

4.3.2 'Engagement with Consequences'

Surrey believes in an 'Engagement with Consequences' approach towards its investments - constructively engaging with investee companies on any identified ESG & RI issues, rather than immediate divestment. As Surrey is externally managed, the actual implementation of the 'engagement with consequences' approach in relation to individual investments falls to its investment managers. Engagement is a legitimate step by our managers in an escalation process where issues are identified, communicated to company management and their responses are assessed. However, Surrey does not believe that engagement should be an open-ended process without resolution. It is important that the materiality of each engagement is analysed, and that the response is carefully considered, so a conclusion can be reached as to whether the original issue has been resolved, has a reasonable expectation of being resolved, or is not likely to be resolved at all.

If initial engagement does not lead to the desired results, escalation by the managers may be necessary. Options for this escalation include collaborating with other investors, supporting shareholder resolutions, voting against directors or other relevant meeting agenda items, attending Annual General Meetings (AGMs) in person to raise concerns, publicly expressing concerns and co-filing shareholder resolutions.

If, after the escalation process, the investment case is still seen as fundamentally weakened, the decision may be taken by the manager to sell the company's shares. Regulatory, legal, reputational, environmental, social and governance issues are all risks that may be considered.

Surrey believes its investment managers should seek to first engage with investee companies on issues that they perceive to present a material financial risk. However, the reporting of these engagements, their materiality, the engagement outcomes and their implications have not always been clearly communicated. Surrey commits to work with its investment managers to improve the disclosure and reporting of engagement activities undertaken on its behalf. Surrey will ask its investment managers to justify specific investments where it feels that engagement is not being effective or where financial risk may not be reflected in valuations. Where engagement fails to mitigate perceived material financial risks then Surrey expects its investment managers to consider stronger measures including collaborative engagement and/ or investment action.

Surrey supports the objectives of the Paris Agreement, specifically Article 2, 1(a), which is:

"Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change." Accordingly, the Fund expects its investment managers to make climate risk a key component of any engagement process on Surrey's investments.

Surrey also believes in a 'Just Transition' to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of rapid, wholesale industrial change.

The investment exclusions currently in place for the Fund are listed below.

Russian restrictions.

All managers are abiding by governmental sanctions against Russia and Belarus and new investments into the region are prohibited. The Fund's position is to review existing investments with a view to exiting in due course as and when markets permit, as long as the current circumstances prevail. The statement by the Surrey Pension Fund can be found here, [The Surrey Pension Fund is saddened by and strongly condemns the invasion of Ukraine by Russia. | Surrey Pension Fund](#)

Equity restrictions currently in place, by fund manager

BCPP

BCPP have exclusions related to two areas - thermal coal & oil sands and cluster munitions.

BCPP will not invest in public companies where more than 70% of revenue is derived from thermal coal and/or oil sands. For illiquid investments in private markets, the threshold is reduced to 25%.

There will also be no investment in companies contravening the Convention on Cluster Munitions (2008). This excludes from investment companies where there is evidence of manufacturing cluster munition whole weapons systems and those manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

LGIM

There are no exclusions relating to their market capitalisation linked index funds.

The Future World product range does execute exclusions. Future World products apply the Future World Protection List and the Climate Impact Pledge.

The Future World Protection List is a set of exclusions based on companies which fail to meet either globally accepted principles of business practice, or whose business is incompatible with a low-carbon transition. No company with over 20% of revenue derived from thermal coal mining and extraction and/or thermal coal power generation and/or oil sands can be considered for investment. Neither are manufacturers of controversial weapons or companies in perennial breach of the UN Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies. More details on LGIM's Future World Protection List can be found here, [Future World Protection List Methodology \(lgim.com\)](#)

The Climate Impact Pledge is LGIM's engagement with consequences approach related to climate engagement. Using a set of metrics for assessment, companies that remain consisted laggards generate votes against the Chair for all products and divestment from the Future World funds. More details can be found here, [Climate Impact Pledge | Climate change | LGIM Institutional](#)

Newton

The Fund has not imposed any explicit exclusions related to the Newton mandate, other than those relating to Russia and Belarus. However, for their pooled range, the manager does have exclusions in companies involved in cluster munitions and this policy is taken into account when investment decisions are made for the Surrey Pension Fund.

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