

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 11 DECEMBER 2020****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: INVESTMENT CORE BELIEFS AND THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS****SUMMARY OF ISSUE:**

Strategic objectives	
Investment	Governance

Surrey Pension Fund is reviewing its investment strategy with a view to ensuring that it is in line with its Mission Statement and the emphasis on environmental, social and governance (ESG) considerations, in the wider context of the United Nation's Sustainable Development Goals (SDGs).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Having considered all aspects of incorporating ESG considerations in to the investment approach, and in acknowledgement that there is no universally agreed approach in this area, agrees that the use of UN SDGs provides a forward thinking and comprehensive approach in referencing the transition to sustainability within the Fund's investment strategy
2. Agrees that the Minerva Report provides sufficient assurance to enable a decision to move to the next stage of more detailed preparation and implementation.
3. Requests further action from officers and, where appropriate, advisors, to cover the following areas:
 - Draft relevant changes to the Investment strategy
 - Develop SDG in to an engagement framework for companies as well as Investment Manager activity
 - Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers
 - Work with Border to Coast on developing SDG approach to Pooled assets
4. Agrees that officers provide the following updates for the next meeting:
 - Presentation of an implementation plan
 - Propose the method by which progress on implementation is incorporated as part of all future investment strategy reviews

- Propose the timeline for the assessment and ongoing viability and effectiveness of this approach

REASON FOR RECOMMENDATIONS:

To keep the Pension Fund Committee apprised of the progress made in reviewing the Fund's investment strategy with a view to ensuring that it is in line with its Mission Statement and the emphasis on environmental, social and governance (ESG) considerations.

DETAILS:

Background

1. At its meeting of 7 June 2019, the Pension Fund Committee approved the following mission statement:

“The Surrey Pension Fund will deliver a first-class service through strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. Environmental, Social and Governance factors are fundamental to our approach which is underpinned by risk management, informed decision making, the use of technology and the highest standards of corporate governance”.
2. Further to this, at its meeting of 20 December 2019, the Pension Fund Committee approved for a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:
 - The Fund's positioning of Responsible Investment in its Core Investment Beliefs;
 - The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets;
 - The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP;
 - The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM);
 - Reaching a recommendation on the position of The Fund on the Spectrum of Capital;
 - Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs) (Paragraph 17), carried out by an independent provider.
3. The Fund had chosen to use the United Nations Sustainable Development Goals as a reference for Responsible Investment, as it represents a framework of universally agreed goals in which all countries within the United Nations should aim to achieve by 2030. Logically these goals can also become a target for the financial services industry, specifically Pension Funds who can provide the necessary capital to accelerate these goals.

4. On 24 January 2020, officers issued an invitation to tender for the following scope of work:

To examine the existing Investment Portfolio holdings of Surrey Pension Fund and their relationship (positive/ negative) to the United Nations Sustainable Development Goals, and identify the risks and opportunities associated with the analysis.

In particular to comment on:

- The Core Investment Beliefs of the Committee; informing and assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how it fits into its Investment Strategy;
 - The starting position of the Fund against the UN's SDGs;
 - How the Fund can continue further as Impact Investors and integrate the SDGs into its Investment Strategy;
 - Where there is an Investment risk/ opportunity to the Fund, within its assets, in relation to the transition to sustainability and a low carbon economy;
 - The methods used to map sustainability to investment strategy and how robust they are;
 - The Fund's own Responsible Investment Approach and in the context of Border to Coast Pensions Partnership.
5. After a competitive tender process, with a selection panel of the Vice Chairman of the Committee, the Independent Advisor and officers, Minerva were appointed to support the Fund in this work.

Initial Findings on External Manager approach to ESG

6. Some of the initial findings on the Fund's external managers have been summarised below;
- 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)

Initial Findings on Benchmarking against World Benchmarking Alliance's SDG 2000 Index

7. Initial findings from the Fund's mapping against the WBA SDG 2000 have been summarised below;
- Approximately 70% of the Fund's equity and corporate bond portfolio holdings are also in the WBA SDG 2000 Index
 - The overlap against the WBA SDG 2000 is purely coincidental, but does present an opportunity to focus on these holdings, and how these

companies are managed. Improving the management of these companies can allow them to make progress in aligning against the SDGs.

8. The Fund's mapping provider had opted to use the World Benchmarking Alliance as the most robust approach in understanding how best to target systematic change with the world's most influential companies. The companies targeted within the SDG 2000 have the most potential to deliver these goals and become leaders in their sector for others to follow as an example. The Committee is satisfied that this methodology is vigorous and that portfolio analysis can continue using this basis

Engagement Workshop

9. The Fund held a workshop along with Minerva, Members of the Pension Fund Committee as well as its Independent Adviser. A summary of the workshop has been provided below;
 - The findings from the mapping exercise was discussed along with the more extensive analysis on Fund Manager policies on ESG as well as the SDGs
 - There was also discussion as to how the findings can be integrated within the Fund's Investment Strategy Statement and also how this can be integrated with its Index Fund provider Legal and General
 - There was an acknowledgement that the concept of aligning investments against the SDGs are still in its infancy

CONSULTATION:

10. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

11. 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

12. There are no financial and value for money implications contained in this report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

14. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

15. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

17. The following next steps are planned:

- Officers to work with Minerva and Adviser on implementation of recommendations.

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions),
Mamon Zaman, Senior Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

1. Findings Report from Minerva

Sources/background papers:

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