

## Surrey Pension Fund Committee – 10 March 2023

### Item 4 - Public Questions

#### Q1 – submitted by Kevin Clarke

How does SPF seek the views of the members, including those with deferred pensions, given that so few employees and employers responded to the recent consultation? Given the need for improved communication, are members to be advised of the much improved investments disclosure on the SPF website? If not then this could be done together with announcing the responses to the recent RI consultation.

#### Reply:

There were over 7300 submissions to the recent responsible investment consultation and over 70% of employers took part. All active members, deferred members, pensioner members and employers received at least two communications regarding the consultation, either by letter, email or both.

The Surrey Pension fund sends out a newsletter to active members twice a year, a newsletter to deferred and pensioner members once a year and a newsletter to employers four times a year. These newsletters signpost to the website and it is intended that the results of the consultation will be highlighted in upcoming newsletters.

For further details regarding communication with all stakeholders, please see the Fund's Communications Policy. [communications-policy.pdf \(surreypensionfund.org\)](#)

#### Q2 – submitted by Lucianna Cole

BCPP have recently published a [news article announcing that they will be calling for greater climate action from oil majors and banks](#), which is encouraging, however it would be brilliant to have clarity on one of the steps mentioned. BCPP have said that they will 'raise concerns regarding the development of new fossil fuel reserves, which are incompatible with limiting global warming to 1.5C' as part of their engagement strategy. The International Institute for Sustainable Development has reported that developing new oil and gas fields is "incompatible" with the 1.5C target. So as members of BCPP are you able to advise how this will be carried out in practice, and what steps will be taken if BCPP's concerns are not acted upon - if no action is taken, will escalated steps be taken to divest from these oil and gas companies?

#### Reply:

During 2023, BCPP will engage directly with oil and gas companies on the need for net zero transition plans and capital expenditure to be aligned with the climate science, using the IEA 1.5C scenario. This requires transition plans to prioritise a halt to the development of new oil and gas reserves. We have used the Climate Action 100+ (CA100+) Benchmark to identify priority companies for engagement and will focus on Shell, Total, and Petrobras, as larger BCPP holdings which fail to meet every criteria of the CA100+ Benchmark for 'capital alignment', due to their fossil fuel expansion plans.

Engagement will commence with a letter requesting a meeting to discuss transition plans, planned development of new fossil fuel reserves, and how they intend to meet Net Zero

targets and the CA100+ Benchmark for capital alignment. If a positive response is not forthcoming, escalation may be necessary in line with BCPP's engagement escalation policy.

The following options are available for escalation and will be selectively deployed as appropriate on a case-by-case basis:

- Collaborating with other investors
- Supporting shareholder resolutions
- Voting against directors or other relevant agenda items
- Attending AGMs in person to raise concerns
- Publicly expressing concerns
- Co-filing shareholder resolutions

The escalation policy also states: "If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares."

BCPP's divestment policy states:

"We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk"

Whilst BCPP have supported, and will continue to support, collaborative engagement of the oil and gas sector via their membership of CA100+ and LAPFF, their direct engagement programme focusing on priority companies is just commencing, and they will need to judge company responses and the extent of progress made in 2023 before considering whether and what escalation is required on a case-by-case basis in 2024.

### **Q3 – Submitted by Lindsey Coeur-Belle**

Investing in fossil fuel projects is fully incompatible with the Paris Agreement and international law - a criminal act with deadly consequences.

While fossil fuel companies make record profits, the destruction of ecosystems keeps accelerating.

Ending fossil fuel finance is purely a matter of political will. We, the Public, are calling for change. Will this Committee act now to divest itself if it's remaining fossil fuel investments?

**Reply:**

The Fund's approach, as agreed in the Responsible Investment Policy, is to favour engagement over divestment and to consider all the UN's Sustainable Development Goals, rather than have a narrow focus. This is consistent with international law.

#### **Q4 – Submitted by Jackie Macey**

The committee may be aware that last week, on 2nd March the environmental law firm ClientEarth filed a lawsuit against the Board of Shell at the High Court. As shareholders they claim that Shell are failing to adequately manage the risks associated with the climate emergency and that their flawed transition strategy poses a substantial threat to Shell's future success.

We understand that this claim has the backing of a number of institutional investors including some pension funds.

How do the committee view this development, and would they be willing to support BCPP to join with ClientEarth in this action?

#### **Reply:**

BCPP is aware of ClientEarth's decision to escalate its engagement with Shell regarding its energy transition strategy through litigation. While they do have some concerns regarding Shell's transition strategy, they recognise that it will not be immediate or linear. They also expect the business to have to adjust to short term issues to be able to meet the requirements placed upon it. This longer-term focus, they believe, lends itself well towards their continued preference for engagement with the company, to better understand its approach and how the company expects to improve over time to meet its own net zero commitments.

Their engagement partner, Robeco, also reviewed whether to formally support the litigation. BCPP agreed with their view that litigation, at this stage, was a disproportionate response and could impact negatively on their collective future ability to engage with a company that is key to meeting global goals for limiting temperature rise and is, like most companies around the world, at the relative beginning of its journey. Engagement is continuing with the company and clarification is being sought around their strategy, including explicit targets for renewable energy generation.

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#### **Q5 – Submitted by Jenny Condit**

Thank you for the much enhanced section on Investments on the SPF website. Knowing how the fund is invested in a reasonably timely manner is responsive to members’ and other stakeholders’ requests. For instance, I am pleased to now realise that via the change in portfolio holdings in one of its BCPP investments, SPF’s exposure to both BP and Shell was substantially reduced earlier this fiscal year.

Having said that, could the Committee please clarify a couple of points regarding its LGIM and BCPP holdings:

— Which LGIM Future World fund(s) does SPF own, and could you please disclose the share amount and/or £ value of SPF’s LGIM position(s) as of each end March and September

—The link provided to the BCPP fund factsheets and portfolios is most helpful. Could you also again provide the amount of your holdings in each fund you own in shares and/or £ value as of each end March and September when this information is reported by BCPP?

#### **Reply:**

This information is already available every quarter within the Investment Manager Performance and Asset/Liabilities Update paper in the Pension Fund Committee papers.