



A SOLACTIVE COMPANY

Surrey Pension Fund

SDG Mapping Exercise – Project Update

24 August 2020

Introduction

At the Surrey Pension Fund Committee meeting held on 12 June 2020, a report titled 'Investment Core Beliefs and the United Nations Sustainable Development Goals' was submitted for consideration in relation to the Committee's previously agreed intention to:

- a) examine the existing investment portfolio holdings of the Surrey Pension Fund ('the Fund') and their relationship (positive or negative) to the United Nations Sustainable Development Goals ('SDGs'); and
- b) identify the risks and opportunities associated with the analysis.

The report summarised progress made towards achieving this objective, which was that a procurement exercise had been carried out, a number of organisations had been asked to put forward their proposals on how best to deliver this project, and that Minerva Analytics ('Minerva') had been appointed to carry out the 'SDG Mapping Exercise'.

As part of that report, a draft project plan submitted by Minerva was considered and approved by the Committee. This short report is to provide the Committee with an update on progress made against the project plan, as at the beginning of August 2020. A verbal update on progress made was provided to Fund Officers and the Committee Chair and Vice-Chair by way of a virtual meeting on Thursday 8th August 2020.

Recap on Minerva's Proposed Approach

The approach proposed by Minerva to Surrey on how the Fund might align its investment portfolio with the SDGs was to carry out a mapping exercise comparing the Fund's listed equity and corporate bond holdings to the World Benchmarking Alliance SDG2000 index.

The rationale behind this proposed approach was that:

- examining the relationship between company governance behaviour and the SDGs is most likely to deliver actionable results;
- by focussing on the Fund's equity and corporate bond holdings, the vast majority of the Fund's assets would be involved in the mapping exercise;
- the WBA SDG2000 index represents the 2,000 largest listed companies in the world that, if managed responsibly and urged to demonstrate the highest standards of corporate governance by their owners, are most likely to help deliver the UN's Social Development Goals;
- by focussing on listed companies in which the Fund is invested, it provides the Fund with the tangible outcome of being able to exert influence over these investee companies through voting and engagement; and
- once the initial analysis had been carried out, the results would inform subsequent discussions related to the Fund's Core Investment Beliefs

SDG Mapping Exercise – Project Plan

The project plan approved by the Committee had four discrete 'Steps' towards completing the SDG Mapping Exercise, with estimated timescales provided:

Step 1: Examine: Look at the Fund's current position, reviewing relevant documentation and Surrey Pension Committee minutes (May 2020)

Step 2: Benchmark: Take three years of the Fund's equity and bond holdings data across 10 managers for benchmarking (June/July/August 2020)

Step 3: Inform: Hold a workshop where our initial findings are delivered, and engage with Members and Officers on investment beliefs (Report in September, Workshop in October)

Step 4: Deliver: Take on board feedback, refine reporting and any proposals, and return to deliver final report at formal Pensions Committee meeting (Final Report to December Pension Committee)

The focus of this report is to provide the Committee with an update on Steps 1 and 2, and overall progress made by Minerva in the SDG Mapping Exercise.

Project Step 1: Examine

Working with Officers, Minerva have collected a number of policy and other documents relating to the current position of the Fund as it relates to sustainability/ESG matters. The documentation we have reviewed includes the Fund's Investment Strategy Statement, Governance Policy Statement, latest Fund Annual Report, and Border to Coast Pensions Partnership Responsible Investment, Voting & Engagement policies.

We have also reviewed a number of the Fund's other investment managers' Investment Management Agreements and some sample Quarterly Manager reports. In addition, Minerva asked each of the Fund's managers to complete a questionnaire relating to each firm's approach to their portfolio management, approach to ESG, their ESG practices, and their approach to the SDGs, stewardship and voting.

Initial findings:

Our analysis of the information detailed above provided us with the Fund's current position on sustainable investment / ESG. There is a significant amount of detail associated with our review of the Fund's position, including more detailed information on the Fund's managers, and this will be provided to the Fund in our interim and final written reports. In the interests of brevity, we would summarise the findings at a high-level as follows:

1) The Fund's beliefs are that:

- Well run companies should produce higher returns over longer periods;
- The Committee wants to be active owners of investee companies; and
- External asset managers should incorporate ESG factors into investment selection and retention

2) We have found that the Fund is:

- Compliant with the LGPS Investment Regulations;
- Compliant with the UK Stewardship Code;
- Developing its TCFD reporting; and
- Currently deferring to BCPPL sustainability policies (pending the formation of the Fund's own Core Investment beliefs).

3) We have found that, in terms of the Fund's external managers:

- They have varying levels of internal ESG and sustainability personnel, which are not necessarily linked to the size of the firm;
- Most are developing, or have developed, some kind of an approach towards the SDGs; and
- Most are signatories to the Taskforce for Climate-Related Financial Disclosures (TCFD) and the Transition Pathway Initiative (TPI)

Whilst there remain a small number of documents we would like to review – and are in the process of collecting, working with Officers – we have mostly concluded Step 1 of the Project Plan. As alluded to earlier, more detail on the analysis undertaken will be provided to Committee members in the interim report scheduled for delivery to the Fund in September.

Project Step 2: Benchmark

During June, July and August we engaged with the Fund's external managers – to ask them to complete the qualitative questionnaire on their approach to 'sustainable stewardship' as mentioned in our summary of Step 1, but to also provide portfolio holding information relating to the Fund's investments with them for a three-year period, from Q1 2017 to Q4 2019. Whilst there have been some issues in terms of the quality and accessibility of the data provided by the managers, we are broadly satisfied that we have, or will have, all of the data we need from them to be able to complete our quantitative analysis.

Initial findings:

As the primary purpose of this exercise is to examine the relationship between the Fund's existing investments and the SDGs, the first piece of analysis we have carried out has been to assess what percentage of the Fund's existing equity and corporate bonds are issued by companies who are

listed as members of the WBA SDG2000 index – and so represent the firms that, if managed sustainably, are most likely to be able to help deliver the SDGs.

Whilst we are still awaiting some portfolio information from two of the Fund's external managers, we have been able to determine that approximately 70% of the listed equity and corporate bond holdings in the Fund (either held directly, or in some instances held as part of a pooled fund) are issued by companies in the SDG2000 index. We have also determined that, of the Fund's ten largest company holdings – which have a combined value of approximately £225 million – eight are members of the SDG2000 index.

We are encouraged by this high level of overlap, in terms of our original project approach – although we would also point out that this overlap exists by chance, since none of the Fund's external investment managers have sought to build their portfolios either based on the SDG2000, or on the SDGs themselves.

Nevertheless, this level of overlap leads us to believe that there exists significant potential for the Fund to focus on these assets, considering how they are being managed and operated, to make real progress towards aligning the Fund's investment with the SDGs.

There remains a significant amount of analysis to be carried out, in terms of looking more closely at the Fund's investments from a sustainability and SDG-alignment perspective; however, further detailed analysis will need to wait until such time as all of the required data has been provided by the Fund's external managers. At the time of writing this update report, we expect the missing data to arrive in the next few days, and so will be able to provide Offices with an update on progress in time for the Pensions Committee meeting on Friday 11 September 2020.

TCFD Analysis and Reporting

The Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) seeks to develop voluntary, consistent climate-related financial risk disclosures for use by companies and organisations in providing information to investors, lenders, insurers, and other stakeholders. As part of the SDG mapping exercise, we are looking at Surrey's investment managers' own approaches to TCFD, in addition to looking at the TCFD information disclosed by the Fund's underlying listed companies. This is of particular relevance when considering SDG 13: Climate Action.

Officers of the Fund are undertaking a separate – but associated – piece of work looking more closely at the Fund's climate-related activities as seen through TCFD, and so we expect that our findings and analysis in this area of the SDG mapping exercise will help inform the Fund's own TCFD reporting. We will continue to work closely with Officers in the provision of this information for use beyond the SDG mapping exercise.

Next steps

We expect to be able to conclude both the qualitative and quantitative analysis we believe is necessary for this project by the end of August, with the intention of submitting our interim report as planned during September. Once the interim report has been delivered, the intention is to hold a virtual workshop with Committee members to discuss the project, our findings and what that might mean for the Fund's investment approach, going forward. Officers will be in touch with Committee members to discuss possible dates for the planned workshop.

David Crum

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