SURREY PENSION FUND COMMITTEE – 21 MARCH 2025

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

Item 4b - Public Questions

1. Question submitted by Shasha Khan (Reigate and Banstead Borough Councillor)

The answer I received to my question in December about divesting from BAE Systems referred to exclusions in cluster munitions. "Investments through Border to Coast Pensions Partnership (BCPP), the Fund's pooling partner, there will be no investment in companies contravening the Convention on Cluster Munitions (2008)."

Can the Surrey Pension Fund Committee advise how and when this equity restriction came to be?

RESPONSE:

BCPP outlines their stance on controversial weapons in their Responsible Investment policy, found via this link, Publications - Border To Coast - Reports. These weapons can have indiscriminate and disproportionate impacts on civilians during and after military conflicts. Several international Conventions and Treaties have been established to prohibit or limit their use. Consequently, BCPP will not invest in companies contravening the Anti-Personnel Landmines Treaty (1997), the Chemical Weapons Convention (1997), the Biological Weapons Convention (1975), or the Convention on Cluster Munitions (2008). The use of these weapons is illegal in many jurisdictions, and some countries also prohibit the direct and indirect financing of them.

Therefore, they will not invest in the following, where companies are contravening the above treaties and conventions:

- Companies where there is evidence of manufacturing such whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use of such weapons.

BCPP's decision not to invest in companies that may contravene the Convention on Cluster Munitions (2008) was formalised in their Responsible Investment Policy that went live on 1 January 2023. The policy was expanded to include the Anti-Personnel Landmines Treaty (1997), the Chemical Weapons Convention (1997), and the Biological Weapons Convention (1975) on 1 January 2024. Both policies underwent a full governance review, involving collaboration and engagement with the eleven Partner Funds.

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2. Question submitted by Jackie Macey

The Copernicus Climate Change Service has recently issued some alarming data about the pace of global heating. January 2025 was the 18th month in a 19-month period for which the global-average surface air temperature was more than 1.5°C above pre-industrial levels. Perhaps even more concerning is the fact that January 2025 reached 1.75°C above the pre-industrial level.

Does the Surrey Pension Fund Committee feel it is moving away from the stranded assets that fossil fuel holdings will become with the sense of urgency this situation demands?

RESPONSE:

The Surrey Pension Fund has extensively considered the transition to a lower carbon generating world. It is considered in the Fund's Responsible Investment policy, the voting policy and in the setting of the Fund's Net Zero date. Carbon exposure was also considered in deciding to move from a passively to an actively managed emerging markets equity fund. The impact of these decisions can be seen in the fund's Task Force on Climate-related Financial Disclosures (TCFD) report, which highlights that the weighted average carbon intensity has fallen by over 75% since 2018.

The Fund does not manage any investments directly but employs investment managers to carry out this role, predominantly the Fund's pooling partner, Border to Coast Pensions Partnership (BCPP). All managers integrate Environmental, Social and Governance (ESG) issues into their decision making. The expected life of any asset, and the associated cash flows, whether fossil fuel or not, is included in investment decision making.

The severity of the financial risks of climate change will depend on how the physical and economic risks of climate change interact with financial markets as well as the effects of the transition and other societal responses. The Fund's investment managers must identify and manage climate-related investment risks and opportunities to ensure the delivery of investment outcomes over the short, medium and long-term.

BCPP's annual climate change report demonstrates the comprehensive measures they take to manage climate risks and meet net zero commitments.

Their systemic and collaborative approach to climate change has become increasingly important. They have integrated climate-related risk into investment decision-making, elevated the power of corporate engagement and public policy advocacy, and invested in innovative propositions that respond to climate-related opportunities.

BCPP's exclusions approach included in their RI Policy is a tool they use to help mitigate the exposure to activities that could translate into material transition or stranded assets risk. In support of this, during 2024 they lowered exclusion thresholds on revenue generated from thermal coal and oil sand production, from 75% to 25%. In addition, they extended their exclusion policy to cover thermal coal power generation, reflecting Just Transition principles by differentiating between developed and emerging markets.

As part of their engagement escalation with the Oil & Gas sector, BCPP publicly pre-declared votes against management ahead of the AGMs of Shell, TotalEnergies, ConocoPhillips, Chevron, Phillips 66, and Glencore. An increase from two in 2023. They have partnered with Royal London Asset Management and the London School of Economics to engage Barclays, Lloyds, NatWest, and HSBC to pioneer the integration of Just Transition into banking sector net zero strategies. On policy advocacy, during 2024, BCPP responded to the FCA Consultation Paper CP24/12: Consultation on the new Public Offers and Admissions to Trading Regulations regime (POATRs). The response was in support of the FCA consultation on an additional disclosure requirement for oil, gas and coal companies.

As well as risks, climate change presents opportunities to invest significant capital in the growth of businesses with the potential to deliver the solutions needed to support the global transition to a low carbon economy. The Surrey Pension Fund has committed £285m to the Border to Coast Climate Opportunities strategy (as at 31 December 2024). As with climate risks, these opportunities will manifest over the short, medium and long-term.

During 2025, BCPP will continue engagement with priority oil and gas companies and will consider further engagement escalation tools. In line with their commitment to generate consistent returns over a short, medium and long-term timeframe, they review the investment case for holding these companies on an ongoing basis. They will also continue to actively participate in discussions around future climate policy and legislation through their membership of industry bodies.

3. Question submitted by Kevin Clarke

The UN's global plastic treaty in December 2024 failed largely because of pressure applied by fossil fuel companies. The belief is that without this pressure, enough governments would have agreed to end plastic pollution.

Is the Surrey Pension Fund Committee concerned by this?

RESPONSE:

The talks in December 2024 aimed to finalise a Global Plastics Treaty but concluded without a formal decision. The Surrey Pension Fund is committed to responsible investment and expects all its investment managers to integrate Environmental, Social and Governance (ESG) factors into their decision making. This will continue with or without global treaties. A resumed meeting is expected to be held in 2025.

Plastic pollution casts significant planetary impacts and potentially material financial risks to our investments. With plastic waste projected to triple by 2060, a global response is essential. Border to Coast Pensions Partnership (BCPP), the Fund’s pooling partner, along with 180 institutional investors, showed support for the UN's 2024 plastics treaty through a PRI-coordinated finance sector statement. The statement can be found via this link PRI-coordinated finance sector statement

BCPP has a responsibility to manage material financial risks, including those posed by plastic pollution, and engage where appropriate. Where relevant they have incorporated plastics into their climate-focused engagements, as an example they recently spoke with Danone on their circular economy approach and targets.

4. Question submitted by Lucianna Cole

As Surrey County Council will be replaced with a unitary authority (or multiple unitary authorities) does the Surrey Pension Fund Committee have any information on how the Surrey Pension Fund will be affected by this change and the steps that can be taken to protect Fund members?

RESPONSE:

There will be no impact on member benefits from any potential Local Government Reorganisation (LGR).

The Administering Authority (AA) for the Surrey Pension Fund (SPF) is currently Surrey County Council (SCC). LGR means that the SPF will need to be hosted by a new AA. There are three possible options:

1. One of the newly created Unitary Authorities,
2. A newly created Mayoral Strategic Authority, or
3. A newly created Single Purpose Pensions Authority constituted as a Combined County Authority (CCA) under the Levelling Up and Regeneration Act 2023

Irrespective of the form it may take, the transfer to a new AA will require a substantial amount of focus, resource and time and will include the following:

a) The legislative transfer of the LGPS management and administration function from SCC to the new AA.
b) The transfer of all assets and liabilities in relation to the pension fund to the new AA.
c) The assignment of all contracts with third parties in relation to the LGPS function to the new AA
d) The transfer of SPF staff into the new AA.
e) The revaluation of the pension fund assets and liabilities relating to the existing and newly created authorities
f) The redrafting of all LGPS and wider legislative compliance policies and procedures in respect of the new AA.

Government's current plans indicate that legal powers will transition to the new Unitary Authorities for the start of the financial year 2027. However, that date and the precise changes will be subject to future Government decisions and legislation.

5. Question submitted by Lindsey Coeur-Belle

In January 2025 the Institute and Faculty of Actuaries (IFoA), in conjunction with the University of Exeter, published a report entitled "Planetary Solvency – finding our balance with nature" which urges a complete reframing of how we assess and action climate associated risk.

Earth's ecosystems (food, water, energy, raw materials) are fundamental to economic stability and growth and we need to keep our use of these resources within planetary boundaries.

In this report it states that investments have been based on "widely used but deeply flawed assessments of the economic impact of climate change". We think this report is essential reading for anyone making decisions on pension fund investments.

The question is, will this Committee take account of this revised approach to climate risk and ensure a revised risk methodology will be used in drafting climate scenario assessments for Surrey's current and future investments?

RESPONSE:

The Fund's Advisors and Investment Managers continually review new information and insight to better advise and invest on behalf of the Fund.

For example, the Fund's investment pooling partner, Border to Coast Pensions Partnership (BCPP) has reviewed the Planetary Solvency report by the Institute and Faculty of Actuaries. Their comments are below.

'The Planetary Solvency Report is a welcome educational resource to further inform on the climate and nature driven impacts to economies. It echoes our view that the systemic nature of climate risk requires action from many stakeholders but most critical is a clear and supportive policy environment. We would support many of the recommendations that the report directs to policy makers.

As an asset manager, we consider climate change to be a source of financial risk to our investments. The severity of these financial risks depends on how the physical (planetary) and economic risks of climate change interact with our investments and financial markets.

- *Planetary risks are acute, such as severe weather risks that cause serious and sudden damage to ecosystems and infrastructure, and chronic risks that can compound over time, such as biodiversity loss due to increased global temperatures.*
- *Economic risks are a subset of planetary risks, as not all planetary impacts will result in devalued assets. Economic risks relate to the costs due to the physical impacts of climate change and the economic costs of adapting to climate change i.e. the energy transition.*
- *Financial market risks are a subset of economic costs, as financial markets are not (directly or otherwise) exposed to all economic costs. Financial risks relate to changes in financial asset and portfolio valuation due to the planetary*

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and economic impacts of climate change, as well as the effects of the transition and other societal responses.

We take seriously our responsibility to identify and manage climate-related investment risks (financial risks) and opportunities to ensure the delivery of investment outcomes over the short, medium and long-term. In 2022 we outlined our plan to deliver net zero greenhouse gas emissions (GHG) across our investment portfolios by 2050 or sooner. Our annual climate change report demonstrates the comprehensive measures we take to manage our climate risks and meet our net zero commitments.

We used the Climate Financial Risk Forum's (CFRF) selection framework to consider the climate scenario options available and selected the Regional Model of Investment and Development (REMIND) model scenarios developed by the Network for Greening the Financial System (NGFS). The NGFS scenarios reflect a wide variety of future policy and technology outcomes along with regional policy variations, resulting in a broad range of climate transition pathways.

We see climate scenario analysis as a tool to support us to identify, assess and manage climate-related risks and opportunities. There are significant limitations of current models which highlight the need for care, consideration, and contextualisation, in making sense of the outputs. For example, current models do not incorporate tipping points resulting in several potential sources of climate risk that could present a material threat not being fully represented under current scenarios. In addition, the models do not incorporate the credibility of actions taken by companies through their transition plans to re-align their business models and lower their risks. We expect climate scenario analysis models to evolve over time and will continue to monitor progress. We are thoughtful in how we currently use climate scenarios to help identify, assess and manage the impact of climate change on our investments, alongside other climate risk analysis, and how that affects the overall risk and performance of our investments.'

6. Question submitted by Jenifer Condit

The Committee will have noted BP's announcement that it will abandon its previous goal to invest heavily in alternative energy while limiting its growth in fossil fuels. (Excerpt from BP announcement below). The decision results from engaging with shareholders angry that BP was underperforming rivals due to its (relatively) green agenda. Said shareholders threatened reprisals if BP did not change course.

So what does this tell us? BP is prepared to engage with some shareholders but not others. Namely those that are wed to short term profits from fossil fuels above all else. And of course, those who are prepared to ACT.

Surrey Pension Fund, along with most other pension funds, has not been prepared to ACT. It has rather enabled the oil and gas companies to Obfuscate and Delay. And, in the end, Delay becomes Denial. Meanwhile, the desires of pension fund members - to focus on long term returns, to avoid stranded asset risk and to cease the destruction of the climate they will need to live in for decades into the future - are trampled.

Has the Committee been sufficiently disrespected by BP to finally put its BP shares on the block?

Growing shareholder value: a reset bp

Release date: 26 February 2025

Selected comments from BP Announcement:

- ***Strategy fundamentally reset:*** *...reducing and reallocating capital expenditure,….*
- ***Growing upstream:*** *increasing oil & gas investment to ~$10bn p.a.; strengthening portfolio; growing production to 2.3–2.5mmboed in 2030;*
- ***Focusing downstream:*** *reshaping portfolio to drive growth; high-grading and focusing on advantaged and integrated positions;*
- ***Disciplined investment in the transition****: …..investment in transition businesses of $1.5–2bn p.a., over $5bn p.a. lower than previous guidance.*

RESPONSE:

The Fund does not engage directly with BP, nor any BP company, and does not hold any shares directly in BP. There is, however, exposure to BP through the pooled funds that the Fund invests in.

The Fund believes in an engagement approach towards its investments – constructively engaging with investee companies on any responsible investment (RI) issues, rather than blanket divestment. The actual implementation of this approach in relation to individual investments falls to its investment managers.

The Fund's RI policy can be found via this link, Surrey RI Policy

The Fund sought clarification from its investment pooling partner, Border to Coast Pensions Partnership (BCPP), regarding their position on BP. Their response is below.

'Border to Coast believes that engagement and constructive dialogue with the companies we invest in is more effective than divestment. It is only by remaining engaged that we can effect change. At this time, continuing to engage with BP is critical and we continue to show a commitment to meaningfully escalate our engagement with BP.

We have escalated our engagement with BP over the last two years. This has included voting against the re-election of Chairs of the Board due to climate concerns, supporting independent shareholder resolutions aligned with the objectives of the Paris climate agreement, voting against management resolutions that present inadequate transition plans and publicly pre-declaring our votes against management on climate issues.

In late 2024, we were the only Climate Action 100+ investor that publicly commented on reports BP was to weaken its climate commitments. During early 2025, we co-signed a letter with 48 other shareholders in BP to raise our concerns and request a shareholder vote at the AGM, and since BP has confirmed its

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strategy re-set with lower climate ambitions, we have again publicly announced that, as things stand, we will vote against the Chair at its forthcoming AGM. We also recently had a meeting with BP to discuss its inadequate medium-term targets and decarbonisation strategy.'