SURREY PENSION FUND COMMITTEE – 11 SEPTEMBER 2020

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

1. **Question Submitted by Jenifer Condit**

The Norwegian asset manager Storebrand has recently announced that they are divesting from Exxon Mobil and Chevron as part of a new climate policy targeting companies that use their political clout to block green policies. So the policy focuses on withdrawing support from those specific companies which have used their financial and political clout to distract, deny and delay action against climate change which threatens life on Earth. Will you consider adopting such a policy? I ask this in light of your investment in Exxon Mobil.

Response:

We share your concerns regarding those companies who lobby directly against environmental policies. The case for divestment from these companies requires a high bar to avoid the risk of a prescribed need to divest from all sectors that lobby their own interests to the detriment of others. Surrey makes investment decisions when there is compelling evidence that a company's practices are value-destructive to the point that they jeopardise any investment case.

2. **Question Submitted by Janice Baker**

Bloomberg NEF and UNEP [Trends in Renewable Energy by Investment 6/20] note the resilience, and falling price, of clean energy while the fossil fuel sector slumped due to Covid-19. They advise putting renewables at the heart of Covid-19 economic recovery instead of subsidizing the recovery of fossil-fuel industries. We consider this to be an essential element of a comprehensive strategy to protect funds from climate change risks, as well as ensuring a healthy natural world – the best insurance policy against global pandemics. Will the fund commit to increasing its share of low-carbon and renewable investments as a priority?

Response:

The Fund had made renewable energy investments in the past and will continue to seek these, although, the reality is that the market is still growing with most investment opportunities existing in private markets.

The Fund commissioned an independent provider in March 2020 to establish the Fund's starting position against the United Nations' 17 Sustainable Development Goals (UN SDGs). One of the elements we have asked our provider to undertake on our behalf is to assess how sophisticated our different asset managers are on the climate risk framework spearheaded by Mark Carney, the TCFD and even more importantly, how well the companies in those portfolios score for their own TCFD disclosures. This, along with an assessment of holdings potentially able to make large contributions towards the Sustainable Development Goals (which has climate at the heart of it). Phase 2 of this project will involve engaging with the Fund's Committee and Officers on exploring their investment beliefs and how this will integrate into the Fund's investment strategy. This will also mean the Fund will align itself against specific SDGs which is relevant to the Fund as an investor and represents its Investment Core Beliefs.

3. Question Submitted by Helena Ritter

How much autonomy do you have to divest your fossil fuel holdings? Please describe the process you would need to follow if you choose to eliminate an investment (of any kind) which you own by each of these three routes:

- directly via Newton or Majedie
- As part of an investment consortium in the case of Border to Coast
- As part of an investment fund, in the cases of Legal & General.

Response:

Surrey has ultimate authority to act independently, but, within the framework of MHCLG Guidance and LGPS Regulations. This means that the terms of engagement with its Fund Managers are detailed in its relevant Investment Management Agreement (IMA), which are agreed and signed prior to the assets being managed. It's then the Fund Manager's responsibility to pick investment holdings in accordance with that IMA with Surrey Pension Fund, having the freedom to terminate an agreement should it feel that the manager has not met the requirements of the IMA.

The Fund's passive holdings are overseen by Legal and General, and as such, are not actively managed. With our investments held with Border to Coast we act in partnership with other partner funds when determining investment decisions. All partner funds review and approve BCPP's Responsible Investment Policy, which is then integrated into Fund Manager Selection, internal investment decisions as well as its policies on Corporate Governance and Voting.

4. Question Submitted by Ian Chappell

Since your last meeting, fossil fuel companies have slashed tens of billions off their balance sheets in recognition of their permanent reduction in value. They've also cut dividends, recognising their substantial reduction in cash generating capability. And now Exxon has been kicked out of the Dow Jones average, reflecting the diminishing importance of fossil fuels in the new economy. Every day brings new signals that fossil fuels are in rapid decline

These stocks can and almost certainly will go lower. Indeed they have fallen further in price since your last meeting. Can I ask whether you continue to hold fossil fuels in the hope that there will be price recovery affording you the chance to sell at higher prices, or whether you hold fossil fuels as part of your long term investment outlook?

Response:

In reaching our investment strategy decisions we consult with investment professionals and BCPP and we appoint and scrutinise fund managers/BCPP in the delivery of our investment strategy. Our investment strategy, which includes our responsible investment policy, does anticipate all future developments.

5. Question Submitted by Simon Hallett

From data you provided in response to other questions (including an FOI request from J Condit), the value of fossil fuel shares in your fund declined from £151.4m at end May 2019 to £77.1m at end May 2020, a reduction in value of £74.3m. Since over this period

the global energy sector index fell by 28% and BP alone by 43% I am inferring that most of this decline represents an investment loss to the portfolio.

During the same period the FTSE World Index rose 8.5% - from 1434.79 on May 31st 2019 to 1556.74 on May 31st 2020. Had you divested your fossil fuel shares on May 31, 2019 and reinvested in a broad market index this portion of your portfolio could have grown to £164.3m 12 months later. This means the opportunity cost could have been up to £164-77m, or £87m.

Although the information disclosed in your recent FOI reply (to J Condit) is of some help, it remains impossible to fully understand how much of the decline in your fossil fuel exposure results from any action on your part, and how much is simply the result of market movements. **Could you now quantify how much of this reduction is due to the collapse in oil share prices and how much is due to changes in the holdings of fossil fuel companies in your portfolio?**

In consideration of the fact that the collapse of oil share prices was both predictable and predicted, and the fact that numerous members of the Surrey Pension Fund and taxpayers have been imploring you to sell these share since before May 31, 2019, **how do you explain your losses in this sector to your stakeholders?**

Response:

To quantify and distinguish the exact difference in the Fund's actual fossil fuel exposure between the reductions in fossil fuel companies in our portfolio compared to the collapse in oil share prices, is not something the Fund views as a relevant area of work to commission internally or externally.

Our governance process entails regular review and scrutiny of our investment strategy and performance. This is communicated to our stakeholders through the documents shared in public meetings and is summarised in our annual report (add link). We allow ample opportunity for stakeholders to seek further information; including questions to this Committee.

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