

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 16 JUNE 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL****SUBJECT: RESPONSIBLE INVESTMENT UPDATE****SUMMARY OF ISSUE:**

The agreed priorities of the Pension Fund Committee (Committee) in relation to the Responsible Investment (RI) policy are to set a net zero date, update the voting policy, submit an application to become a signatory of the UK Stewardship Code and align manager reporting.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Accept the recommendation of the Responsible Investment Sub Committee (RISC), that the net zero date for the Fund's investments should be 2050 or sooner.
2. Approve the re-wording of the 'engagement with consequences' section of the RI policy.
3. Approve the updated voting policy.

REASON FOR RECOMMENDATIONS:

To enable the Committee to fulfil key priorities of Responsible Investment Policy.

BACKGROUND:

1. In line with the RI Policy, the priorities for the year 2023/4 are the following:
 - a: Set a net zero date and trajectory.
 - b: Update the voting policy.
 - c: Submit the RI Policy to the Fund's equity managers for them to report on current compliance and alignment.
 - d: Submit application to become a signatory of the UK Stewardship Code.

DETAILS:**Net zero date setting**

2. A key element of the RI policy is for the Committee to agree a net zero date.

3. In line with the delegated powers of the RISC, a net zero brief was agreed and, after presentations, Mercer was selected by the RISC to answer it.
4. Mercer responded to the brief at the RISC meeting on 17 May 2023. A summary presentation is attached in Annexe 1. Annexes 4 and 5 contain the full presentation and supporting data under Part 2.
5. Following the discussion, the RISC agreed to recommend to the Committee a net zero date for the Fund's investments of 2050 or sooner, with an aspiration to bring that date forward if possible, in the future.

RI policy re-wording

6. At the Committee meeting in March 2023 it was agreed that the 'engagement with consequences' section of the RI policy should be re-written to make the escalation process clearer and also list current exclusions.
7. After consultation with the Chair and Vice Chair, RISC members were sent the new wording on the 15 May 2023. All responses received as of 2 June 2023 had accepted the new wording. The new wording can be found in Annexe 2.

Voting policy

8. A priority of the RI policy is to agree a new voting policy.
9. The Fund's RI consultant, Minerva, has recalibrated the policy to best practice in the industry. The policy has been updated to account for the latest Stewardship Code and to align with best practice from the UK Corporate Governance Code, the International Corporate Governance Network (ICGN), the Organisation for Economic Cooperation and Development (OECD), EU Directives, the Financial Conduct Authority (FCA) diversity rules, guidance from the Pensions and Lifetime Savings Association (PLSA), the Investment Association Principles of Remuneration and BCPP. The new voting policy can be found in Annexe 3.

CONSULTATION:

10. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

12. Responsible investment decisions can have an impact on the Fund's risk and return.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

13. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues, and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

14. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

15. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

17. The following next steps are planned:
- a. The net zero date will be announced and all stakeholders informed.
 - b. The RI policy will be updated with the new wording.
 - c. Minerva will apply the Fund's new voting policy to the voting template.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Consulted:

Pension Fund Committee Chair

Annexes:

1. Mercer public net zero slides – Annexe 1
2. Rewording – Annexe 2
3. Updated voting policy – Annexe 3
4. Mercer net zero slides – Annexe 4 (Part 2)
5. Mercer net zero appendix – Annexe 5 (Part 2)

Sources/background papers:

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