

## Surrey Pension Fund Climate Policy



### I. Our Policy

As outlined in the Fund's Investment Strategy Statement, Surrey Pension Fund is a long term investor with its fiduciary duty to ensure it can continue to pay the long term liabilities of its pensioners. Integral to ensuring its investments can provide a competitive risk-adjusted-return, is to also ensure that its investments are sustainable from an Environmental, Social and Governance (ESG) perspective. Companies which have strong ESG credentials can also be indicators of strong long term investments.

The LGPS Investment Regulations 2016 instructs funds to '*consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise*'. Climate Change is not only considered an environmental risk for current and future generations, but equally a systemic economic risk, which can have a significant financial impact on the Fund's investments and its ability to meet future pension obligations.

The risks and opportunities related to Climate Change are summarised below;

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging
- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose. [Source: [Border to Coast Responsible Investment Policy 2020](#)]

#### Engagement vs Divestment

The integrated nature of Climate Change and its ability to impact most industries, means that the Fund chooses not to take a sector wide exclusion approach to its investments. Undoubtedly in every sector there will be best in class and worst in class companies, representing both investment risks and opportunities. It chooses therefore to engage with its fund managers, companies and where possible, policy makers, to influence them directly to move towards a sustainable financial strategy that ultimately provides long term value for its shareholders. Engagement not only covers the Fund's investments but engagement is equally

vital with Governments, Regulators and Policy Makers to enable those companies to transition to a carbon neutral economy. Similar to the Fund’s investment approach, engagement is also a long term approach with the goal for companies and economies globally to be Carbon neutral by 2050 to limit global warming to within the 2 Degree Scenario.

## II. What is the Taskforce for Climate-related Financial Disclosures (TCFD)?

The Taskforce for Climate-related Financial Disclosures is an industry-led initiative, created by the Financial Stability Board in December 2015. The aim of TCFD is to develop voluntary, consistent, Climate-related financial risk disclosures across a wide range of sectors, demonstrating the risk that Climate Change poses at a macro-economic level. This will then provide useful, decision making information for investors, lenders, insurers and other stakeholders. The disclosures enable organisations to identify and disclose relevant information about material Climate-related financial risks and opportunities that can have an impact on the decisions made by their stakeholders.

The recommendations are also applicable to asset owners and asset managers. As of February 2020, 1,027 organisations globally had declared their support for the TCFD, representing a market capitalisation of over \$12 trillion [Source: [TCFD](#)]

Since its launch, TCFD has become the de-facto climate framework for global regulators, its recommendations will be embedded in the amended Pension Schemes Bill currently passing through Parliament. [Source: [Parliament](#)]

Surrey Pension Fund became of supporter of TCFD in June 2019, because it recognises the importance of understanding climate risks and opportunities relative to its role as an institutional investor. The initiative welcomes new global supporters every month across a wide range of sectors, emphasising the significance of having a standardised set of disclosures for all organisations to follow at a global level. This will provide a familiar and useful reporting format for the benefit of all stakeholders.

Other notable supporters have been highlighted below;

Organisation	Date joined
Deloitte, KPMG, HSBC Holdings, PepsiCo, Unilever, Robeco Asset Management, Marks & Spencer	2017
Financial Conduct Authority (FCA), Border to Coast Pensions Partnership, CBRE, eBay, Tesco PLC, Nestle	2018
Government of Chile, Local Authority Pension Fund Forum (LAPFF), Atos, New Zealand Super Fund, ITC plc, Toyota Industries	2019
BP, Kellogg, Ford Motor Company	2020

## III. Our Approach

### A. Governance

#### I. Committee, Local Pensions Board & Officers

The Surrey Local Pensions Board first conducted a review of Environmental, Social and Governance (ESG) compliance in spring 2017 which was then reported to the Surrey Pension Fund Committee on 10 November 2017. The Pension Fund Committee then approved the recommendation to establish the fund's current carbon asset exposure, with the initial analysis being carried out on the Fund's passive and active equities. The findings from this analysis can be found below in the Metrics Section.

The Fund also encourages a culture of continuous professional development about these emerging issues. Committee and Board Members as well as Officers all actively encouraged to attend training sessions to further develop their understanding of Climate Risks, Opportunities as well as the wider spectrum of Environmental, Social and Governance issues.

## **II. Border to Coast Pensions Partnership**

At a Pool Level, Border to Coast Pensions presents its yearly Responsible Investment (RI) Policy, with regular feedback from, and then subsequently approved by all partner funds. The RI Policy recognises the systemic risk Climate Change poses to investors at a macroeconomic level, and references the key risks associated with Climate Change, also highlighted in this introduction.

A Climate Change Working Party was held across six sessions during 2019 to increase knowledge across Border to Coast and the Partner Funds (including Surrey) on how to better understand Climate Change Risk. The sessions covered

- Scenario analysis on Funding Levels
- Risk analysis and integration into investment process;
- Engagement vs divestment discussions
- How best to collaborate to strengthen influence when engaging
- Communicating with and educating stakeholders

### **B. Strategy**

#### **I. Strategic Asset Allocation**

In terms of the impact of Climate related risks and opportunities on Surrey Pension Fund's strategy, the strategy chosen can vary considerably between different asset classes. Within the Fund's current legacy assets, it applies mainly to its listed and unlisted equity investments.

From a listed equity perspective, The Fund currently holds a 9.8% fund allocation to an Indexed Low Carbon Equity Fund within its portfolio. The purpose of the low carbon fund is to tilt the weighting of its holdings towards companies less reliant on carbon in their business operations.

From a Private Market perspective, The Fund also seeks environmentally sustainable investments, which is where the majority of Climate Related investment opportunities currently exist.

#### **II. Border to Coast Pensions Partnership**

From the perspective of Border to Coast Pensions Partnership, Climate risk is factored into the selection and appointment of external managers and ongoing monitoring of these

mandates. This will therefore inform future engagement initiatives, and collaboration opportunities. The strategy, as mentioned previously, varies between different asset classes.

## **C. Risk Management**

### **I. Carbon Tilting**

Similar to our Strategic Approach, our carbon tilted Indexed Low Carbon Equity Fund is also a method of risk mitigation by weighting our holdings in favour of funds who are less reliant on carbon. As a result, they do not pose as significant an investment risk from a Climate risk perspective as we transition to a carbon neutral economy.

### **II. Engagement**

The Fund sees engagement as a fundamental tool in managing climate risk within its portfolio companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which collectively engages with multinational companies on behalf of most Local Authority Pension Funds in the UK, as well as all 8 Pension Pools. Collaboration with other institutional investors enhances Surrey Pension Fund's own influence in engagement with companies, regulators as well as policy makers, all playing significant roles in the low carbon transition. The Fund will also support Climate Related shareholder resolutions after having consulted with Border to Coast, provided it is in line with BCPP's Corporate Governance & Voting Policy, also adopted by all partner funds.

### **III. Border to Coast Pensions Partnership**

*From the perspective of BCPP; Climate change risk and opportunities, alongside other Environmental, Social and Governance issues, are considered as part of the investment decision making process. In order to measure climate-related risks, BCPP utilises third party carbon data to implement a carbon screening tool across internally and externally managed portfolios. This produces a carbon footprint relative to the portfolio benchmark allowing for internal analysis of carbon risks. This is used alongside other tools such as the Transition Pathway Initiative tool and engagement data, to understand intrinsic risk at stock, sector and portfolio level. [Source: [BCPP TCFD Report 2019-20](#)]*

As members of the Institutional Investor Group on Climate Change ('IIGCC') BCPP also engages collaboratively alongside other institutional investors with policy makers. Robeco has been appointed to provide BCPP's voting and engagement services so acts in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 12 partner funds within the Pool. Robeco lead engagements with multinational companies on various environmental and social issues, also including Climate Change.

## **D. Our Metrics**

### **I. Carbon Exposure Review in June 2018**

The Fund completed its first Carbon Exposure analysis of its Equity Funds which was presented to the Pension Fund Committee in June 2018. The Carbon footprint

analysis measured the greenhouse gas emissions produced within each equity portfolio (per tonnage) in relation to their annual revenue, demonstrating how much of their return is determined by activities which emit carbon dioxide.

This was done by measuring the carbon footprint of each individual asset holding, encompassing both direct and first tier indirect impacts. Direct impacts are those which result from a company's own vehicles, operations and waste. First tier indirect impacts occur as a result of a company procuring services from within their supply chain.

The findings from the analysis concluded that The Fund's overall carbon exposure was mostly below their relevant benchmarks.

Equity Manager	Value of Holdings (£m) as at 28 February 2018	Total CO2 Footprint per £m holding (tCO2e/£m revenue)	Benchmark CO2 Footprint per £m holding (tCO2e/£m revenue)	Variance	Benchmark used
LGIM Passive - UK Equity	351.89	361.66	358.17	+0.98%	FTSE UK All Share
LGIM Passive - World Developed	485.13	390.90	394.02	-0.79%	FTSE Developed
LGIM Passive World Emerging Market	54.09	832.70	854.41	-2.54%	FTSE Emerging Markets
Marathon Global Equity	491.86	313.03	420.54	-25.57%	MSCI ACWI
Newton Global Equity	320.8	173.54	420.54	-58.73%	MSCI ACWI
Majedie UK Equity	321.27	286.45	358.17	-20.02%	FTSE UK All Share
UBS UK Equity	306.06	276.04	358.17	-22.93%	FTSE UK All Share

Since then, the Fund's asset allocation has changed quite significantly, with the transition of assets to Border to Coast Pensions Partnership and the termination of Marathon and UBS as our Legacy Equity Fund Managers. The Fund had also transitioned into a Low Carbon and RAFI Multifactor Fund with LGIM in January 2019, replacing the former LGIM World Developed Fund and LGIM UK Fund.

The Fund's Voting records on Climate Related Resolutions for the period between 1 January 2017 and 31 May 2020 have also been summarised below



Company	Event Date	Type of Event	Resolution Category	Resolution Number	Narrative	Mng Recommendation	Surrey Vote
Exxon Mobil Corp	27-May-20	AGM	Environmental Practices	6	To request the Board to publish an annual report relating to the company's environment-related activities that are voluntary and that exceed U.S. and foreign compliance and regulatory requirements	Against	For
Exxon Mobil Corp	27-May-20	AGM	Environmental Practices	7	To request the Board to assess the adequacy of measures the company is employing to prevent public health impacts from associated chemical releases	Against	For
Amazon.com Inc	27-May-20	AGM	Environmental Practices	11	To request the Board to provide a report to identify and reduce disproportionate environmental and health harms to communities of colour	Against	For
Amazon.com Inc	27-May-20	AGM	Environmental Practices	5	To request the Board to provide a report on the environmental and social impacts of food waste	Against	For
Royal Dutch Shell plc	19-May-20	AGM	Environmental Practices	21	To request that the Board set and publish targets aligned with the Paris Climate Agreement	Against	Abstain
Exxon Mobil Corp	29-May-19	AGM	Environmental Practices	8	To request the Board to prepare a report assessing the public health risks in areas prone to climate change	Against	For
Amazon.com Inc	22-May-19	AGM	Environmental Practices	11	To request the Board to produce a report on climate change topics	Against	For
Amazon.com Inc	22-May-19	AGM	Environmental Practices	4	To request the Board to produce a report on the environmental and social impacts of food waste	Against	For
BP plc	21-May-19	AGM	Environmental Practices	22	To request that the Board report to shareholders on the strategy to be consistent with the goals of the Paris Agreement	Against	For
BP plc	21-May-19	AGM	Environmental Practices	23	To request that the Board publish targets that are aligned with the goal of the Paris Climate Agreement	Against	For
Royal Dutch Shell plc	21-May-19	AGM	Environmental Practices	22	To request that the Board set and publish targets aligned with the Paris Climate Agreement	Against	For
Royal Dutch Shell plc	22-May-18	AGM	Environmental Practices	19	To request that the Company set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to below 2 degrees	Against	For
BHP Group Ltd	16-Nov-17	AGM	Environmental Practices	23	To request the board to commission a review of energy policies	Against	For

BHP Group plc	19-Oct-17	AGM	Environmental Practices	23	To approve member request on public policy advocacy on climate change and energy	Against	For
Royal Dutch Shell plc	23-May-17	AGM	Environmental Practices	21	To request the board to set and publish targets for reducing greenhouse gas emissions that are aligned with the goal of the Paris Climate Agreement	Against	For
Santos Ltd	04-May-17	AGM	Environmental Practices	5b	To request the board amend its strategy in relation to climate-related risks	Against	For
Danske Bank AS	16-Mar-17	AGM	Environmental Practices	11c	To request the bank invest 5% of its net profit in green technology	Against	Abstain
Danske Bank AS	16-Mar-17	AGM	Environmental Practices	12	To request the bank report on how it will live up to the 2 degree target in relation the UN's climate targets	Against	Abstain