

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 12 JUNE 2020

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE

SUBJECT: INVESTMENT CORE BELIEFS AND THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS

SUMMARY OF ISSUE:

| Strategic objectives | |
|----------------------|------------|
| Investment | Governance |

Surrey Pension Fund is reviewing its investment strategy with a view to ensuring that it is in line with its Mission Statement and the emphasis on environmental, social and governance (ESG) considerations. It is informing this review in the wider context of the United Nation's Sustainable Development Goals (SDGs).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the report.
2. Approve the draft project plan from Minerva.

REASON FOR RECOMMENDATIONS:

To keep the Pension Fund Committee apprised of the progress made in reviewing the Fund's investment strategy with a view to ensuring that it is in line with its Mission Statement and the emphasis on environmental, social and governance (ESG) considerations.

DETAILS:

Background

1. At its meeting of 7 June 2019, the Pension Fund Committee approved the following mission statement:

"The Surrey Pension Fund will deliver a first-class service through strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. Environmental, Social and Governance factors are fundamental to our approach which is underpinned by risk management, informed decision making, the use of technology and the highest standards of corporate governance".

2. Further to this, at its meeting of 20 December 2019, the Pension Fund Committee approved for 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) (Paragraph 17), carried out by an independent provider.

3. On 24 January 2020, officers issued an invitation to tender for the following scope of work:

To examine the existing Investment Portfolio holdings of Surrey Pension Fund and their relationship (positive/ negative) to the United Nations Sustainable Development Goals, and identify the risks and opportunities associated with the analysis.

In particular to comment on:

- The Core Investment Beliefs of the Committee; informing and assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how it fits into its Investment Strategy;
 - The starting position of the Fund against the UN's SDGs;
 - How the Fund can continue further as Impact Investors and integrate the SDGs into its Investment Strategy;
 - Where there is an Investment risk/ opportunity to the Fund, within its assets, in relation to the transition to sustainability and a low carbon economy;
 - The methods used to map sustainability to investment strategy and how robust they are;
 - The Fund's own Responsible Investment Approach and in the context of Border to Coast Pensions Partnership.
4. After a competitive tender process, with a selection panel of the Vice Chairman of the Committee, the Independent Advisor and officers, Minerva were appointed to support the Fund in this work.

Draft project plan from Minerva

5. On Wednesday 29th April 2020, Officers, the Pensions Committee Chair and Vice-Chair, and the Independent Advisor held a virtual meeting with the team responsible for the delivery of the SDG mapping project – Sarah Wilson, CEO of Minerva Analytics, Niall O’Shea, MD of Discern Sustainability, and David Crum, MD Asset Steward Solutions of Minerva Analytics (the ‘Minerva Team’).
6. The main purpose of the meeting was to have a more in-depth conversation around the SDG mapping exercise, and to consider the draft project plan.
7. The draft project plan (shown as annexe 1) is broken in to four sections:
 - Examine: Look at your current position, reviewing relevant documentation and Pension Committee minutes;
 - Benchmark: Take three years of the Fund’s equity and bond holdings data across 10 managers for benchmarking;
 - Inform: Hold a workshop where our initial findings are delivered, and engage with Members and Officers on investment beliefs;
 - Deliver: Take on board feedback, refine reporting and any proposals, and return to deliver the final report at a formal Pension Committee meeting.
8. The initial meeting also provided the forum for Fund representatives to quiz the project team on any aspect of their planned approach for the SDG mapping exercise.
9. The key points discussed are summarised as follows:
 - The Fund asked about the viability of aligning all 17 UN SDGs with investments:
the Minerva Team responded by saying not all SDGs are necessarily investible, but that they have a framework that shows which ones have more relevance than others, and also emphasised the point of needing a baseline assessment of the Fund’s current investments as seen through an SDG ‘lens’ as the starting point;
 - The Fund asked about the process of establishing Core Investment Beliefs in relation to the SDGs;
the Minerva Team responded by saying we need to see if the Fund’s existing investment managers are referencing the SDGs in how they make and manage investments, to help towards getting to CIBs and their implementation. The Fund agreed that the reason for asking asset managers for lots of information is to ensure they are doing what they say they are doing, and that the Fund should not just merely take their word for it.
10. Fund then made three key points relating to the exercise from their perspective:
 - Integrating the SDGs into their investment process is a key deliverable from the exercise;
The Minerva Team responded with agreement of the key deliverable;
 - The Fund need to be transparent about any limitations of the approach and methodology that we are taking, commenting on its robustness;

The Minerva Team responded that some of the top academic institutions in the world stand behind the robustness of the approach being considered, and we absolutely want to be transparent in our approach. The SDGs are a destination, and we must remember that companies are early on in their journeys;

- The Fund wanted to be sure that enough of the Fund's existing assets would be covered by the process to make it a success.

The Minerva Team responded that all of the Fund's Equities, Corporate and Sovereign Bonds are covered in the mapping process, which represents over 75% of the Fund's assets. Since they look at things from a company (issuer) level, any equities or corporate bonds issued by the company are covered.

Next steps

11. It was agreed that any reporting needs to be in step with Local Pensions Board and Pensions Committee meetings over 2020.
12. The following initial timetable was shared with the Project Team:
 - Summary of initial meeting and high level Project Plan should be taken to the June Pension Fund Committee meeting;
 - Project update report(s) need to then fit in with the September pension fund committee meeting cycle illustrating how the project is progressing; and
 - Final report(s) on the project outcomes, including details on what the project means for the Fund's wider investment strategy and Voting & Engagement policy for the December Pension Fund Committee meeting cycle.

CONSULTATION:

13. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

14. The consideration of risk related issues, including investment, governance and reputational risk, are an integral part of this project and will be considered as part of the project development.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

15. There are no financial and value for money implications contained in this report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

16. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

17. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

18. There are no equality or diversity issues.

OTHER IMPLICATIONS

19. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

20. The following next steps are planned:

- Officers to work with Minerva on delivery of the project.

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions)

Consulted:

Pension Fund Committee Chairman

Annexes:

1. Draft project plan from Minerva

Sources/background papers:

None.

This page is intentionally left blank