

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 8 SEPTEMBER 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL****SUBJECT: RESPONSIBLE INVESTMENT UPDATE****SUMMARY OF ISSUE:**

The Fund continues to implement the agreed priorities of the Pension Fund Committee (Committee) in relation to the Responsible Investment (RI) policy, one of which was to analyse the equity fund manager's current compliance and alignment with the policy. The Fund also continues to produce an annual Task Force on Climate-related Financial Disclosures, (TCFD), report ahead of mandated requirement.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Note the alignment of Border to Coast Pension Partnership (BCPP), Legal & General Investment Management (LGIM) and Newton Investment Management to the Fund's RI policy.
2. Note the Draft TCFD 2022/3 report and approve the delegation of authority to the Chair of the Pension Fund Committee to issue the final report.

REASON FOR RECOMMENDATIONS:

To enable the Committee to fulfil key priorities of RI Policy.

BACKGROUND:

1. In line with the RI Policy, the priorities for the year 2023/4 were 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.
2. The Fund continues to produce a TCFD report ahead of mandated requirement.

DETAILS:

3. One of the RI policy priorities for the year 2023/4 is to analyse the Fund's equity fund managers' current compliance and alignment to the Fund's new RI policy. This was carried out by Officers, Minerva and the managers.
4. All of the equity managers have Environmental, Social and Governance (ESG) approaches that align to the Fund's RI beliefs. Obviously, there are nuances to the individual processes and key themes, but there is compliance with the overall principles and ESG is well integrated into investment decision making.
5. The BCPP RI policy is developed in consultation with Partner Funds and the Fund has fed into the process, particularly with regard to threshold limits related to oil sands and thermal coal.
6. Neither BCPP nor LGIM specifically use the UN Sustainable Development Goals, SDGs, as their reference points, unlike the Fund's RI policy. However, these manager's engagements fall within them. Newton does use a proprietary SDG research tool within its investment process.
7. Going forward, there will be engagement with the managers to develop reporting requirements as the scale and depth of data available increases.

Task Force on Climate-related Financial Disclosures report

8. The draft TCFD report for 2022/3 can be found in Annexe 1.
9. As at 31 March 2023, the Weighted Average Carbon Intensity, WACI, of the listed equities of the Fund was 119 tCO₂e per \$million revenue, 19% below the MSCI All Companies World Index, ACWI, benchmark of 147 tCO₂e per \$million revenue. WACI measures the carbon dioxide and equivalent emissions of a company divided by its revenue, and then weights this measure by the weighting within the portfolio. This is expressed as metric tons of CO₂ equivalent.
10. Since 2018, the WACI of the Fund has fallen by over 58%.
11. As at 31 March 2023, the Carbon Footprint of the listed equities of the Fund was 61 tCO₂e per \$million invested, over 33% below the MSCI ACWI benchmark of 92.1 tCO₂e per \$million invested. The carbon footprint is the amount of carbon dioxide and equivalents emitted per \$million of the Fund's investments.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

13. 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

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

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL

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

LEGAL IMPLICATIONS – MONITORING OFFICER

16. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

17. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

19. The following next steps are planned:
 - a) Further engage on reporting
 - b) Issue the 2022/23 TCFD report

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Consulted:

Pension Fund Committee Chair

Annexes:

1. Draft TCFD report – Annexe 1

Sources/background papers:

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