if any to adopt.

Six questions were received from members of the public. The responses can be found attached to these minutes as Annex A.

Supplementary questions were asked from six members of the public and responses can be found below.

1. Supplementary question asked by Jenifer Condit:
The Committee's written responses to Chris Neill and Barry Staff's submitted questions in December 2019 stated that divesting in the hydrocarbon industry in fossil fuel companies made no impact on the environment. She commented that continuing to invest in large oil and gas company shares lowered those companies' cost of capital and therefore enabled them to obtain new investment to expand their business i.e. to exploit more oil reserves. She noted that all four of the actively managed equity pools Majedie, Marathon, Western and BCPP were assessed against indices which were not 'low carbon' or 'sustainable' in nature. She asked the Committee if they thought divesting still had no impact on the environment.

Response:
The Chairman responded that the Pension Fund and Committee received informed views on how best to invest the Fund. He explained that the Fund were pursuing engagement as opposed to divestment which was outlined in the Committee's response to the open letter. The Low Carbon Fund (Indexed Equity Funds) was only one aspect of its asset allocation to minimise risk and maximise returns. The Independent Advisor noted that divesting in large oil and gas companies would raise those companies' cost of capital. He explained that academic evidence showed that companies who were engaged with were moving away from carbon-based fuels. The Investment Consultant added that Border to Coast (BCPP) were supportive of engagement.

2. *Supplementary question asked by Simon Hallett:*

Mr Hallett thanked the Committee for its reply to the open letter, commending the strategy of engagement. However, he asked the Committee whether they were aware of the contradiction of its view on the incompatibility between engagement and divestment. He provided two examples of the contradiction which were within the December 20 2019 agenda concerning Centrica and Border to Coast's resolution put to National Australia Bank asking them to reduce their exposure to fossil fuel assets (Annex C - full supplementary question and the response).

Response:

The Chairman explained that the Fund were not saying that engagement was perfect, but it was better than not engaging at all and industry experts such as Robeco supported engagement as opposed to divestment. A further review on engagement would be provided at the next Committee meeting in June. He added that Surrey Pension Fund was only one of eighty-nine across the Local Government Pension Scheme (LGPS) and was working collectively on issues through the Local Authority Pension Fund Forum (LAPFF). The Fund was aware of the risks as a result of climate change such as investing in stranded assets and the Committee sub-group on Responsible Investment were developing the Fund's engagement approach.

The Chairman proposed that officers provide the questioner with a written answer, to explain the matter in more detail.

3. *Supplementary question asked by Jenifer Condit on behalf of Isobel Griffiths:*

As a scheme member of and contributor to the Surrey Pension Fund, the questioner felt it was a matter of importance that the Fund sought to learn the preferences of its members giving them an option to divert funding to Paris Agreement compliant investors, rather than being forced to invest in fossil fuel companies.

Response:

The Chairman replied that it was not feasible to learn the preferences of all the approximately 100,000 scheme members of the Fund, particularly as it was a defined benefits scheme regardless of how investments performed and not a defined contribution scheme.

The Strategic Finance Manager (Pensions) stated that the Pension Fund team and Pensions Administration team were constantly reviewing their communications with scheme members which included the investment strategy of the Fund. The Chairman added that the Fund were more expansive in their thinking by recognising the climate emergency and ESG as outlined in the Committee's response to the open letter.

4. *No supplementary question was asked by Kirsty Clough.*

5. *Supplementary question asked by Nik Huddy:*

Concerning a response to a question posed at the last Committee in December in which the Committee replied that it worked with initiatives such as Climate Action 100+ to reduce emissions. The questioner highlighted that the Fund had a fiduciary duty to mitigate risk on returns which was not being met as investments were down substantially and the Fund was tied to its investment manager Border to Coast (BCPP).

Response:
The Chairman replied that short term decreases in investments were mitigated through the Investment Strategy Statement which assessed investments over a long period of time and the Fund were actively working with BCPP.

Kirsty Clough asked a supplementary question on whether the Committee could give specific examples on where the Surrey Pension Fund's engagement with fossil fuel companies had produced tangible results for decarbonisation in order to achieve the net zero targets set out in the Paris Agreement. She also asked how the Fund would strengthen its engagement with companies such as Shell.

In response, the Strategic Finance Manager (Pensions) reiterated that the Fund's approach to engagement was detailed in the Committee's response to the open letter.

The Vice-Chairman added that as a result of the Committee engaging with a group asking the Fund to divest, he explained that engagement would be strengthened through ensuring measurable deadlines on Responsible Investment with fossil fuel companies with consequential actions to follow if those companies were not compliant.

6. *Supplementary question asked by Chris Neill:*

The questioner stated that the Fund presented its position on divestment of fossil fuel assets as a matter of ESG but not specifically to climate change. He stated that risks highlighted by the Fund in its 2018-19 Annual Report dealt with the corporate governance of companies in which the Fund invested in and failed to address the climate risk. He stressed the financial risks in investing in poorly performing fossil fuels and asked the Fund to reconsider fully divesting from fossil fuels (Annex C - full supplementary question and the response).

Response:
The Chairman replied that the Fund's position had never been not to divest from fuel fossils or to divest from other areas as the Fund's investments were under constant review. He commented that the current 2019/20 Annual Report measured against the Taskforce for Climate Related Financial Disclosures (TCFD) to provide consistent and transparent information.

The Vice-Chairman recognised that the Committee should ensure a fixed definition of terms on climate related matters to avoid confusion with differing definitions by investment companies for example. It was important that the Committee needed to be more precise on Responsible Investment, understanding how climate change had been evolving, which was difficult due to insufficient data availability and reliability in the investment world.

The Chairman proposed that officers provide the questioner with a written answer, to explain the matter in more detail.

Actions/further information to be provided:

In agreement with the Chairman, officers will provide written replies to supplementary questions two and six, these will be included as Annex C.

5/20 FORWARD PLAN [Item 5]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman highlighted the upcoming review of the Investment Strategy Statement (ISS) the Investment Core Beliefs/Responsible Investment Policy review and Index Linked Gilts review to be presented to the Committee in June.
2. The Vice-Chairman queried whether any of those items to be reviewed in June would involve decisions to be made at the Committee or whether additional work was needed. In response, the Strategic Finance Manager (Pensions) explained that he expected a principled approach to be reported at the June Committee meeting and that the Committee would be at a decision-making point by the September Committee meeting. He added that an ESG consultant would shortly be in position, resources and timelines would be discussed with them.

RESOLVED:

The Committee noted the report.

Actions/further information to be provided:

None.

6/20 PENSION FUND BUSINESS PLAN 2020/21 [Item 6]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman noted that strategic objectives were agreed for investment, funding, governance and delivery derived from the Mission Statement and each report was newly colour coded reflecting the relevant strategic objective.
2. The Strategic Finance Manager (Pensions) noted that the Business Plan was an evolving document in response to directives, Government regulations or conclusions of the Committee.

RESOLVED:

The Pension Fund Committee approved the draft Business Plan in respect of the 2020/21 financial year.

Actions/further information to be provided:

None.

7/20 LOCAL BOARD REPORT [Item 7]

Witnesses:

Mr Nick Harrison - Chairman of the Local Pension Board
Nick Weaver - Head of Pensions Administration
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman of the Local Pension Board informed the Committee that the Board recently met the new Head of Pensions Administration, who provided Members with his initial view on key issues within the service.
2. The Chairman of the Local Pension Board summarised that the Board:
   - discussed the Service Improvement Plan which was ambitious in its proposed timescales to deliver key projects.
   - noted the two challenging Internal Audit reviews and a further audit position statement was expected.
   - focused on the Key Performance Indicators (KPIs), concluding that it did not think the Pensions Administration team were making sufficient progress on the backlog.
   - that there were several changes to existing risks on the register and a new one was added concerning inaccurate KPI's as a result of the lack of management control over the backlog - Risk A23.
   - acknowledged that the figures showed that routine work was being cleared in preference to critical work and asked for deaths, new pensions and transfers to be prioritised and completed in good time - JLT were successfully working through their tranche of the backlog.
3. The Vice-Chairman commented that much of the report was focused on Pensions Administration. He felt that there was greater scope for the Local Pension Board (LPB) to be a point of governance in response to the Committee spending increasing amount of time on ESG matters. He commented that it would be useful to add the reputational risk of the Fund to the Fund's Risk Register as reviewed by the LPB.
4. The Head of Pensions Administration acknowledged that there was a lot to do and it was vital to balance ensuring the fundamentals were correct whilst improving the service. It was important to complete one large piece of work at a time and address the backlog and KPIs which did not add up.
5. In response to a Member query on whether the Committee could help speed up progress within Pensions Administration through more resources or learning from other funds, the Chairman of the Local Pension Board was satisfied with the approach taken by the Head of Pensions Administration.
6. The Head of Pensions Administration stressed that he wanted the Pensions Administration team to be empowered to understand and take responsibility for ownership of projects rather than greater outsourcing to external administration teams.

7. The Strategic Finance Manager (Pensions) reminded the Committee of the governance structure in which the Pension Fund and Pensions Administration teams regularly met to review actions taken to the Local Pension Board, which were later scrutinised by the Committee.

RESOLVED:

That the Committee:

1. Approved the proposed change to the Risk Register.

2. Noted the minutes of the Local Pension Board meeting of 13 February 2020.

Actions/further information to be provided:

The Chairman of the Local Pension Board would work with officers to add a new risk to the Fund's Risk Register concerning the reputational risk of the Fund in respect of ESG matters.

8/20 REVISED PENSION ADMINISTRATION STRATEGY [Item 8]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman noted that the Committee were asked to approve the final Administration Strategy as it had reviewed it at the last Committee meeting. In response, the Strategic Finance Manager (Pensions) added that no material changes were made to the final report after the extended period of consultation with employers.

RESOLVED:

The Pension Fund Committee approved the final Administration Strategy.

Actions/further information to be provided:

None.

9/20 COMPANY ENGAGEMENT AND VOTING [Item 9]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist

Key points raised in the discussion:

1. A Member welcomed the report as it provided more detail on the Fund's strengthening engagement.
2. Responding to the table in the report which showed Surrey's vote share on resolutions against management as highlighted by the Chairman, the Senior Pensions Finance Specialist pointed out that

some votes were successful and others were not. Most companies would go into their voting process in June so more outcomes would be reported from then.

3. The Chairman positively noted that all companies under engagement had progressed in the five initial objectives of the project.
4. He informed the Committee that he had attended the last BCPP Joint Committee meeting in which partners including LAPFF and Robeco were addressing ESG issues - he reminded Members that they were welcome to attend. The Senior Pensions Finance Specialist invited Members to attend the LAPFF business meetings, the next one was scheduled for 25 March 2020.

RESOLVED:

The Pension Fund Committee:

Reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through:

- Continuing to enhance its own Responsible Investment Approach
- Commending the outcomes achieved for quarter ending 31 December 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 December 2019.
- Noting the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 31 December 2019.

Actions/further information to be provided:

1. The Committee will explore the Vice-Chairman's response to the sixth supplementary question in which he suggested that the Committee should ensure a fixed definition of terms on climate related matters and ESG to ensure a clearly defined Responsible Investment approach.
2. The Senior Pensions Finance Specialist will send invites to the Committee for the upcoming LAPFF business meeting.

10/20 CASH-FLOW ANALYSIS [Item 10]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman informed Members that the actuary was working on a more comprehensive cash-flow analysis, detailing the benefits paid, the contributions received income and net cash-flow. In response, the Strategic Finance Manager (Pensions) had spoken to investment consultants and the actuary on a more holistic cash-flow analysis.
2. The Chairman explained that 10% of scheme member contributions was still to be invested and the Fund was cash-flow positive. He noted that the regular provision of the figures on the current membership was useful.

3. The Strategic Finance Manager (Pensions) highlighted the typographical error in the heading, as quarter two began from 1 July 2019 and not 1 September 2019. The Fund had a substantial cash-flow reserve, which was invested in line with advice from investment consultants and the Fund's cash management plan.

RESOLVED:

The Pension Fund Committee:

1. Noted the cash-flow position for quarters two and three.
2. Determined that no change is required to the investment or funding strategy as a result of the current cash-flow position.

Actions/further information to be provided:

None.

11/20 2019 VALUATION UPDATE [Item 11]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman noted that the Committee had seen the draft valuation report before and were asked to approve the final draft report. He pointed out the Hymans Robertson report regarding the Fund's expected compliance with the Government Actuary' Department (GAD) scheme-level Section 13 valuation. He noted the letter from the four actuarial advisors to LGPS funds replying to the 2016 Section 13 valuation. The letter highlighted their dissatisfaction with Section 13 which they argued did not work as all pension funds were different and the Chairman noted that GAD did not pursue the grievances in the letter.
2. The Strategic Finance Manager (Pensions) discussed that Section 13 was a regulatory requirement for funds and he responded to a Member explaining that the letter was a joint response to GAD from the four actuarial advisors, which was brought to the attention of the Committee to note the reservations of GAD's methodology regarding Section 13.
3. He explained that GAD had a league table on their metrics on the reduction of deficit recovery rates and reducing contributions. Those metrics were unsuited to the Surrey Pension Fund which had retained its deficit recovery rates at twenty years - whilst not contravening its Funding Strategy Statement (FSS).
4. He added that the final 2019 valuation would be approved once the rates and adjustment certificate was finalised - prior to the 31 March 2020 deadline. He noted that since 31 March 2019 the funding level had increased by 3% to 99% and consultation was had with a small group of colleges, higher education institutions and community admission bodies to offer assurance and security on the changes to their recovery periods and meeting their funding requirements.

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RESOLVED:

The Pension Fund Committee:

1. Approved the draft 2019 valuation.
2. Authorised the delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to approve the 2019 valuation and funding strategy statement, once the rates and adjustments certificate is finalised (prior to the 31 March 2020 deadline).
3. Noted the report from Hymans Robertson regarding the expected compliance of the Fund with the Government Actuary's Department (GAD) scheme-level Section 13 valuation.

Actions/further information to be provided:

None.

12/20 LGPS SCHEME ADVISORY BOARD (SAB) - CONSULTATION ON DRAFT RESPONSIBLE INVESTMENT GUIDANCE [Item 12]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman queried what the next step was after the letter was sent outlining the Council's response to the Scheme Advisory Board (SAB) consultation on the draft Responsible Investment (RI) guidance. In response the Strategic Finance Manager (Pensions) informed the Committee that Members would be provided with the results of the consultation. Surrey Pension Fund was broadly supportive of the guidance and particularly the definition of the 'spectrum of capital' which was an investment core belief of the sub-group.
2. The Strategic Finance Manager (Pensions) added that funds' fiduciary duties could be impacted by the Court of Appeal's ruling regarding the use of pension policies to divest or boycott foreign nations in response to the Palestine Solidarity Campaign. In response to the Chairman's query, the Strategic Finance Manager (Pensions) also noted that RI, ESG and climate risk were grey areas as to where funds' fiduciary duties started and ended on political points of view.
3. The Vice-Chairman asked for clarification on the relationship between the Surrey Pension Fund and SAB. The Strategic Finance Manager (Pensions) noted that SAB was a direct line in to Government for the LGPS and provided advice on regulations and best practice to the Pension Fund Committee, Local Pension Board and Section 151 officer.

RESOLVED:

The Committee noted the report and annexe.

Actions/further information to be provided:

None.

13/20 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 13]

Witnesses:

Steve Turner - Investment Consultant (Mercer)
Anthony Fletcher - Independent Advisor (MJ Hudson)

Key points raised in the discussion:

1. In response to the Chairman, the Investment Consultant noted that the Fund's transition of assets to Border to Coast (BCPP) continued to be positive.
2. The Independent Advisor updated the Committee on the Equity Protection Strategy (EPS) of Legal and General Investment Management (IM). He explained that the Fund had given up the potential equity upside of its portfolio of approximately £107m or 2.37% of Total Fund Value (as at 31 December 2019). Investing in that insurance strategy resulted in the Fund's total return being 10.4%, it would have been 2% higher otherwise. He reminded the Committee that the equity protection strategy was chosen to provide an insurance against a fall in equity values in the period leading up to the actuarial valuation.
3. The Independent Advisor concluded that it was important to recognise the long-term investment strategy of the Fund which could look through short periods of volatility such as changing equity markets and more recently coronavirus - a memo had been sent to scheme members in light of Covid-19.

RESOLVED:

The Pension Fund Committee:

Noted the main findings of the report: the Fund's 3 year annualised performance return for the period ending 31 December 2019 was +6.2% against its target return of 6.6%. The funding level as at 31 December 2019 was 101.6%.

Actions/further information to be provided:

None.

14/20 EXCLUSION OF THE PUBLIC [Item 14]

RESOLVED:

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 3 of Schedule 12A of the Act.

The meeting was adjourned at 11:29 am

It was reconvened at 11:36 am

15/20 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 15]

Witnesses:

Anthony Fletcher - Independent Advisor (MJ Hudson)

Key points raised in the discussion:

1. The Independent Advisor outlined the passive equity fund performance of Legal and General Investment Management (LGIM), he also noted the performances of Majedie and Newton Investment Management.
2. The Independent Advisor summarised the performance of the BCPP's UK Equity Alpha and Global Equity Alpha funds.

RESOLVED:

The Pension Fund Committee noted the Part 2 Annexes 2 and 3.

Actions/further information to be provided:

None.

16/20 CONSULTATION ON INDEX LINK GILTS [Item 16]

Witnesses:

Steve Turner - Investment Consultant (Mercer)
Neil Mason - Strategic Finance Manager (Pensions)
Anthony Fletcher - Independent Advisor (MJ Hudson)

Key points raised in the discussion:

1. The Investment Consultant summarised that the Fund held a small allocation of Index Linked Gilts (ILG).
2. The Strategic Finance Manager (Pensions) noted that the Fund had received correspondence from Mercer regarding the materiality of holding ILGs in response to the potential reform of the RPI inflation measure.
3. Responding to the Chairman, the Independent Advisor discussed the Government's consultation on the calculation of ILGs and the impact of transferring ILGs into conventional (fixed interest) gilts.

RESOLVED:

The Pension Fund Committee agreed the recommendations outlined in the Part 2 report.

Actions/further information to be provided:

None.

17/20 BORDER TO COAST UPDATE [Item 17]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) highlighted the Investment Programme Governance Calendar and Partner Fund Governance Calendar which showed their scheduled work streams until March 2021.
2. The Strategic Finance Manager (Pensions) noted that the number of partner funds would be reduced from twelve to eleven as a result of the merger between Northumberland County Council and South Tyneside Council pension funds. That merger had been known by all partner funds from the outset of Border to Coast.

RESOLVED:

The Pension Fund Committee agreed the recommendations outlined in the Part 2 report.

Actions/further information to be provided:

None.

18/20 PUBLICITY OF PART 2 ITEMS [Item 18]

The Committee agreed that no confidential information within items considered under Part 2 of the agenda should be made available to the Press and public.

19/20 DATE OF NEXT MEETING [Item 19]

It was agreed that the next meeting of the Surrey Pension Fund Committee would take place on 12 June 2020.

Meeting ended at: 12.17 pm

Chairman

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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?

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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?

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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.

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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)**.

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E-mail: pension.fund@surreycc.gov.uk

Surrey Pension Fund

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.

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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.

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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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SURREY PENSION FUND COMMITTEE – 13 MARCH 2020

PROCEDURAL MATTERS – SUPPLEMENTARY QUESTIONS AND RESPONSES

2. Supplementary Question asked by Simon Hallett

Firstly may I congratulate the Committee on its commitment to engagement. Using your influence as shareholders to push high emission consumers of fossil fuels towards a low carbon transition is surely vital. However twice in answers to questions at the last meeting the Committee argued against divestment from fossil fuels on the grounds that it had no impact on emissions. Please explain why you see engagement and divestment as incompatible?

(1) The agenda materials for the December 20 2019 meeting cite success stories from engagement through the LGPS including as one of the two 'substantial improvement' cases that of Centrica agreeing to sell its oil and gas assets. Surely in that case the engagement was asking for divestment?

The above point comes from point 4 of Item 6 in the public reports pack for the December 20 2019 meeting, extract shown below:

The LAPFF had engaged with 108 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 30 September 2019.

108 Company engagements over the quarter including the following meetings, voting alert submissions and filing of shareholder resolutions

Company	Activity	Topic	Outcome
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BAE SYSTEMS PLC	Meeting	Human Rights	No Improvement
CENTRICA PLC	Meeting	Climate Change	Substantial Improvement
GENERAL MOTORS COMPANY	Meeting	Environmental Risk	Small improvement
GLENCORE PLC	Meeting	Audit Practices	Small Improvement
NATIONAL GRID PLC	AGM	Climate Change	Substantial Improvement
PETROBRAS-PETROLEO BRASILIERO	Meeting	Reputational Risk	Moderate Improvement
RYANAIR HOLDINGS PLC	Alert Issued	Governance (General)	
SOUTHERN COMPANY	Meeting	Climate Change	Change in Process
SPORTS DIRECT INTERNATIONAL PLC	Alert Issued	Governance (General)	
WALT DISNEY	Resolution filed	Climate Change	Dialogue

SUBSTANTIAL IMPROVEMENTS: Centrica plans to exit oil and gas production, including selling its stake in Cuadrilla which operates fracking operations in Lancashire. **National Grid** is joining the Powering Past Coal Alliance, which had been a request at the last meeting with the company.

(2) Border to Coast's resolution put to National Australia Bank asking them to reduce their exposure to fossil fuel assets is another example of the same thing. More broadly, surely a successful engagement strategy on climate change will necessarily reduce the demand for fossil fuels along with emissions, therefore directly undermining the economics of your fossil fuel holdings. It seems to me that believing in engagement while not divesting is inconsistent. By not divesting surely you are either planning for failure or planning to lose money.

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The above point comes from page 10 of the Border to Coast Quarterly Stewardship Report for Q4 2019.

To be clear my question is not about why the engagement policy is seeking to achieve these goals – they are entirely appropriate in my view.

My question is why the Committee remains so dead set against divesting from fossil fuels given:

A. The climate goals of the engagement strategy seek to reduce emissions and thereby directly undermine the business of fossil fuel producers, so why own them?
B. In the specific instances cited, the engagement strategy is pushing other organisations towards divestment as a positive goal – if that is the right goals for other organisations, why not for the pension fund itself?

Rather than an either/or, I am suggesting the Pension Fund see divestment (limited to fossil fuel producers) as working in tandem with and supporting the engagement strategy. In such a way the pension fund expresses confidence that its engagement will drive real outcomes. Not to do so implies the engagement strategy is just a sop to public opinion, intended to achieve nothing, at least on climate change. So engage with the c. 95% of companies who are primarily consumers of fossil fuels (encouraging them to consume less) and divest from the c.5% of companies who are primarily fossil fuels producers. What could be more consistent and straightforward?

Supplementary response:

With reference to Question A (below), the goal is not to 'undermine' a company or industry but to ensure that it follows a policy of a just and stable transition to a low carbon economy, to ensure communities and those reliant on fossil fuels are not being put at a disadvantage. If Investors are influencing companies to accelerate change they are encouraging them to be part of the solution going forward, to ensure they remain viable investments for shareholders.

A. The climate goals of the engagement strategy seek to reduce emissions and thereby directly undermine the business of fossil fuel producers, so why own them?

The obvious examples being employees of these companies as well as communities in developing countries, whose livelihoods could be at risk if the world stopped using fossil fuels in an instant. A just transition is needed to ensure economies and communities are not at risk as we make the transition to a low carbon economy.

B. In the specific instances cited, the engagement strategy is pushing other organisations towards divestment as a positive goal – if that is the right goals for other organisations, why not for the pension fund itself.

The role of Surrey Pension Fund as an investor is to make sustainable returns to meet the long term liability of its pensioners, and also considering ESG risks (including climate risk) that can be detrimental to its financial returns. This involves pressuring those companies through their chosen method, to divest from carbon intensive operations and transition more toward low carbon/ carbon neutral operations.

The questioner highlights the need for the Pension Fund to only apply divestment to fossil fuel producers, when another member of the public have differing and sometime competing priorities, which can include divestment views in other sectors; e.g. weapons manufacturers, tobacco companies, etc.

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The Open Letter **(Annex B)** issued to the Pension Fund on 2 March 2020 quotes an article by the International Energy Agency, but ignores a few other points in the same article:

- Without the oil and gas industry, the transformation of the energy sector will be more difficult and more expensive
- The oil and gas industry will be critical for key capital-intensive clean energy technologies to reach maturity
- Electricity cannot be the only vector for the energy sector's transformation

https://www.iea.org/reports/the-oil-and-gas-industry-in-energy-transitions

6. Supplementary Question asked by Chris Neill

Surrey Pension Fund presents its position on divestment of fossil fuel assets as a matter of ESG - that is Environmental, Social and Governance - assessment. It then fails to present its assessment specific to climate change. This is fundamentally confused.

*You enumerate the risks that SPF must consider in its activities on page 65 of your 2018-19 Annual Report. The final item on your list is ESG. You explicitly state that this is a non-financial risk that your Fund Managers should consider.
*The statement from your investment advisor on page 41 of the annual report on research into the carbon intensity of your portfolio, subsumes the matter of carbon intensity into a discussion of ESG.
*The presentation of your ESG policies on page 67 of the annual report deals largely with the corporate governance of companies in which you invest and does not in any way address climate risk, unless that is your comment that you have no specific policy with regard to wholly divesting as a function of ESG issues.

But investing in fossil fuels is a financial risk, and an important one. Recent price history shows not only the pressure on fossil fuels in a decarbonising world, but the exposure of these investments to the behaviour of autocratic regimes in Saudi Arabia and Russia. These assets have proven to be both financially risky and poorly performing. Not ideal assets for a pension fund to hold.

-Will SPF now accept the need to identify and disclose the carbon intensity of both its equity and debt investments, both public and private?

-Further, will SPF disclose the performance of investments in the fossil fuel sector specifically?

-In your future public reports will SPF discuss its risk to the climate emergency and its fossil fuel investments as a separate matter from its ESG concerns?

-And finally, will you reconsider your statement that you will not fully divest from fossil fuels?

Supplementary response:

The questioner should be encouraged to review the Taskforce for Climate Related Financial Disclosures (TCFD) as well as the Committee reports. The Pension Fund has stated numerous times that it has become a supporter of TCFD, which addresses a number of the supplementary questions, specifically how we will be measuring Climate Risk from a financial perspective, in our 2019/20 Annual Report. The TCFD is also completely consistent

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with the Transition Pathway Initiative, which measures the risks of individual companies and industries in the 2 Degree Scenario Analysis.

Please see the link below for Surrey Pension Fund's action to become a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD) in September 2019, 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

Please see below the Fund's recommendation on 13 December 2019 and 13 March 2020 to continue to enhance its Responsible Investment Approach: https://mycouncil.surreycc.gov.uk/documents/s65129/Item%2011%20-%20Responsible%20Investment%20Policy%20Review.pdf

https://mycouncil.surreycc.gov.uk/documents/s62861/Report.pdf

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