Surrey Pension Fund Committee – 16 December 2022

Item 4 - Public Questions

Q1 – submitted by Janice Baker

Could the committee please give an overview of what is being done to gain information from companies on the extent to which they have been able to reduce CO2 emissions?

Any data on reductions in Scopes 1 -3 would be useful but I am particularly interested in how far Scope 3 emissions have been curtailed.

Reply:

Although the Task Force on Climate-related Financial Disclosures, TCFD, report may only be required for Local Authority Pension Schemes from the year 2023/24, the Surrey Pension Fund became a supporter of TCFD in 2019. This document lays out the Fund's approach to governance, strategy, risk management and metrics and targets regarding carbon emissions. Our latest TCFD report can be found on our website. Our current data analysis, for the asset classes where it is currently available, covers scope 1 and 2 emissions, not scope 3. Scope 3 emissions are not included at present because disclosure remains insufficient to use reliably in carbon footprinting analysis and may lead to double counting at a portfolio level.

Q2 – submitted by Jenny Condit

As I'm sure the Committee is aware, decisions by Insurance companies, with an estimated $30 trillion of financial assets under management, will be crucial in whether the finance sector is able to drive containment of climate risk. This is in addition to the direct climate risk underwritten by the sector when it insures operations of fossil fuel companies. The lack of disclosure by insurance companies and their broad failure to even aspire to Paris compliance or other climate goals therefore means any leverage that can be harnessed to urge 'greener' behaviour must be seized.

Of particular concern right now is the East African Crude Oil Pipeline (EACOP). If completed it will displace up to 100,000 people and will produce perhaps 25 times its host nations' current annual emissions. Numerous banks and insurers have declined to underwrite EACOP, but laggards in the insurance industry need a nudge to also say 'no'. One of these is AIG.

The main publicly owned sponsor of the pipeline is TotalEnergies. So far as I can see, SPF does not own shares in Total, at least not through BCPP. However you do own shares in AIG. The BCPP Global Equity Alpha fund owned approximately £42mm value of AIG in March 2022; I make the SPF share of that to have been about £5mm.

At least 19 insurers, including many with major fossil fuel exposures, have ruled out the EACOP project. Strong pressure from all sides, including investors, has been effective. But AIG, which has a reputation for lagging its industry in responding to climate risk, has thus far refused to walk away from EACOP.

I believe it is high time that insurers generally become a clearer focus of SPF's and BCPP's engagement activities. So my question today is:

4 Will SPF urge BCPP to engage with AIG in the matter of EACOP, to urgently advise AIG management that it should not provide insurance cover to the construction or operation of this planet-harming pipeline?

Reply:

Whilst the Border to Coast Pensions Partnership's, BCPP, engagement on climate-related issues may previously have been focused predominantly on high emitting companies, there has been an increasing acknowledgement that the financial sector must play its part in financing the transition to a low carbon economy and their engagement focus has therefore expanded as a result.

In Q1 2021, their voting and engagement partner, Robeco, launched a new engagement theme on the climate transition of financial companies. Banks have been prioritised in the first instance and have been selected for engagement based on their exposure to carbon-intensive sectors, their current lending practices and overall sustainability ranking. It is possible that insurance companies come more formally into scope in the future.

BCPP expect external managers to engage with investee companies as part of their mandate on our behalf and in alignment with the BCPP Responsible Investment Policy. The quality of a manager's stewardship approach, particularly in relation to climate risk given BCPPs commitment to net zero and formal roadmap, is evaluated each quarter and is a key part of the formal annual review process for that manager.

Separately, the Chair of the Surrey Pension Fund Committee contacted the Local authority Pension Fund Forum, LAPFF, in February 2022 to emphasise the importance of engaging with financial institutions regarding their exposure to projects that negatively impact on climate change and to make sure this was included in the LAPFF 2022/3 workplan.

Q3 – Submitted by Kevin Clarke

Given the significant impact on climate change by burning fossil fuels identified in section 5.6 of the annual report, why can't your FF holdings be made public? Furthermore (if not made public), FF holdings have previously been shared with us following FOI requests, but we were informed that you'd prefer to share this information with us without going through the FOI process. To facilitate this, can you commit to publishing your fossil fuel holdings twice yearly, by the first working day of the following month?

Reply:

The Surrey Pension Fund is happy to provide this information on request, either directly or through the FOI process. Border to Coast Pension Partnership publish the holdings within each fund every 6 months with a lag to allow for confidentially. Our other managers do not routinely publish holdings for confidentially reasons, particularly where the holdings are in pooled vehicles. The Fund will revisit how this information can be routinely published. Twice yearly would seem reasonable but for confidentially, the data will not be published without a time lag.

Q4 – Submitted by Lindsey Coeur-Belle

The 1.5C limit was enshrined into the Paris Agreement in 2015 as a shared goal of world governments. It is a crucial threshold beyond which heatwaves, rain, drought, flooding and sea level rise become increasingly intolerable.

The IPCC publishes an annual report showing how far actual emissions and trends remain from agreed-to limits. This year's Emissions Gap Report (April 2022);authored by hundreds of researchers and based on 18,000 studies; found that the amount of time left is small and shrinking.

Simon Stiell, Executive Secretary of UN Framework Convention on Climate Change stated, "Global emissions need to start a downward trajectory by 2025".

This means there is roughly 70 months left to have a 67% chance of staying under 1.5C.

Given this reality will the Committee step up and divest all fossil fuel investments by 2025, and if not, why?

Reply:

The Surrey Pension Fund, SPF, does not have a policy of exclusion regarding fossil fuel investments. Environmental, Social and Governance, ESG, factors are integrated into all decisions taken by our investment managers such that they are consistent with the Fund's fiduciary responsibility. All of the managers have extensive engagement programmes and this aligns with the SPF approach where real world change is targeted.

Q5 – Submitted by Trish Kiy

My question concerns the consultation exercise that was carried out following the publication of the draft Responsible Investment Policy. Please advise how many responses were received through the website and how many messages/emails or letters were received directly by the committee.
Has the analysis of this data been completed and if so when will this be shared with the public. What, if any, amendments to the policy do the committee expect to make and how will the finalised policy be monitored?

Reply:

Given the extension to the consultation period, the analysis of consultation feedback and data has not been completed yet. It is hoped that this information will be reviewed in January 2023, subject to agreement at the Pension Fund Committee on 16 December 2022. Encouragingly, there were over 7000 responses. As previously agreed, all data and written responses will be published. Having reviewed the data the PFC will decide if any changes to the policy are required. Progress towards the priorities laid out in the policy will be monitored through the PFC.

Q6 – Submitted by Lucianna Cole

BCPP published their roadmap to Net Zero in October, but SPF have not yet done this. You previously promised to set a Net Zero date for your portfolio, and you said this would be in your new investment policy that has not yet been created. Can you confirm if you will still be agreeing a Net Zero date, with a pathway to making this happen, including interim targets. Please outline the time frame for making this happen.

Reply:

After extensive research and analysis, Border to Coast Pensions Partnership, BCPP, have published their roadmap to net zero by 2050, including interim targets. The Surrey Pension Fund, SPF, approved the approach and metrics proposed by BCPP at the 23 September 2022 Pension Fund Committee, PFC, meeting. A key priority of the SPF is to set a net zero date and the trajectory to get there, as laid out in the Responsible Investment policy.

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Committee members have asked for more information before setting a net zero date and a potential route to accessing this information will be discussed at the PFC meeting of 16 December 2022.