Surrey Pension Fund Committee – 22 March 2024

Item 4b - Public Questions

Q1 – submitted by Kevin Clarke

"The latest council pension fund to make a divestment commitment is Wiltshire pension fund. This includes: -

- Communicating their stance to Brunel (for pooled investments) and their own investment managers; and
- publishing a comprehensive list of FF holdings on their website so as to achieve a meaningful change.

Will SPF urgently make a similar commitment?"

Reply:

The Surrey Pension Fund's approach to responsible investment can be found in the Responsible Investment Policy published on the Fund's website. Surrey responsible investment policy (surreypensionfund.org) This policy is based on the UN Sustainable Development Goals and has been communicated to the pool and equity managers.

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.

The Surrey Pension Fund's equity holdings can be found on the Fund's website. Investment | Surrey Pension Fund

Q2 – submitted by Janice Baker

Following recent campaigns from climate activists at the start of March, the major insurer Probitas have confirmed that they will never insure the East African Crude Oil Pipeline or the proposed West Cumbria coal mine.

Insurance companies have a significant power when it comes to fossil fuels, for without insurance, fossil fuel companies cannot build new fossil fuel infrastructure - and as outlined by UN Secretary General Antonio Guterres 'investing in new fossil fuels is moral and economic madness.'

This scorecard from Insure our Future analyses the 30 leading primary insurers and reinsurers regarding their policies on insuring and investing in coal, oil and gas. While some are better than others, all of them still have steps that need to be taken. And this recent victory with Probitas shows that, with the right pressure, insurers are prepared to act.

Can you confirm if Surrey Pension Fund have carried out any engagement relating to fossil fuels with any of the 30 primary insurers in which you have holdings?

Reply:

The Surrey Pension Fund does not carry out any engagement directly. Engagement is carried out by the underlying managers or collaborative associations.

Through the actively managed equity portfolios, the Fund has exposure to 7 of the 30 organisations listed in the report referenced in the question. There has been recent engagement with three of these companies.

Berkshire Hathaway and AIG have been engaged on fossil fuels by the external managers appointed by Border to Coast Pensions Partnership (BCPP) and Berkshire Hathaway is also under engagement through Climate Action 100+.

There has been engagement with SCOR covering a range of topics, but not specifically on fossil fuels.

Within the passive mandates, Aviva, Berkshire Hathaway, Generali and Swiss Re, are under engagement for issues other than fossil fuels.

Whilst BCPP have not engaged directly with insurance companies, or via Robeco (BCPP's engagement partner), they have engaged with financial institutions, including banks, which provide insurance services. For the last three years, Robeco has been running its 'Climate Transition of Financial Institutions' engagement programme, which covers banks and other financial institutions which provide insurance services. The main aim is to support financial institutions in managing climate change-related risks and opportunities, and to ready them for their and their clients' climate transition. The engagement objectives for financial institutions include knowing about the implications that climate change can have on their operations and their clients, and to proactively assess, monitor and manage climate change-related risks and opportunities.

Q3 – Submitted by Jennifer Condit

In February of this year BCPP announced a number of steps intended to "Further strengthen responsible investment policies to support climate and ESG risk management". Because BCPP's RI policies are a fundamental part of SPF's policies as well, I hope SPF is aware of any shortcomings in BCPP's policies One particular part of the policy appears to be anything but strong. BCPP says it will not invest in organisations where thermal coal and oil sands production represent more than 25% of revenues. The implication of this statement is

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that these types of fossil fuels are so damaging that ownership of them must be particularly restricted. Notwithstanding this policy, however, in the past two years BCPP has built a £50mm position in ConocoPhillips (COP) in the Global Equity Alpha fund in which SPF has a large investment. COP is a major player in the Athabasca Tar Sands, and effective with a recently completed acquisition, has actually doubled its Tar Sands assets. COP must now own the largest or second largest amount of Tar Sands reserves in the world. Yet even given its dominant position in this business, COP does not breach the BCPP test for exclusion from its portfolio. In fact, it's not even close. This is because COP, a vast fossil fuel company, generates so much conventional oil and gas as well. This demonstrates that if you have a big enough carbon footprint overall, you can bring as much Tar Sands product into the world as you want and BCPP can still own you.

Would you accept that:

- a policy for exclusion of a business from your portfolios is not fit for purpose if it allows investment in the biggest player in the business, and
- a percentage of revenue test for a troublesome product line is really less relevant than a test to address how much carbon a business is generating? (In the case of Tar Sands, with its extreme carbon intensity, a 25% contribution to revenue is equivalent to a much larger contribution to carbon emissions.)

Reply:

Border to Coast Pensions Partnership (BCPP) incorporate climate change considerations as part of their Net Zero commitment. Their Responsible Investment (RI) Strategy takes into account how climate change and the evolving regulatory environment along with macroeconomic impact will affect the investments they make on behalf of Partner Funds. Their RI strategy is reviewed on a regular basis by their Board and Partner Funds and associated policies reviewed annually.

They utilise various tools to identify, assess and manage climate-related risks and opportunities. They use third-party ESG and carbon data to assess individual holdings and conduct carbon screens to identify the largest emitters and potential risks around stranded assets. BCPP utilise internal, sell-side and climate-specific research and produce in-depth Carbon Risk Assessment (CRA) reports for the largest emitters in their portfolio, which provide a deeper dive to assess the credibility of the transition plans of the companies. They also use forward-looking metrics, including the Transition Pathway Initiative (TPI) tool, the CA100+ Net Zero Company Benchmark and the IIGCC's Net Zero Investment Framework (NZIF) Paris Alignment metric to assess companies' transition progress. Climate risks are factored into the selection and appointment of external managers and the ongoing monitoring of these mandates.

The exclusions approach included in the BCPP RI Policy is another such tool to help achieve their responsible investing and net zero aims. In January 2024, as part of strengthening their responsible investment policies to support ESG considerations (including climate change) they lowered exclusion thresholds on revenue generated from thermal coal and oil sand production, from 75% to 25%. This followed engagement with the Surrey Pension Fund on this issue. Currently they do not hold any companies with more than 5% of revenue coming from oil sands. In addition, they extended their exclusion policy to cover thermal coal power generation, reflecting Just Transition principles by differentiating between developed and emerging markets.

Stewardship is a critical component of BCPP's Net Zero Implementation Plan, with engagement being the primary mechanism for driving alignment to Net Zero from portfolio companies and thereby meeting their own Net Zero targets, both at asset class and portfolio level, as well as for driving real-world decarbonisation. They have therefore developed a Net Zero Engagement Strategy using the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Stewardship Toolkit.

BCPP continue to evolve their investment process. They continue to monitor and analyse the impact of the strengthened policies as part of the annual RI policy review process. They are also closely monitoring the status of the consultations on the newly released UK Transition Plan Taskforce's sector-specific guidance for preparers and users of climate transition plans.

The Surrey Pension Fund will continue to engage with BCPP regarding their RI policy on the appropriateness of any rules used to exclude any investments.

Q4 – Submitted by Lindsey Coeur-Belle

In 2022 PFZW, a €256bn care and welfare pension fund and the 3rd largest in Europe, divested from 114 fossil fuel producers who had no carbon reduction targets.
They then undertook a 2 year engagement programme in which oil and gas companies were required to produce a viable energy transition strategy by the end of 2023 with short and medium term targets and information on carbon emissions. As a result of this exercise in February this year PFZW sold a further €2.8bn stake in 310 oil and gas companies including Shell, BP and Total Energies.

A SMART framework (defined as specific, measurable, achievable, relevant and time bound) such as used by PFZW is a tool to help with focus, clarity and achievement. This Committee has been challenged before on its ambiguous and ineffective engagement approach and its willingness to avoid taking any decisive action when faced with the duplicity of the oil and gas companies.

The Chair of the Board of PFZW stated
"The intensive stakeholder engagement dialogue over the past 2 years with the oil and gas sector on climate has made it clear to us that most fossil fuel companies are not prepared to adapt their business model to "Paris".

By using a SMART approach PFZW can evidence the refusal of oil and gas companies to do their part to meet internationally agreed climate objectives. What more will it take before this Committee adopts a similar transparent approach with clear timelines and consequences?

Reply:

Engagement is carried out for the Surrey Pension Fund by the underlying managers and collaborative associations, such as the Local Authority Pension Fund Forum. The fund does not carry out any engagement directly.

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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.

Q5 – Submitted by Lucianna Cole

In February a group of 21 UK universities, including Cambridge, Oxford, UCL, Edinburgh, Leeds and the London School of Economics, issued a joint statement urging financial institutions to update their fossil fuel position statements, and have threatened to divest billions unless they act.

The University of Cambridge's chief financial officer Anthony Odgers told the Financial Times: "Building new infrastructure, such as coal and gas-fired plants and pipelines, locks in demand for fossil fuel for decades. We care about people using our money [to do this]. We want to have a real-world impact."

Can you confirm if Surrey Pension Fund have taken any similar steps, clearly outlining consequences for inaction, when it comes to fossil fuel engagement with financial institutions?

Reply:

Banks and financial institutions are vital to decarbonising the economy and credible plans to meet net-zero targets are needed from them. Border to Coast Pensions Partnership (BCPP) engage with the banks as part of the Low Carbon Transition key engagement theme.

BCPP assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where they have significant concerns regarding a bank's transition plans to net zero. In addition, they will vote against management 'Say on Climate' resolutions which are not aligned with the objectives of the Paris climate agreement, and vote for independent shareholder resolutions that are aligned with the Paris agreement. BCPP writes to companies ahead of their AGMs to advise that they will vote against management if it does not take action to meet climate expectations.

Robeco, BCPP's engagement partner, launched an engagement programme in 2021 called 'Climate Transition of Financial Institutions' covering governance, risk management, strategy, targets, and metrics. It is currently engaging several international banks and financial institutions on our behalf. BCPP is also engaging some UK banks directly, calling for the integration of Just Transition into net zero strategies.

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The Fund’s investment in Legal and General’s Global Future World fund is covered by their Climate Impact Pledge. Over 5,000 companies across 20 ‘climate-critical’ sectors are assessed, including financials, with votes against management and exclusion possible for the Future World fund range.

Meanwhile, Newton Investment Management’s “net zero by 2050” commitment includes having 50% of financed emissions covered by credible transition plans by 2030, and 100% of financed emissions being covered by credible transition plans by 2040.