MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 12 June 2020, remotely via Microsoft Teams.

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

On behalf of the Committee and the Local Pension Board, the Chairman of the Committee thanked the Pension Fund team and the Pensions Administration team for their quick adaptation to working remotely during the Covid-19 pandemic, ensuring that the Fund's basic functions to pay Fund members' benefits were fulfilled and the continuation of business-as-usual for pensions operations.

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

No apologies had been received.

21/20 MINUTES OF THE PREVIOUS MEETING: 13 MARCH 2020 [Item 2]

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

To be signed by the Chairman when the current Covid-19 lockdown restrictions are lifted.

22/20 DECLARATIONS OF INTEREST [Item 3]

There were none.

23/20 QUESTIONS AND PETITIONS [Item 4]

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

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

1. *Supplementary question asked by Ian Chappell on behalf of Steve McDonald:*

The questioner referenced the Committee's open letter of 9 April 2020 noting that the rationale for not divesting was due to protecting the employees of fossil fuels companies, in contradiction to the recent job cuts by British Petroleum (BP) and the letter also noted the concern for worldwide communities if fossil fuels companies stopped using fossil fuels instantaneously. Do you not acknowledge that communities worldwide have been undermined over the last two decades by fossil fuel companies and their employees are not protected? (Annexe B - full supplementary question and the response).

Response:
The Chairman explained that the Fund's continued engagement and investment with fossil fuel companies was not impacting on their employment policies as that is decided internally within those businesses.

Officers proposed that a written answer would be provided to the questioner, to explain the matter in more detail.

2. *Supplementary question asked by Ian Chappell:*

Thanked officers for the initial reply, but noted that the Committee had weak evidence that engagement worked. Can the new sub-group tasked with reviewing the Fund's Responsible Investment Policy consider with regards to large fossil fuel companies such as BP and Shell: setting specific engagement objectives that are measurable, in line with no greater than a 1.5C temperature rise and have a deadline, can those objectives be published on your website and if those targets are not met will the Fund divest?

Response:
The Chairman highlighted Item 8 on the United Nation's Sustainable Development Goals (SDGs) which the investment strategy will incorporate and the Fund's investment core beliefs focusing on Environmental, Social and Governance (ESG) issues. The Committee will not commit to any specific divestment targets, every single investment decision was judged on its merits at the time by the investment managers.

3. *Supplementary question asked by Ian Chappell on behalf of Nina Mileksic:*

Within the response to the Freedom of Information (FOI) request at the end of 2019, ExxonMobil was the second largest energy holding in Legal & General funds. ExxonMobil had been criticised as being destructive to both the shareholder value and the planet. What has been the extent of your holdings on ExxonMobil - how much and over what time period and can you confirm that it has no longer any part of your portfolio? (Annexe B - full supplementary question and the response).

Response:

Officers proposed that a written answer would be provided to the questioner, to explain the matter in more detail.

4. *Supplementary question asked by Jenifer Condit:*

The Fund reduced exposure to fossil equities from 3.6% at the end of March 2019 to less than 3% at the end of December, however during that period the markets went up by 11%, fossil fuels went down by 10-15% so fossil fuels underperformed by more than the percentage of the Fund's portfolio that they represent. Does that show the likelihood that you divested nothing? Fossil fuels significantly underperformed by 25% relative to the rest of the portfolio, how much longer will the SPF watch the value of these positions fall when you could just sell them and be done with it?

The questioner noted that she would like to submit a Freedom of Information (FOI) request for the disclosure of all fossil fuel holdings, in £ value, and as a % of equity holdings, as of May 31 2020. As part of this request she also asked if the number of shares held in each of the Fund's fossil fuel holdings as well as the decrease and increase comparing the positions in fossil fuels could be disclosed? (Annexe B - full supplementary question and the FOI request acknowledged).

Response:

The Chairman commented that markets fluctuate and that fossil fuels were less than 1.8% of the Fund's investment, investment managers invest in line with the Fund's mandate whereby short term market fluctuation could be absorbed. He referenced item 8 and the review of the investment strategy in accordance with the SDGs.

Officers proposed that the written supplementary question be provided to explain the matter and the Freedom of Information request in more detail.

5. *Supplementary question asked by Chris Neill:*

The questioner noted the contradiction inherent in a policy of engagement, that the more immoral it was, the more investable it was also. He asked whether from a moral relativism point of view, if the Committee perceived a similarity between the 18 th century slave trade and the oil industry - both with economic prosperity and exploitation? (Annexe B - full supplementary question and the response).

Response:

The Chairman responded that he did not equate the oil industry with the slave trade, referencing the focus on the 17 UN SDGs built into future investment strategy and the commitment to ESG and Responsible Investment.

Officers proposed that a written answer would be provided to the questioner, to explain the matter in more detail.

6. *Supplementary question asked by Ian Chappell on behalf of Helena Ritter:*

The questioner expressed concerned that the Fund was surrounding itself with organisations that support engagement as they had a vested interest in it. It was asked whether the Committee took notice of different views which challenged its beliefs and if it would consider inviting the chair of the All Party Parliamentary Group on Sustainable Finance who was committed to divestment, to a Committee meeting.

Response:
The Chairman stated that the Committee did take into account multiple points of view including from members of the public and would build them into its investment strategy going forward.

24/20 FORWARD PLAN [Item 5]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman explained that the items on gilts and the review of fund compliance with the Scheme Advisory Board on good governance recommendations had been deferred due to Covid-19.
2. The Strategic Finance Manager (Pensions) highlighted the investment core beliefs and Responsible Investment Policy update in December.

RESOLVED:

The Committee noted the report.

Actions/further information to be provided:

None.

25/20 LOCAL BOARD REPORT [Item 6]

Witnesses:

Mr Nick Harrison - Chairman of the Local Pension Board

Key points raised in the discussion:

1. The Chairman of the Local Pension Board highlighted the key points raised at the last informal Board meeting in May, highlighting the update from the Assistant Director of Business Operations and the commissioning of a strategic review.
2. Covid-19 initially posed challenges to the operation of the Pensions Administration team as outlined in the proposed risk register changes, the Pensions Helpdesk remained open and the weekly administration update sent to Board and Committee members was useful.
3. He noted that the Systems Review Highlight Project within the Service Improvement Plan was a red risk, discussions were being had on whether to remain with current provider and he and the Chairman of the Committee had spoken with Orbis on the project going forward.
4. Regarding the Key Performance Indicators (KPIs) for Administration Performance, there was concern that the backlog remained.

RESOLVED:

The Committee:

1. Approved the proposed change to the risk register, as noted in the Risk Register section of the report.

2. Noted the Part 2 minutes of the informal Local Pension Board meeting of 22 May 2020.

Actions/further information to be provided:

None.

26/20 COMPANY ENGAGEMENT AND VOTING [Item 7]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
David Crum - Minerva

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist introduced the report noting Robeco's SDG Framework which identified a company's impact on the SDGs by analysing what it produces, how and whether the company had been involved in controversies. In 2019, 14 out of 19 engagement themes were linked to a relevant SDG.
2. A Member queried the internal administrative error within Minerva's voting services that led to the voting service being switched off without the Fund's consultation between December 2019 - March 2020 and what the impact was. In response, the representative from Minerva apologised for the error and explained that there was an internal investigation to look into the cause of the error. A possible explanation for the error was that Minerva were working with other LGPS clients moving their assets over to a pool and as that was happening their own voting services were being turned off as the pools took over responsibility for the voting activity.
3. Once Minerva were notified by the Pension Fund team, the voting service was turned back on again on the 5 April 2020. As part of the investigation, Minerva will provide an analysis on what votes were missed, which would be brought back to the Committee in due course taking into account Covid-19. Going forward, Minerva were liaising with officers on the timetable for the remainder of the Fund's listed equity assets being moved over to BCPP, to ensure that the future transfer of any voting responsibilities to the pool were properly managed on an agreed basis.
4. The Chairman noted that the votes missed may have had a minimal impact especially as the peak voting period was March to June. It was explained by Minerva that because of Covid-19 a lot of companies changed the dates of their meetings moving them later in the year.

RESOLVED:

The 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, its Company Engagement policy, and SDG alignment with its external provider Minerva Analytics.

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- Commending the outcomes achieved for quarter ending 31 March 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2020.

Actions/further information to be provided:

The results of Minerva's internal investigation on why the voting service was switched off between December 2019 - March 2020 will be provided to the Committee in due course.

27/20 INVESTMENT CORE BELIEFS AND THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS [Item 8]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)
David Crum - Minerva

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) introduced the report which identified the Environmental, Social and Governance (ESG) factors as fundamental to the Fund's approach as highlighted within the Mission Statement agreed on 7 June 2019.
2. He also noted the Committee's enhanced focus on Responsible Investment and ESG which were being developed through: the member workshop in November 2019, the sub-group - agreed in December 2019 - which was leading on the development of the Committee's Core Investment Beliefs and the Fund's own Responsible Investment Policy in relation to BCPP and other asset managers, the examination of the Spectrum of Capital and finally, the scenario-mapping the Fund's portfolio in line with the UN's SDGs. After an invitation to tender in January 2020, Minerva were successful and would lead the scope of work on reviewing the Fund's investment portfolio holdings and how they align to the SDGs, furthering the commitment to Responsible Investment and ESG.
3. The Representative from Minerva explained that the project by the Fund regarding the UN SDGs was ground-breaking compared to other LGPS funds and the SDGs were a foundation for the UN's Transforming our world: the 2030 Agenda for Sustainable Development. Minerva's draft project plan looked at how the Fund's existing investment managers viewed sustainability through their policies, voting records and holdings, using the World Benchmarking Alliance SDG 2000 index as the proposed framework.
4. Discussing Responsible Investment, the Vice-Chairman commented that a robust and comprehensive process was needed to defend the Fund's rationale for the current Investment Strategy and the actions to be taken. There was no definitive definition of Responsible Investment so the Fund created its own based on the SDGs and the difficulty was the practicality of the project in which Minerva would help to translate the Fund's general beliefs on Responsible Investment into more specific ones.
5. A Member was pleased that BCPP's relationship with Responsible Investment was being examined, especially as the Fund were in the

process of pooling with them and it was a good opportunity for the Fund to develop its own Responsible Investment Policy. In response, the Strategic Finance Manager (Pensions) noted the consultations with BCPP's Responsible Investment lead. The Chairman added that the Surrey Fund was one eleventh within the BCPP providing it with considerable influence, operating through the BCPP Joint Committee.

6. A Member welcomed the enhanced focus on ESG and Responsible Investment covering a breadth of issues and the objective and transparent development of the Fund's investment strategy going forward.
7. The Vice-Chairman stressed that once the Fund's future investment strategy was clarified, the rules of engagement for the third parties needed to be established.

RESOLVED:

1. The Committee noted the report.
2. Approved the draft project plan from Minerva.

Actions/further information to be provided:

The Committee will help develop the rules of engagement for the third parties in relation to the Fund's future investment strategy, in line with its commitment to Responsible Investment through ESG and the UN's SDGs.

28/20 PENSION FUND ACCOUNTS 2019/20 [Item 9]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Anna D'Alessandro - Director of Corporate Finance
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist introduced the report reminding the Committee that it contained the unaudited financial statements of the Pension Fund for the year ended 31 March 2020, the external auditor Grant Thornton would then audit the Accounts, with the Fund aiming for an unqualified opinion. There was little change from last year, apart from drop in the Fund value as of 31 March due to Covid-19.
2. The Director of Corporate Finance commended the work of the Pension Fund team in completing the accounts in that timeframe considering the current pandemic. In line with the extension granted by the Ministry of Housing, Communities and Local Government (MHCLG), the original deadline for final accounts of 31 July would not be met due to under-resourcing and the recruitment drive by Grant Thornton who furloughed some of their staff due to Covid-19. It was expected that the final sign-off of the accounts and opinion would be provided in August and a provisional Audit and Governance Committee had been set.
3. The Strategic Finance Manager (Pensions) thanked a Member for his support on the draft accounts which were published on 31 May.

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4. A Member queried why the external audit costs had doubled in the last year, in response the Senior Pensions Finance Specialist commented that Grant Thornton was expecting more work to be carried out as a result of Covid-19 and the Strategic Finance Manager (Pensions) noted the additional costs due to the changes resulting from the McCloud judgement.

RESOLVED:

The Committee approved the 2019/20 Pension Fund Accounts, subject to an unqualified opinion issued by Audit.

Actions/further information to be provided:

None.

29/20 TRAINING POLICY 2020-21 [Item 10]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist noted that the Pension Fund team were awaiting the results of the LGPS National Knowledge Assessment 2020 (NKA) by Hymans Robertson which would feed into Training Policy going forward and the results would be brought back to the Committee in due course.
2. The Strategic Finance Manager (Pensions) thanked members for their engagement on the NKA as that helped the team identify areas of development for Committee Members, the Policy also considered the enhanced training requirements published with the SAB Good Governance Review in 2019.
3. The Strategic Finance Manager (Pensions) noted that there were a number of events that members could attend although many had been postponed due to Covid-19. Online training and conferences relevant to members' needs would continue to be circulated in the weekly updates to Board and Committee members.

RESOLVED:

1. The Committee approved the Training Policy 2020/21 including the training plan and agreed that all members should prioritise attendance at training events wherever practicable.
2. Would review this training on an annual basis.

Actions/further information to be provided:

The results of the LGPS National Knowledge Assessment 2020 (NKA) by Hymans Robertson will be brought back to the Committee in due course.

30/20 CORONAVIRUS RESPONSE INCLUDING MARKET UPDATE [Item 11]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)
Nick Weaver - Head of Pensions Administration
Steve Turner - Investment Consultant (Mercer)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) introduced the report and noted that the Committee had been provided with the Surrey Pension Fund Coronavirus Plan in March and explained that both the Surrey Pension Fund team and the Pensions Administration team were working from home as a result of Covid-19. The Fund team had adopted agile working beforehand, whilst initially that adjustment was more difficult for the Administration team due to the number of staff involved and the complexity of the operation.
2. He highlighted the Coronavirus Risk Register which was categorised into the four strategic objectives: Funding, Investment, Governance and Delivery. It was at present reviewed on at least a weekly basis with updates shared initially to the Chairmen of the Committee and the Board. There were no material changes to the risk register over the last month suggesting a move towards business as usual, it would however remain live until the move further into a recovery phase.
3. The Fund value reached a low in March of £3.8 billion which had recovered to £4.2 billion and Mercer had been commissioned to map the recovery scenarios from an investment perspective.
4. The Strategic Finance Manager (Pensions) commended the way the Pensions Administration team led by the Head of Pensions Administration had responded to the crisis moving the operation to agile working, the primary job of the Pension Fund was to ensure that members were paid the right amount of benefits and in a timely manner which had been achieved during the pandemic despite the peak in deaths.
5. In response, the Head of Pensions Administration thanked IT, the Pension Fund team and the Pensions Helpdesk for their support during Covid-19. Minor operational improvements had been made, but more fundamental changes to deliver a better service in line with the identified delivery risks were needed to address the backlog and legacy cases from weak house-keeping in which cases were not closed properly.
6. A representative from Mercer outlined the Fund's priority of the topping-up of multi asset credit as part of its standard portfolio rebalancing. The Fund had excess cash available for investments and discussions were being had about where to invest in, one option was yield credit spreads which were a key asset for Western Multi-Asset Credit and were at a current high. The Strategic Finance Manager added that the Fund team were comfortable that excess cash could be invested after having undertaken a risk assessment on the impact to the employer base.

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RESOLVED:

The Committee:

1. Noted the Surrey Pension Fund Coronavirus Plan.
2. Noted the Surrey Pension Fund Coronavirus Risk Register.
3. Noted the Investment Market Update provided by Mercer and approved the following recommendations:
   - Continue with the key strategic changes to the portfolio approved by the pension fund committee, at its meeting of 13 September 2019;
   - Prioritise topping up multi asset credit as part of standard portfolio rebalancing;
   - Continue with a review of the gilts allocation, in accordance with the approval of the pension fund committee, at its meeting of 13 March 2020;
   - Review the allocation to UK and global property as part of the planned transition to BCPP property funds.

Actions/further information to be provided:

None.

31/20 CASH-FLOW ANALYSIS [Item 12]

Witnesses:

Ayaz Malik - Pensions Finance Specialist
Mr Nick Harrison - Chairman of the Local Pension Board
Steve Turner - Investment Consultant (Mercer)

Key points raised in the discussion:

1. The Pensions Finance Specialist noted that there was a positive cash-flow for the quarter which was significantly increased from the previous quarter mainly due to employers paying their deficit contributions at the year-end and when carrying out year-end reconciliation, cash was allocated from the holding account.
2. He commented that the membership trend had increased in line with the 2016 valuation. In response the Chairman of the Local Pension Board queried the apparent drop in the total pension benefits paid in quarter 4 compared to the previous one, despite the increased membership – officers would look into the matter.
3. Mercer had undertaken a Cashflow Review and the representative explained that their key conclusion was that the Fund was in a strong cash-flow position as a result of the strategic asset allocation changes; especially compared to other LGPS funds who were cash-flow negative or neutral. In response the Chairman commented that those changes agreed by the Committee in September 2019, were likely to improve the long-term income potential to the order of £40 million annually.

RESOLVED:

1. The Committee noted the cash-flow position for quarters three and four.
2. Noted the total cash-flow report from Mercer and approves the following:
   - No change is required to the investment or funding strategy as result of the current cash-flow position.
   - Future drawdowns should focus cash from contributions (and any asset income) in the first instance. The diversified growth fund allocation earmarked for removal should then be used.

Actions/further information to be provided:

Officers will investigate why there was a decrease in the total pension benefits paid in quarter 4 despite the increased membership compared to quarter 3.

32/20 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 13]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Anthony Fletcher - Independent Advisor (MJ Hudson)

Key points raised in the discussion:

1. The Chairman highlighted that page 144 had been amended and circulated to the Committee, regarding the Fund Performance - Summary of Quarterly Results graph - to be attached to the minutes.
2. The Senior Pensions Finance Specialist noted that the Fund value had decreased as of 31 March and had subsequently bounced back.
3. The Chairman commented that the funding level was down to 93% as noted in the report and at present would most likely now be just over 100% consistent with the volatility in the stock markets.
4. The Independent Advisor commented that the work on cash-flow was important as excess cash acted as a buffer during market volatility. He endorsed the Committee’s decision to increase the Fund’s exposure to Western Multi-Asset Credit.

RESOLVED:

1. The Committee noted the main findings of the report, the Fund’s 3 year annualised performance return for the period ending 31 March 2020 was -0.8% against its target return of 0.6%. The funding level as at 31 March 2020 was 93%.
2. Approved an additional allocation of the Fund’s internal cash into Western MAC.

Actions/further information to be provided:

The amended page 144 regarding the Fund Performance - Summary of Quarterly Results graph will be attached to the published minutes (Annexe C).

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33/20 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 11:34 am

It was reconvened at 11:40 am

34/20 LOCAL BOARD REPORT [Item 15]

Witnesses:

Mr Nick Harrison - Chairman of the Local Pension Board
Anna D'Alessandro - Director of Corporate Finance
Neil Mason - Strategic Finance Manager (Pensions)
Nick Weaver - Head of Pensions Administration

Key points raised in the discussion:

1. The Chairmen of the Local Pension Board and Pension Fund Committee thanked the Head of Pensions Administration for his thorough work over the interim period. The Director of Corporate Finance echoed the thanks to the Head of Pensions Administrations, praising his transparent and systematic approach which uncovered a multiplicity of issues in the service - it was key to fix the foundations first before moving forward with other projects.
2. The Strategic Finance Manager (Pensions) commented on the strategic review which was commissioned by an independent lead to look at all aspects of Pensions Administration, the Chairmen had been consulted and the results of the review would be available shortly.
3. The Head of Pensions Administration explained that the Service Improvement Plan had all the correct components, there was no need to change the current system only to ensure a compliant and consistent service going forward - as the past small incremental changes and weak house-keeping helped create the legacy issues.
4. The Chairman of the Local Pension Board positively noted the reassuringly low level of complaints from members, the majority of the backlog and issues was a result of the system processes and cases not being closed down properly.
5. The Strategic Finance Manager (Pensions) praised the work of the Board on ensuring transparency within Pensions Administration going forward.
6. The Chairman of the Local Pension Board noted that despite Covid-19, Pensions Administration were in a good position to get the Annual Benefit Statements out in a timely way. In response, the Chairman of the Committee noted the assurance from the Fund Actuary, Hymans Robertson, who were confident that they are valuing the correct benefits being paid out to members. The legacy issues did not materially affect the Fund valuation.

RESOLVED:

The Pension Fund Committee noted the Part 2 Annexe 1.

Actions/further information to be provided:

None.

35/20 CORONAVIRUS RESPONSE INCLUDING MARKET UPDATE [Item 16]

Witnesses:

Steve Turner - Investment Consultant (Mercer)
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Investment Consultant highlighted the initial market fall in March due to Covid-19 and the subsequent bounce back, noting the possible shapes of economic recovery and what that meant for asset classes going forward.
2. There was no reason for the Fund to depart from its long term strategy and the strategic asset allocation changes agreed in 2019 were still supported including the introduction of private market assets such as infrastructure and debt which took time to mature. Shorter term focus areas were that the Fund should actively monitor liquidity and cash-flow requirements, top-up its allocation for MAC, review its gilt allocation and consider having more specific target allocations to UK and global property as a result of being part of the BCPP pool.
3. Mercer reviewed the 'alphabet' economic recovery V, W, U and L shapes in relation to GDP, noting the higher likelihood of the W-shape recovery scenario due to the risk of the comeback of Covid-19 after lockdown had eased and having to re-enter the lockdown restrictions, which would likely lead to a fall in equity and credit markets.
4. The Strategic Finance Manager (Pensions) informed the Committee that the Fund Actuary's model worked on five-thousand different scenarios including those considered by Mercer and the Pension Fund team did not believe that Covid-19 would cause a deviation from the investment and funding strategy.
5. A Member queried the impact on property as a result of the pandemic, in response the Investment Consultant agreed that property was one asset class with the most uncertainty regarding changes to future values and rental income, yet should still be more attractive on an income basis compared to gilt yields.

RESOLVED:

The Pension Fund Committee noted the Part 2 Annexes 3 and 4.

Actions/further information to be provided:

None.

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36/20 CASH-FLOW ANALYSIS [Item 17]

Witnesses:

Ross Palmer - Investment Consultant (Mercer)
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Investment Consultant explained that Mercer's review focused on the Fund's expected cash-flow position over the next three years up to the conclusion of the 2022 Actuarial Valuation, due to the most visibility over the contributions - the Fund was expected to be cash-flow positive by c.£20 million annually.
2. Mercer had reviewed the Fund's investment strategy from an income perspective looking at the existing asset classes as well as the new classes being added, in order to assess the Fund's future income potential. The new allocations for infrastructure and private debt were expected to raise the income potential by around £40 million annually, once the allocations had been ramped up to the targets (which is expected to take several years).
3. The Strategic Manager (Pensions) highlighted that income returns on private debt did not have the classic j-curve like other private market asset classes, meaning income returns were faster.

RESOLVED:

The Pension Fund Committee noted the Part 2 Annexe 1.

Actions/further information to be provided:

None.

37/20 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 18]

Witnesses:

Mr Nick Harrison - Chairman of the Local Pension Board
Anthony Fletcher - Independent Advisor (MJ Hudson)
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman of the Local Pension Board urged caution in investing in property as the Fund was above the central allocation. In response, the Independent Advisor noted the equity markets fell dramatically as a result of Covid-19 but had re-balanced - reminding the Committee that benefits from property investment were reaped over the long term.
2. The Strategic Finance Manager (Pensions) commented that as part of the strategic asset allocation review, additional allocation would be made to property in the future and he noted that the Committee would receive an update at the next meeting.

RESOLVED:

To note the Part 2 Annexes 2 and 3.

Actions/further information to be provided:

None.

38/20 BORDER TO COAST UPDATE [Item 19]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) introduced the report summarising that the purpose was to reflect on how BCPP was impacted by Covid-19 including the contingency measures taken.
2. The Strategic Finance Manager (Pensions) pointed out that there were now eleven partner funds within BCPP due to the merger between Northumberland County Council and South Tyneside Council pension funds.

RESOLVED:

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

Actions/further information to be provided:

None.

39/20 PUBLICITY OF PART 2 ITEMS [Item 20]

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.

40/20 DATE OF NEXT MEETING [Item 21]

It was agreed that the next meeting of the Surrey Pension Fund Committee would take place on 4 September 2020.

Subsequent to the meeting the next Committee meeting has been scheduled for 11 September 2020.

Meeting ended at: 12.44 pm

Chairman

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SURREY PENSION FUND COMMITTEE – 12 JUNE 2020

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

1. Question submitted by Steve McDonald

I never fail to be unimpressed by your superficial and facile concern about the environment when fending off the constantly growing call for you to withdraw all direct investments in the fossil fuel industry.

We have had years now of laughable quotes and ridiculously pathetic targets issued from leaders of the industry in an effort to persuade us of their intent to move rapidly to clean energy. This has been followed by the SPF enthusiastically throwing out this grossly misleading information to your pension members in an attempt to justify your engagement Vs divestment policy.

Your latest scam, has not gone unnoticed as I read from page 55 of the SCC Climate Emergency Strategy document which proudly announces your firm “commitment to establish a Committee subgroup to develop the Fund’s Responsible Investment Approach”. A strategy which you are well aware, effectively stalls any short-term action on divestment.

I admit that a generous helping of amnesia can be a useful tool, but I will remind you that 3 years ago you appointed your Surrey Pension Board to do exactly the same thing. Their feedback was presented to the SPF committee meeting on 10 November 2017, and resulted, after further consideration, in no reduction in direct fossil fuel investments.

One questions whether you understand what a climate emergency actually is, let only have any concept of the horrendous consequences of it.

I would like to give you some information which will then prompt my question;

- 417 Latest world atmospheric CO_2 reading in parts per million (ppm)
- 414 This time last year
- 392 10 years ago
- 280 Pre-industrial level
- 350 Scientific safe level

Scientists have warned for more than a decade that concentrations of more than 450ppm risk triggering extreme weather events and temperature rises as high as 2C, beyond which the effects of global heating are likely to become **catastrophic** and **irreversible.**

My question to you as a Committee is, what is it that you do not understand regarding the above?

Response:

As a direct result of the review of the Environmental, Social and Governance (ESG) compliance in spring 2017 by the Local Pension Board, the Committee approved the recommendation to determine the fund’s equity carbon asset exposure, which then led to a significant reduction in the Fund’s exposure to fossil fuel companies. That included the reallocation of c9.5% of the equity portfolio (c£400m at the time) to a low carbon fund, starting a continuing trend of a reduction in the Fund’s exposure to fossil fuel companies.

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The Fund's exposure in September 2018 was 5.65% and reduced down to 1.83% as of 31 May 2020.

The work in reviewing the Fund's investment strategy is to ensure that it is in line with its Mission Statement and the emphasis on all Environmental, Social and Governance (ESG) considerations, is a hugely relevant and ambitious project.

The Committee understands fully the risks of climate change and the critical need to transition to a low carbon economy. The fact that it does not agree with the blunt tool of automatic divestment that you advocate, does not in any way undermine its commitment to a lower carbon future.

The Committee has explained on numerous occasions its rationale for engagement (please refer to our open letter of 9 April 2020) and are constantly seeking to verify the validity of our approach. The work in reviewing the Fund's investment strategy provides us with the tools to do this.

2. Question submitted by Ian Chappell

My question explores your justification for your policy of engagement; specifically that you have strong evidence that engagement works. This implies that you can identify engagement activities which have led to significant changes in company policy and that you can show a causal link between these activities and the outcome.

With specific regard to BP and Devon Energy, could you please detail:

- **The engagement activity(ies)**
- **The significant improvement in BP and Devon Energy's sustainable energy policy**
- **The causal link (not a correlation) between activity and outcome**

Response:

The main organisations which engage on behalf of Surrey Pension Fund are in accordance with how its assets are managed. For its passively managed equity funds, Legal and General Investment Management (LGIM) engage on behalf of the Fund, while its assets that are managed within Border to Coast Pensions Partnership (BCPP), Robeco, are the appointed Voting and Engagement Providers of the BCPP. The Fund is also a member of the Local Authority Pension Fund Forum, which also engages on behalf of the majority of Local Government Pension Funds in the UK.

The Fund chooses to collaborate with these bodies along with other long term investors, to strengthen its influence as shareholders, when engaging with these companies to promote more sustainable practices.

Devon Energy

We do not currently hold investments in Devon Energy, but should that happen in the future, our engagement representation would be through our engagement partners.

Engaging and Improving Sustainability Energy Policy – LGIM

The Fund's Indexed Equity Manager, LGIM had mentioned that its Climate Impact Pledge targets primarily the largest companies in key sectors, with the view that other companies will emulate the tone set by leaders in the sector. Devon Energy is not currently one of the companies on its target list. However, at the company's latest annual general meeting, LGIM voted against the re-appointment of Devon Energy's current auditors (due to the length of their tenure) and against the pay packages of its directors, which were not aligned with our own principles on executive remuneration.

Engaging and Improving Sustainability Energy Policy - LAPFF
Through the Local Authority Pension Fund Forum's membership in the Insitutional Investors' Engagement Group, Ceres, the Devon engagement is making progress but the company has yet to set broad emissions targets. As you likely know, the company divested the Canadian oil sands business which has altered the profile. There was a constructive Climate Action 100+ engagement in August of 2019, and a planned in-person meeting for March of this year which was postponed with the Covid-19 disruptions. Progress to date includes:

- Creation of a board-level committee responsible for ESG
- Methane intensity target of 0.28% by 2025
- 2019 Climate Change Assessment Report
- Report on political activity and lobbying
- Advances in leak detection and significant reduction in flaring

Areas of continued focus for the engagement team:

- Greater transparency around Paris-aligned strategy
- Report Scope 3 emissions and targets
- Set company-wide GHG targets
- Board participation in engagement
- Climate expertise criteria used in the director selection process

BP

Engaging and Improving Sustainability Energy Policy - LAPFF
The LAPFF's engagement with BP has spanned many years. In 2005, a series of engagements over health and safety concerns resulted in LAPFF voting against the remuneration report at BP's 2007 AGM. In 2012, LAPFF joined the 'Aiming for A' investor initiative and began to engage BP regarding the transition towards a low carbon economy. This culminated in the filing of a shareholder resolution requesting BP assess its asset portfolio resilience against a range of International Energy Agency (IEA) scenarios, which included remaining within two degree temperature increase limits. After lengthy engagement regarding the composition of the resolution, the management recommended support and the item was approved with over 98% support.

More recently, LAPFF has been a member of the Climate Action 100+ BP investor group. Last year, this investor group presented a resolution calling for the company to set out a strategy consistent with the Paris Goals, together with its goals and targets to achieve this. During 2019/20 LAPFF met with BP representatives, including the recently appointed CEO Bernard Looney, to work on what this strategy will look like and how it will be implemented. As part of the company's response to this request BP, in early 2020, announced the ambition to become a net zero company by 2050 or sooner. The company has announced 10 aims that accompany this ambition. Of particular note is the aim to reduce the absolute emissions associated with BP's oil and gas production to net zero and to recognise, explicitly, the need to work within a finite carbon budget. These engagement activities and resulting outcomes address the first two points of the question.

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Engaging and Improving Sustainability Energy Policy - LGIM
Was a co-lead investor responsible for engaging with the company under the Climate Action 100+ investor led coalition.

Following the co-filed shareholder resolution, BP have announced ambitious carbon targets, with the company pledging that by 2050 or sooner it will:

- have net zero emissions across operations;
- 'reduce and neutralise the carbon in the oil and gas we dig out of the ground'; and
- halve the emissions intensity of all sold energy (not all of which comes from BP's own production).

The company's targets are notable for including a commitment to reduce to zero the *absolute* level of emissions associated with BP's upstream operation and products (rather than relying just on the *relative* carbon intensity target which are more common in the sector). As the company notes, if every single oil & gas company adopted a similar policy, the emissions problem of the sector would be solved.

BP have also announced they will stop brand-focused advertising, quit three lobbying groups, and redirect this budget towards more positive lobbying for net zero policies – all of which are welcome developments.

The shareholder resolution also asked for more transparency in reporting how each material new capital expenditure is aligned with the goals of the Paris Agreement – in their latest annual report the company has for the first time presented a methodology for how investors can assess 'capex consistency'. LGIM and other investors had been engaging with the company over the past year to help develop this methodology, and we will be pressing for future improvements.

Engaging and Improving Sustainability Energy Policy - Robeco
Although not specific to BP or Devon Energy, Robeco had also launched a 3 year engagement program with 11 oil and gas companies to prompt companies on their energy transition plans.

One of its objectives is to expect companies to implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities, and to explicitly show the management's role in assessing and managing climate related issues. The companies under engagement have shown progress in their climate governance. Most of the companies (eight out of 13) have shown clear board responsibility for climate changes risks and opportunities and were able to demonstrate a sound climate change management system. Areas where the lagging companies could improve the most are linking their executive compensation to climate change goals or allocating climate change oversight responsibility to the board. Another goal of the engagement is to ensure that the focus companies have aligned their business strategies with Paris Agreement through a range of measures. Robeco expects companies to set targets, and to demonstrate that they are implementing strategies to achieve their targets. Most of the companies under engagement (nine out of 13) have made positive progress in the alignment of their business strategies with the Paris Agreement goals. According to TPI's research, three companies are aligned with emissions reductions pledged by governments as part of the Paris Agreement via Nationally Determined Contributions. One company is aligned with the more ambitious climate scenario of 2°C.

The Causal Link of Engagement - LAPFF
On the causal link between engagement and outcome, as a member of LAPFF – GBP300 billion AUM- and Climate Action- GBP240 trillion AUM, members are afforded a channel of communication to decision makers at BP. LAPFF met with the BP CEO on a number of occasions during 2019/20 to discuss the energy transition and outline the forums expectations on BP's ambition and how it will be implemented. This engagement has resulted in in the publication of a report on how BP evaluates new material capex investments for consistency with the Paris goals as well as undertaking an industry association mapping exercise with the aim of ensuring the company is not operating at cross purposes. The engagement process is a huge contributing factor in maintaining influence in how BP aligns its operations with its net zero ambition. LAPFF recognises that, despite some notable progress, significantly more needs to be done by the world's largest corporate emitters, including BP, in tackling climate change. LAPFF also recognises that an ambition is different to effective action which is why it took the opportunity at the BP 2020 AGM to highlight that the period to 2030 will be critical to BP's future and to meeting the Paris Goals. LAPFF will continue to work on behalf of its members to ensure the resilience of investments whilst operating within the expectations of society more broadly.

The Causal Link of Engagement - LGIM
For a number of years, oil majors including BP had been reluctant to set carbon targets that went beyond their own operations – arguing that it is ultimately their consumers who decide how much oil is used. However, we believed that oil companies faced significant demand downside – and therefore should measure, disclose and take action on reducing its overall carbon footprint – including reduction production in line with the Paris Agreement. Following investor engagement, BP and several of its European peers have now adopted more ambitious targets which include their own oil & gas products (Scope 3 emissions, in the lingo) – by far the largest contributor to the sectors' carbon footprint. This represents significant progress in the conversation, and both privately and publicly the company has acknowledged the positive – causal - role that LGIM and the CA100+ investors have played. At the company's recent AGM, the new CEO is on record discussing the follow-up to our resolution:

"We listened and we learned. The Board supported the resolution and we acted on your advice. I personally continue to value and benefit from our ongoing engagement with Climate Action 100+ and the investors it represents".

There remain areas of ongoing work with the company – not least on having more clarity around the intermediary targets and strategy between now and the 2050 carbon neutrality goal. We understand the company is expected to announce more details in a Strategy day update in September.

3. Question submitted by Nina Mileksic

The negative impact of the pandemic on oil prices, and related fossil fuel investments, has been vast. Globally, there are growing calls to governments to prioritise the green recovery coming out of the pandemic, with many countries and cities already taking action. Do you still believe that continuing to hold fossil fuel investments is in the best interest of the pension fund members, and if so, please explain your rationale why?

Response:

Although the Fund's Investment Strategy Statement has no specific divestment policy at a sector level, it challenges and expects its Fund Managers, as well as its asset pool Border to

Coast Pensions Partnership to demonstrate strong risk management processes in relation to Environmental, Social and Governance issues.

Border to Coast also holds strong risk management processes in place when identifying environmental, social and governance issues which carry an investment risk and will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	**Social**	**Governance**	**Other**
Climate change Resource & energy management Water stress	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Single use plastics Political lobbying

The Fund understands the severity of Climate Change and has begun work to understand the risk of its current portfolio of investments in relation to Climate Change, through the Taskforce for Climate Related Financial Disclosures (TCFD), to be published in its 2019/20 Annual Report. The analysis covers all sectors not limited to only fossil fuel investments, within its Equity and Fixed Income holdings, and the risks they face in relation to Climate Change.

As the world transitions to a carbon neutral economy, the Fund will continue to seek sustainable investments, provided they can generate a competitive risk-adjusted return. These investments primarily exist in Private Markets, evident in the Fund's 40m Euro commitment to Glennmont Clean Energy Partners, in December 2018.

4. Question submitted by Jenifer Condit

My question follows up on an observation by the Chairman made during the discussion of the supplementary question I raised at the last meeting (13 March 2020 - regarding fossil fuel companies' cost of capital. It was observed that new capital raising by fossil fuel companies comes mostly in the form of debt, as opposed to equity finance.
I am sure this is true, and in fact estimates of required capital raising by the fossil fuel industry to finance projected new exploration and project development was truly enormous as at end 2019. And much of this will come through public bond markets such as debt instruments invested in by SPF.

Having understood the Pension Committee's endorsement of responsible investment, the Committee will doubtless agree with this comment from **Principles of Responsible Investments**, April 2020:

"Capital investment decisions are critical in shaping the nature and pace of the climate transition and the role of the financial sector is central to the process. Fossil fuel resource extraction is capital intensive and firms in the energy industry traditionally run highly

leveraged balance sheets. The two primary sources of debt for firms are public bonds and private bank loans. Hence, bond markets and banks can either play an important role in facilitating continuing fossil fuel investments or, contrarily, ***play a decisive role in channelling funds away from the fossil fuel sector****."*

My question is this:

- SPF held 16.5% of its assets in bonds at March 31, 2019, per your annual report (nearly £500mn). How much of this was issued by fossil fuel companies at that time? By what amount (in absolute £ and as a percentage of bond holdings) did this increase or decrease in the year to March 31, 2020?
- Given the vast array of corporate bonds available for purchase, will the Committee instruct its asset managers that it will not participate in purchase of new bond issuance by fossil fuel companies in the future? Will the Committee divest whatever fossil fuel company bonds it currently holds?
- Finally does the Committee recognise that the interest rate it receives on any fossil fuel debt securities it owns reflects, in part, the risk of stranded assets backing the security of these investments?

Response:

The Fund's fixed income managers, Western Multi Asset Credit and Franklin Templeton, have both confirmed that they do not have holdings in the fossil fuel industry as at 31 May 2020.

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5. Question submitted by Chris Neill

The issue of divestment vs engagement appears crucial regarding the SPF's relationship to the fossil fuel industry. I would like more fully to understand the Committee's position, which I find very puzzling. On the one hand you say that you must make decisions which are in the best financial interests of pension holders and that this overrides consideration of ethical matters or ecological aims. On the other hand you say that your choice not to divest from the fossil fuel industry is partly driven by your concern that, were you to divest, the industry would be more likely to pursue policies which are unethical or environmentally harmful; in other words, you invest in order to have an influence for the better.

These two positions seem to me contradictory: either you are investing purely for financial gain or you are investing for ethical and ecological purposes.

-If in fact, however, you would assert that you are pursuing both these aims, by what criteria do you seek to strike a balance between them?
-How lucrative or financially risky does the investment have to appear before you decide to override ethical / ecological considerations and choose to invest or divest?
-How harmful or immoral does the behaviour of a company have to be to make it an unsuitable company to invest in regardless of its financial value?
-One would intuitively assume that the worse the behaviour of the company, the less likely you would be to invest in it. But if I understand your rationale for engagement correctly, in

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fact the reverse is true: the more harmful or immoral the behaviour of the company, the more important it is for you to give them money. This would presumably mean that even very risky or unwise financial investments might be made in order to preserve an influential foothold as an investor where the company in question is engaged in particularly bad practice. Is this correct?

Response:

In formulating its investment strategy the Fund must adhere to the LGPS (Management and Investment of Funds) Regulations 2016:
http://www.lgpsregs.org/schemeregs/invregs2016/timeline.php

Statutory guidance to the Regulations says the following regarding social, environmental and corporate governance factors:

"Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision."

The Fund enacts its compliance with the Regulations (including its policy towards social, environmental and corporate governance factors and engagement) through its Investment Strategy Statement: https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

For assets managed in the Border to Coast (BCPP) pool, the Fund supports the Responsible Investment Policy of BCPP:
https://www.bordertocoast.org.uk/?dlm_download_category=download-responsible-investment-policy

For assets managed outside of the BCPP pool, the Fund will comply with the principles of the Responsible Investment Policy of BCPP.

The Fund continues to develop its Responsible Investment and Engagement approach. The Fund have recently appointed a new provider to establish how the Fund can map its Investment Strategy against the United Nations Sustainable Development Goals most applicable to Surrey Pension Fund as investors and how this informs our core investment beliefs.

6. Question submitted by Helena Ritter

In answer to a question posed about the risk to the valued of assets at the March 2020 meeting, the Surrey Pension Fund Committee responded with a recognition of the 'severity of Climate Change as an environmental and financial risk' and pointed toward the Fund being a supporter of the TCFD. In reading the report referenced in the answer (https://mycouncil.surreycc.gov.uk/documents/s62861/Report.pdf), the focus is strongly on engagement with fossil fuel and highly polluting companies. One specific project mentioned is the Climate Majority Project - which calls on the '20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020.'

To what extent will the Surrey Pension Fund Committee advocate for divestment as the action to be taken if or when companies do not meet even such minimal target commitments (both for this specific project and in other engagements)?

Response:

Although the Fund's Investment Strategy Statement has no specific divestment policy at a sector level, it challenges and expects its Fund Managers, as well as its asset pool Border to Coast Pensions Partnership to demonstrate strong risk management processes in relation to Environmental, Social and Governance issues.

Border to Coast also holds strong risk management processes in place when identifying environmental, social and governance issues which carry an investment risk and will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	**Social**	**Governance**	**Other**
Climate change Resource & energy management Water stress	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Single use plastics Political lobbying

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As the world transitions to a carbon neutral economy, the Fund will continue to seek sustainable investments, provided they can generate a competitive risk-adjusted return. These investments primarily exist in Private Markets, evident in the Fund's 40m Euro commitment to Glennmont Clean Energy Partners, in December 2018.

The Fund continues to develop its Responsible Investment and Engagement approach. The Fund have recently appointed a new provider to establish how the Fund can map its Investment Strategy against the United Nation's Sustainable Development Goals (SDGs) most applicable to Surrey Pension Fund as investors and how this informs our core investment beliefs.

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SURREY PENSION FUND COMMITTEE – 12 JUNE 2020

PROCEDURAL MATTERS – SUPPLEMENTARY QUESTIONS AND RESPONSES

1. Supplementary Question asked by Ian Chappell on behalf of Steve McDonald

In your answer you referred to your open letter of 9 April 2020. In this letter, you gave as a reason for not divesting, a concern to protect the employees of fossil fuel companies. Did the Committee not see BP's announcement this week, making 15% job cuts, some 10, 000 employees. Can the Committee not see that the longer fossil fuel companies delay their transition to renewables, the greater the damage to their employees. Can you not see that it is engagement which is damaging employees?

You also expressed concern for worldwide communities if fossil fuel companies stop using fossil fuels in an instant. This is hardly a realistic scenario. The world is unhealthily dependent on fossil fuels. Getting out of that dependency is a priority and must be tackled radically and energetically, but it won't happen overnight. If concern for communities is a high priority, what about the communities all around the world that fossil fuel companies have put at risk by (a) direct damage to the local environment and (b)their deliberate undermining, over at least two decades, of policies to address the twin dangers of climate change and ecological degradation?

No doubt there are arguments against divestment, but you could please avoid facile arguments such as these?

Supplementary response:

The Pension Fund stated, in the open letter on 9 April 2020 specifically that a just transition is required, to ensure developing economies and those who have been reliant on fossil fuels, are not put at risk. The letter didn't use this to reason that the world needs to continue to use fossil fuels but that the manner in which we move away from fossil fuels should be just and not harmful to economies. ***Rather than stopping all fossil fuel consumption as soon as possible, the goal is to transition away from the use of fossil fuels in a just manner, as soon as possible.***

The Fund completely recognises that the world needs to move away from fossil fuels, but also is of the view that there isn't evidence that demonstrates a clear link between divestment of shares in companies and reducing carbon emissions. The Fund reiterates the view that divestment is short sighted and does not achieve anything after the point in which shares have been divested, in terms of how this leads to a company reducing its carbon emissions.

3. Supplementary Question asked by Ian Chappell on behalf of Nina Mileksic

What fossil fuel stocks have been sold completely from the portfolio since January?

In particular can I ask about holdings in Exxon Mobil? In response to our Freedom of Information request at the end of the year, Exxon Mobil was the second largest energy holding in L&G funds and also present in the Majedie Fund.
As you may know Exxon has persistently rejected attempts at engagement, to the extent that the Church Of England commented last month about "Exxon's blatant disregard for Climate Change 100+...pursuing a strategy which is destructive of both shareholder value and the planet".

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What has been the extent of your holdings of Exxon Mobil - how much and over what time period? Further, could you please confirm that Exxon Mobil is no longer in any part of your portfolio?

Supplementary response:

As at 29 May 2020, Surrey Pension Fund held roughly £1.3m in Exxon Mobil within its LGIM RAFI Multi Factor Fund compared to its Total Fund Value of £4.2bn which equates to roughly 0.03% of the Fund.

The LGIM RAFI Multi Factor Fund is a passive equity portfolio and moves in accordance with a number of market factors, rather than as a result of active stock picking. We are discussions with our Border to Coast partners about our future passive strategy and will have further information on this later in the year.

4. Supplementary Question asked by Jenifer Condit

The market has yet again been turbulent, the major world indices were down by 6%, Shell/BP/Exxon Mobil down by 9%. The Fund reduced exposure to fossil equities from 3.6% at the end of March 2019 to less than 3% at the end of December, however during that period the markets went up by 11%, fossil fuels went down by 10-15% so fossil fuels underperformed by more than the percentage of the Fund's portfolio that they represent. Does that show the likelihood that you divested nothing? Fossil fuels significantly underperformed by 25% relative to the rest of the portfolio, how much longer will the SPF watch the value of these positions fall when you could just sell them and be done with it?

I would like to submit a Freedom of Information (FOI) request for disclosure of all fossil fuel holdings, in £ value, and as a % of equity holdings, as of May 31 2020. As part of this request could you also please disclose the number of shares held in each of your fossil fuel holdings as well as the decrease and increase comparing the positions in fossil fuels?

In the previous FOI response which you provided comparing the positions in fossils fuels for Mar 31, 2019, May 31, 2019 and December 31, 2019, this information was not disclosed - could you supply the share information for each of these dates? Only once this information is disclosed will it be possible for the public to understand what investment decisions the Committee has actually made in this sector.

Supplementary response:

The Freedom of Information request above has been noted and the information will be provided to the questioner in due course.

5. Supplementary Question asked by Chris Neill

My original question asked you to address the contradictions inherent in a policy of engagement, which seems to mean that ultimately, the more harmful or immoral the behaviour of a company, the more important it is for you to invest with them. Your reply, doesn't address the philosophical conundrum which I presented but instead points me to various documents in which I seem to be invited to search for the answer for myself.

So, here's another related question about moral relativism: What difference does the Committee perceive between the 18th century slave trade and the oil industry today? Each have been the foundation of economic prosperity and the object of indignant opposition and moral revulsion. I invite each of you to imagine that you are fulfilling your role as the member of a committee responsible for investing pension funds not now but say 220 years ago, around 1800, and to imagine that the fund had a financial interest, as so many investors did, not in the oil industry but in the slave trade. Would you be one of those on the committee who felt it correct to resist the demands of abolition campaigners in order to protect your investments and in order to lead the industry towards kinder and less cruel practices; or would you be one of those who recognised that, whatever the economics or theories about gradual behavioural change, it was imperative now, as a symbolic gesture as well as a matter of practical prudence, to end immediately your association with an industry based on exploitation and greed and causing irreparable harm? Would you be one of those later to be remembered as standing unequivocally for right and justice or would you be one of those destined, centuries later, to have a statue of them lowered sadly into a river?

Supplementary response:

The reply to the original question referred you to the Regulatory framework in which the Fund operates. This was specifically in relation to the Fund's policy on social, environmental or corporate governance factors and how these are expressed in the Fund's Investment Strategy Statement.

The Fund believes a comparison of its investment strategy with activities over 200 years ago is an entirely false equivalence.

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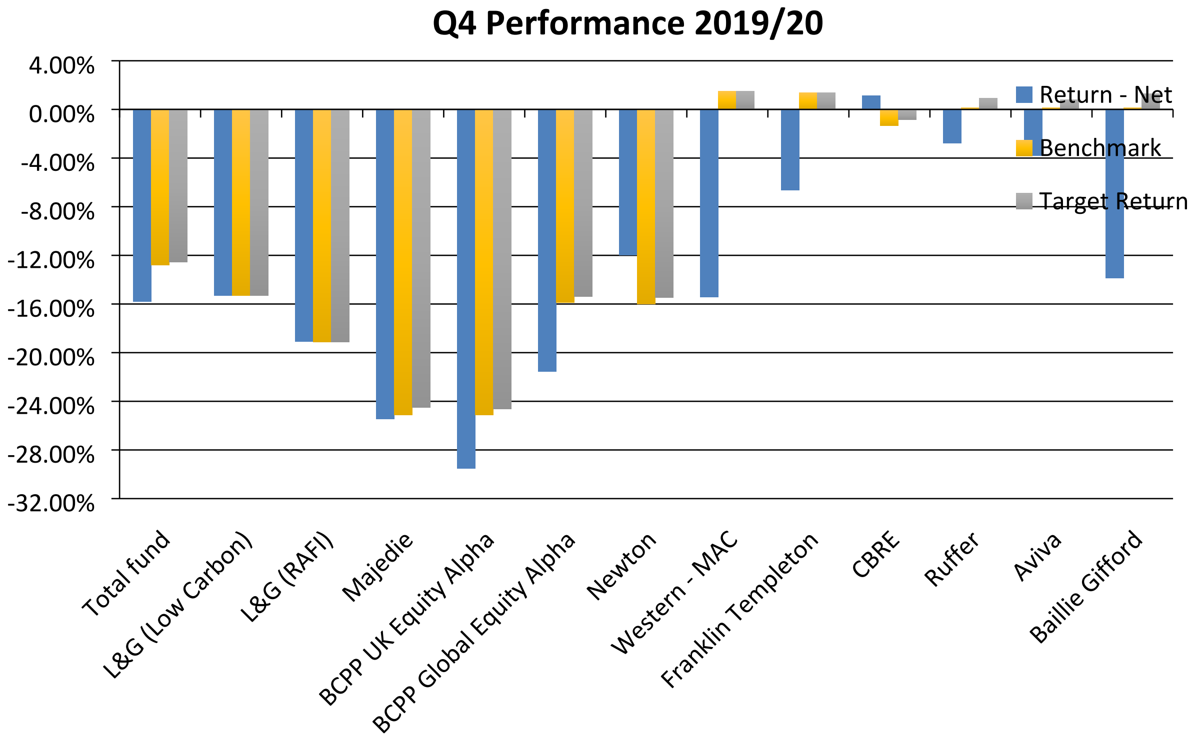
Amended graph to Page 144 of the Agenda

Item 13: Investment Manager Issues and Performance Assets/ Liabilities



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