

Surrey Pension Fund

SDG Mapping Project Report

18 November 2020

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1 Introduction

In April 2020, Surrey County Council, as the administering authority of the Surrey Pension Fund ('the Fund'), appointed Minerva Analytics to carry out a United Nations Sustainable Development Goals ('SDGs') mapping project for the Fund. The impetus behind this project was that Surrey recognised that there is currently no universally agreed approach in the investment industry towards incorporating ESG considerations into the investment process. Having considered all aspects of this question, the Fund decided to explore whether the use of the SDGs might provide a robust, comprehensive and practical method of ESG factor implementation.

The objectives of the exercise were specified as follows:

The Fund wishes to examine its existing investment arrangements in the wider context of the SDGs, to identify risks and opportunities.

Specifically, the outcomes from the exercise are to focus on:

- *Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;*
- *The starting position of the Fund against the 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; and*
- *The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.*

Since our appointment in April, the delivery team of Minerva Analytics and Discern Sustainability ("the Minerva team") have followed the exercise delivery approach proposed in our formal project brief submission, to meet the Fund's exercise requirements:

Goal	Task	Status
Examine	Look at your current position, reviewing relevant documentation and Pension Committee minutes;	✓
Benchmark	Examine Fund's equity and bond holdings data across 9 managers for bench-marking;	✓
Inform	Hold a workshop where our initial findings are delivered, and engage with Members and Officers on investment beliefs; and	✓
Deliver	Take on board feedback, refine reporting and any proposals, and return to deliver final report at formal Pensions Committee meeting.	December

In this SDG mapping project report, we begin with an Executive Summary before describing the approach taken to map the Fund's investments to the SDGs, as represented by the World Benchmarking Alliance's SDG 2000 benchmark. We elaborate further on the mapping method taken and cover its strengths and weaknesses, before presenting the findings of our analysis of the Fund's investments. We conclude the report by summarising the 'Inform' activity that took place in the online Workshop that we held with Officers and Elected Members in October, setting out the high-level outcomes, before ending with a Summary of the exercise.

Minerva Analytics & Discern Sustainability

18th November 2020

2 Executive Summary

Having examined the Fund's investment arrangements, focussing on the Fund's prioritised outcomes, we can report the following high-level summary:

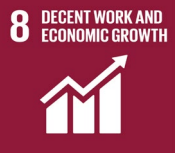





Table 1: Key Facts

Key Facts	Outcome
Investment Managers analysed	Nine
Manager mandates covering ESG, SDG or Climate Change	One
WBA SDG2000 Overlap by Count of Companies / % of Assets Analysed	870 / 43%
WBA SDG2000 Overlap by Value of Companies / % of Assets Analysed	£1.86bn / 63.2%
Portfolio companies analysed referencing Taskforce for Climate-Related Financial Disclosures (TCFD) / % of Assets Analysed	38% by number or 53.2% in £ invested (£1.56bn)
Surrey's initial greatest exposures to the SDGs (as defined by the SDG2000 benchmark):	
SDG8 – Decent Work & Economic Growth	£2.16 billion
SDG13 – Climate Action	£1.99 billion
SDG12 – Responsible Consumption & Production	£1.82 billion
Surrey's initial smallest exposures to the SDGs by Sector: (as defined by the SDG2000 benchmark):	
SDG4 – Quality Education	£0.39 billion
SDG15 – Life on Land	£0.42 billion
SDG14 – Life Below Water	£0.42 billion

2.1 Key Facts – Further Details

- Nine of the Fund's current investment managers, covering all of its equity and corporate bond investments, provided qualitative and quantitative information that was analysed in this exercise.
- None of the existing investment managers' investment management agreements (other than the LGIM Low Carbon portfolio) has any specific references to incorporating ESG, climate change, or SDG-alignment factors into their specific mandates besides proxy voting matters.
- The qualitative analysis of managers' policies and sophistication of ESG strategies identified practices that can be described as either Developing or Good.
- Using the SDG2000 benchmark to measure the Fund's current starting position with respect to the SDGs, we found that:
 - At the end of December 2019, the Fund's investment managers collectively held **870 (43.5%) of the 2,000 companies in the SDG2000** that are deemed most likely by the WBA to help deliver the SDGs by 2030;
 - The Fund had a total of **£1.86bn invested** in these 870 companies' equities and corporate bonds, **representing 63.2% of the total value of the in-scope assets** as at end December 2019. Note: Despite the high overlap, **this is not by design**. None of the managers surveyed is employing an SDG selection strategy, either generally, or specifically for the portfolio(s) they manage for the Fund.
 - The starting Fund's in-scope holdings and value of economic exposure **to each of the 17 SDGs have been calculated**, with the top three greatest and least exposures summarised in the following table:

Table 2: Headline SDG Exposures

Greatest Exposures		Least Exposures	
SDG	£ Invested / Individual Holdings	SDG	£ Invested / Individual Holdings
 8 DECENT WORK AND ECONOMIC GROWTH	£2.16 billion	 4 QUALITY EDUCATION	£0.39 billion
	2,596		388
 13 CLIMATE ACTION	£1.99 billion	 15 LIFE ON LAND	£0.42 billion
	2,624		549
 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	£1.82 billion	 14 LIFE BELOW WATER	£0.42 billion
	2,419		556

- Using Minerva's Sustainability Governance Rating to measure company standards in relation to governance and sustainability, including climate change, most of the Fund's underlying investee companies can be classified as being, on average, either 'Good' or 'Developing' in their approach;
 - At the end of December 2019, **approximately 38% of the Fund's listed equities covered by Minerva's analysis had made some material reference to TCFD** in their latest public disclosures in their Annual Reports and Accounts. By material reference, we mean an investee company's explicit or implicit alignment with the recommendations of the TCFD;
 - This equated to **approximately 53% in £ invested (£1.56bn) in investee company securities that made reference to TCFD** in their public disclosures; and
 - **A number of investment risks and opportunities to the Fund were identified** within its assets, in relation to the transition to sustainability and a low carbon economy.
- At the Workshop that took place with Elected Members, Officers and the Independent Advisor, we discussed the findings of the project, and suggested that there are at least three potential ways to use the results of this exercise to integrate the SDGs into the Fund's investment strategy:
 - Close monitoring of and engagement with SDG2000 constituents;
 - Making the case to Border to Coast for a formal approach towards SDG alignment; and
 - Committing Fund capital to a specific SDG-focussed product(s).
- Having duly considered the findings of this SDG mapping exercise at the Workshop, the Pensions Committee decided that it should inform further actions in relation to the Fund's approach to the SDGs, investment strategy and investments, focussing on:

- Developing a framework for selecting, monitoring and evaluating investment managers that includes SDG metrics;
- Building a formal framework for engagement with, and divestment from, underlying investee companies; and
- Integrating the SDGs into investment manager engagement activity, focusing on activity undertaken by BCPP and LGIM where possible.

3 Our Approach to the SDG Mapping

The United Nations' Sustainable Development Goals ("SDGs") are, at just five years old, very young in investment terms. Only very recently have asset managers begun creating products and approaches specifically aligned to the SDG. Surrey is – as far as we are aware – the first LGPS pension scheme (and quite possibly one of the first UK pension schemes) to actively seek to create a link between their investment approach and the SDGs.

At the heart of any client exercise, Minerva's approach is to use independent, robustly defensible, and academically evidenced good practice or regulatory standards. The SDGs are no different. Given that approaches to align investments with the SDGs continue to evolve, part of our own approach is to ensure that Surrey is not tied to a "one size fits all" vendor-specific solution. Instead, we are equipped with solutions that can flex and respond as attitudes and approaches towards the SDGs, including potential regulation, develop over time.

Minerva measured the Fund's current position in relation to SDG alignment using the World Benchmarking Alliance (WBA) SDG2000 list.¹ The SDG2000 is an analytical framework that has been developed in conjunction with leading accounting and investment practitioners to identify robust ways of measuring progress against the SDGs. We chose the WBA because its approach to the SDGs is both distinctive and pragmatic. Rather than, as with most vended methodologies, merely focus on the companies with the most 'green revenues' (itself difficult to estimate) or least controversial activities (potentially highly subjective), the WBA looks at negative and positive impacts combined with 'clout', the size and footprint of a company, and asks the question: "*what if this company aligned with the SDGs?*" These 2,000 keystone companies are, therefore, the companies where a pivot to the SDGs would produce the greatest impact, regardless of where they currently are in their sustainability journey, and where investors, through engaged stewardship, can play a role in encouraging companies to realise their latent net impact.

Using the SDG2000 as the core project framework, we have produced research, data and insights which benchmark the Fund's existing investments against the WBA companies and have identified those investments most likely to 'move the needle' towards delivering the SDGs. We have also assessed the bench strength of the Fund's asset managers on ESG and any known plans to use the SDGs. Consequently, Surrey is now better placed to understand its current position, in terms of where there is the potential to closely align with the aims of the SDGs and where there it is not, from both fund manager and individual portfolio holding perspectives. The exercise is predicated on understanding potential within the portfolios and manager responsibilities on stewardship 'as they are'. This does not preclude options to develop bespoke SDG fund solutions, later.

3.1 Starting the SDG Mapping Exercise

As set out in the introduction to this report, we have taken a four-step approach to the delivery of the SDG mapping project objectives for the Fund. Set out on the next page is some additional information on how we have approached the first two steps in the project, 'Examine' and 'Benchmark':

¹ <https://www.worldbenchmarkingalliance.org/research/sdg2000-methodology/>

3.2 Examine

The purpose of the 'Examine' stage was to carry out a mostly *qualitative assessment* of where the Surrey Pension Fund and its external investment managers sit from a general sustainable investment perspective. It included giving consideration as to whether any specific commitments or policy alignments had already been made towards the delivery or promotion of the SDGs. The 'Inputs' for this first step in the project covered a range of written documents, including:

- Surrey Pension Fund investment and governance policies;
- Pensions Committee reports and minutes;
- Surrey's managers' investment mandates & specific asset manager agreements; and
- Routine and special reporting from the Fund's managers.

Working with Officers of the Fund, we agreed the range of managers 'in-scope' for the exercise, which included the specific parts of their existing mandates that covered equity and corporate bond investments. Since the Border to Coast Pensions Partnership is increasingly closely involved with the investment management of Surrey's assets, we also paid particularly close attention to their voting, governance and sustainability policies.

As part of the information collection aspect of the 'Examine' stage, we also sent each of the in-scope managers a questionnaire to complete. This questionnaire covered a wide range of active ownership topics, grouped under the following categories:

- Portfolio Description;
- Portfolio Environmental, Social and Governance ("ESG") Approach;
- Firm-wide ESG Practices;
- Voting & Stewardship.

Through the questionnaire, we sought to understand each manager's approach to:

- Sustainable investment; and
- ESG factors, including:
 - Climate change (via TCFD disclosures); and
 - the SDGs.

The questionnaires were augmented by stewardship information disclosed on each manager's website. We also carried out a review of each manager's latest UN-backed Principles for Responsible Investment Transparency Reporting². We then reviewed all the information and created a 'Sustainability Profile' for each manager. Finally, overlaying our knowledge and expertise, we devised an easily-understandable visual 'dashboard' to summarise our analysis of the qualitative information (effectively turning them into additional quantitative data) to show how each of the Fund's managers were 'scored' by us.

² <https://www.unpri.org/signatories>

Table 3: Managers Reviewed

Asset Manager	Asset Class	Value @ 31/12/19	Comments
Aviva	Equities and Corporate Bonds	£131.0m	Approximately half of the value shown was invested in instruments other than equities and corporate bonds (e.g. derivatives), and so was excluded from the SDG mapping exercise.
Baillie Gifford	Equities and Corporate Bonds	£176.2m	Most of the value of the portfolio relates to investments in pooled funds, which were beyond the scope of the data gathering. This manager was therefore not qualitatively analysed.
Border to Coast	Equities	£1,111.7m	The majority of these investments were included in the exercise (e.g. cash was excluded).
Franklin Templeton	Corporate Bonds	£72.3m	The majority of these investments were included in the exercise.
Legal & General	Equities	£985.2m	The majority of these investments were included in the exercise.
Majedie	Equities	£262.1m	The majority of these investments were included in the exercise.
Newton	Equities	£379.6m	The majority of these investments were included in the exercise.
Ruffer	Equities and Corporate Bonds	£131.1m	Approximately half of the value shown was invested in instruments other than equities and corporate bonds, and so was excluded from the mapping exercise.
Western	Corporate Bonds	£456.4m	Approximately half of the value shown was invested in instruments other than corporate bonds, and so was excluded from the mapping exercise.
Total		£3,705.6m	All managers except Baillie Gifford had their ESG policies, processes and supplied evidence of implementation assessed.

3.3 Benchmark

The 'Benchmark' stage of the SDG mapping exercise was focussed more on carrying out the **quantitative assessment** of the Fund's investments, central to the delivery of the project, and specifically required to meet the key objective of establishing '*The starting position of the Fund against the UN SDGs*'.

At the same time as we contacted each of the in-scope managers for the qualitative information needed, we also asked them to provide quantitative information relating to the underlying portfolios that they managed for Surrey. Each manager was asked to provide portfolio data for a three-year period encompassing Q1 2017 to Q4 2019. For those managers whose mandates were not in place for that specific period, they were asked to provide as much information for that period as possible. We then ingested the portfolio holding data as provided into the Minerva database, to allow us to carry out a two-part quantitative analysis:

1. For SDG Alignment:

- a. using a 2019 year-end "snapshot basis", identify the number and value of holdings in the Fund that were constituents of the WBA SDG2000 benchmark.

2. For SDG and Climate Stewardship Potential:

- a. Where data was available, assess the Fund's holdings against the Minerva Sustainability Governance Rating for each portfolio;³
- b. Where data was available, determine an investee company's explicit or implicit alignment with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosure⁴ ("TCFD"); and
- c. The extent and quality of each manager's policies in relation to climate change was also factored into its overall qualitative bench strength assessment.

Given the potentially wide scope of reporting possibilities, we have focussed on addressing the three specific areas we identified in the Project Plan. The option remains for us to provide additional analysis and reporting that may be required following any further discussion of this report with Officers, the Pensions Committee, and the Independent Advisor.

³ Minerva analyses >90% of the World's listed equity markets by value but does not necessarily cover every security in either the SDG2000, or Surrey's entire portfolio of investments – e.g. the Fund's property and private markets investments or SDG2000 companies which are themselves private companies.

⁴ Source: <https://www.fsb-tcf.org/>. Our analysis looks for both explicit references to the TCFD recommendations as well as practices that are aligned to TCFD but not necessarily labelled as such.

4 Mapping the SDGs – Which Framework?

Surrey's priority exercise outcome(s) addressed in this section of the report are:

	Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;
✓	The starting position of the Fund against the UN 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; and
	The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.

To meet the stated objective of understanding the Fund's starting position in relation to the SDGs, our proposed solution was to take a two-pronged approach:

- Firstly, to compare the Fund's individual equity (and associated corporate bond holdings) to the World Benchmarking Alliance (WBA) SDG2000 benchmark, looking for the overlap in companies held between the two data sources.
- Secondly, the Fund's portfolios and the SDGs were mapped against the widely-used Industry Classification Benchmark ("ICB").⁵ This enables us to identify important industry and sector-specific ESG targets and goals which will either contribute or detract from SDG performance.

It is useful to spend a moment talking about the SDG2000, to note why we think it represents the best map to use when considering the alignment between the Fund's investments and the SDGs.

The WBA is an independent organisation, with funding coming from a number of partners, including the Ministry of Foreign Affairs of Denmark, the German Federal Ministry of Economic Cooperation and Development, the Netherlands' Ministry of Foreign Affairs, and UK Aid, which is itself funded by the UK Government's Foreign, Commonwealth & Development Office.

The WBA seeks to generate movement around increasing the private sector's impact towards a sustainable future for all, and is working to incentivise and accelerate companies' efforts towards achieving the SDGs. The WBA believes that the private sector has a crucial role to play in advancing the SDGs, but to boost companies' motivation, there needs to be real change in the way that their impact is measured. That is why the WBA have developed – and continue to develop – transformative benchmarks that compare companies' performance on the SDGs. The benchmarks are the result of extensive, systems-based academic research on the connectivity of economic activities and social and environmental effects. They also leverage existing international norms and standards. The WBA benchmarks aim to empower all stakeholders, from consumers and investors to employees and business leaders, with key data and insights to encourage sustainable business practices across all sectors. The benchmarks' methodologies are also open access and are continually improved through an ongoing and open multi-stakeholder dialogue.

⁵ <https://www.ftserussell.com/data/industry-classification-benchmark-icb>

4.1 WBA SDG2000

As the private sector will be critical in helping achieve the UN's Sustainable Development Goals by 2030, the WBA SDG2000 benchmark list identifies the 2,000 most influential companies, from Algeria to Vietnam, that are going to shape our future. The WBA's hope is that, in using the SDG2000, investors such as Surrey can promote a 'race to the top' in which company leaders are motivated to do more and company laggards are held to account.

The WBA SDG2000 framework is fully integrated with Minerva's sustainability governance frameworks, enabling Minerva to produce independent and objective insights and data against the public rankings of the world's companies with the greatest potential to transform systems and influence outcomes on the SDGs. From this, Surrey is now able to better understand its current position, where there is close alignment with the aims of the SDGs and where there is not.

The presence of SDG2000 companies within the Fund's portfolios, at whatever level, at this stage, represents unrealised potential positive impact rather than actual positive impact. Many of the companies in the SDG2000 currently perform poorly on conventional ESG and corporate governance metrics. It is the companies' industry sectors, geographical footprint, size and other structural factors that mean they have outsized impact potential. Understanding this means that Surrey can more effectively hold their investee companies individually accountable for their role in advancing the SDGs.

In Section 6 of this report, we set out what we have found when analysing the Fund's investments against the SDG2000. Before that, however, we summarise our findings from the analysis of the qualitative information collected from the Fund and the Fund's external asset managers, with a focus on the SDGs and as seen from a general sustainability perspective.

5 Initial Findings – Qualitative Perspective

Surrey's priority exercise outcome(s) addressed in this section of the report are:

	Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;
✓	The starting position of the Fund against the UN 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; and
✓	The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.

The 'Examine' step of our approach to the SDG mapping exercise resulted in Discern Sustainability reviewing all of the policies and documentation we collected as part of our initial data gathering that relate to Surrey, its external asset managers in general, and Border to Coast specifically.

In this report, we have prioritised the findings in relation to the Fund itself and Border to Coast, given the latter organisation's significant current and future involvement in the management of the Fund's investments. The scores for the qualitative assessment for each manager (including Border to Coast) have been created and integrated with the other SDG2000, Minerva Sustainability Governance Rating and TCFD data. We can say that the qualitative analysis of managers' policies and sophistication of ESG strategies identified practices can be described as either 'Developing' or 'Good'.

5.1 The Fund's Formal Approach to Responsible Investment

Surrey's current 'Responsible Investment' ("RI") position is to align with the LGPS Regulations, and:

- Surrey currently follows Border to Coast's RI, voting and engagement policies⁶, even for assets managed outside of the pool;
- Surrey has made its own statement of compliance with the UK Stewardship Code 2012⁷, even though as an asset owner, rather than an asset manager, it is not required to;
- Surrey has prepared TCFD-aligned fund reporting on the Fund's activities, and a report outlining this was considered by the Pensions Committee at its September 2020 meeting; and
- Surrey has moved into low-carbon investing through the fund managed by LGIM - but otherwise has not allocated dedicated funds with other hardwired sustainability objectives, nor required managers to meet an explicit standard.

In terms of our understanding of how Surrey interprets 'ESG', the three most important sentences we identified from the various policy documents that set the tenor of the discussion are, in our view:

1. **Long-term approach:** "Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term" and that "the Committee wishes to

⁶ <https://www.bordertocoast.org.uk/app/uploads/2020/08/Border-to-Coast-RI-Policy-2020-pdf.pdf>

⁷ [https://www.frc.org.uk/investors/uk-stewardship-code/2020-uk-stewardship-code-\(1\)](https://www.frc.org.uk/investors/uk-stewardship-code/2020-uk-stewardship-code-(1))

have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Fund is a shareholder.”

2. **Risk measurement and management:** *“The Committee requires the Fund Managers to take into account the implications of substantial “extra-financial” considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.”*
3. **ESG policy:** *“The Fund has no specific policy on investing or divesting investments wholly with regard to ESG issues.”* However, the Border to Coast RI Policy is more emphatic: *“Border to Coast will not divest from companies principally on social, ethical or environmental reasons”*. The policies emphasise engagement, instead.

We found these statements to be revealing, in that they show that the primary motivations expressed are:

- a. **Reducing unnecessary ESG risk in investments**, as much from a reputational point of view (i.e. unintended negative consequences for Surrey);
- b. **A negative stance on divestment.** We wondered if discussions between all the partners within Border to Coast on divestment may have yielded little in the way of agreement, and that the most conservative position possible was the only one that would pass: ‘we do not divest’. Surrey’s words stating ‘no specific policy’ could be read as studied agnosticism. While it is conceivable that the case was successfully made that no mandate exists for sector-level exclusions on ‘ethical’ grounds, it is apparently not considered here or in the Border to Coast material that, at times, divestment might be the financially prudent thing to do because ESG risks are material enough. Such an approach is consistent with generally accepted definitions of fiduciary duty, and so Surrey and the wider Border to Coast Pool membership may wish to consider this possible action, in the future.

5.2 Surrey’s approach to ESG & Asset Managers

We were pleased to note that Surrey had already requested details from their external investment managers, including Border to Coast, on how they conduct ESG integration and stewardship, as a matter of good practice. Our aim in this report, therefore, is to provide a more detailed stock-take that will put Surrey in a stronger position from both internal and third-party perspectives.

The ESG and asset manager appointments and regular reporting materials we have received are of variable quality. This will partly reflect manager idiosyncrasies, but we also suspect is a product of history and a lack of consistency or more than a tick-box approach to ESG when it came to historic manager selection, e.g. the manager must be a UK Stewardship Code or PRI signatory.

Key Finding: There were no specific ESG references in any of the asset management agreements that we looked at, except for perfunctory voting matters. We have assumed no side letters exist on specific ESG requirements.

The disclosures in the 2018-19 Surrey Annual Report and Accounts (“ARA”) meet the reporting minima set out by the LGPS Regulations, however there are significant opportunities for improvement to bring the Fund up to wider pension scheme investment practice. We know Surrey has already recognized this fact and we recommend that Surrey goes beyond the narrow scope of its existing reporting obligations. Surrey could take the opportunity to extend its disclosures in the ARA, including how it might interact more fully with members. The formal introduction of ‘Implementations Statements’ for private sector DB and DC pension schemes may yet come to apply to LGPS Funds and Surrey could get ahead of this development.

5.3 Divestment

We wonder if Surrey and the other Border to Coast founding members may have come to an impasse when it came to the topic of divestment. While divestment is not our main concern in this project, it is difficult to ignore, particularly in light of the recent Supreme Court ruling on the LGPS and ethical investments.⁸ It may be the case that individual Pool members have to severally build up a *fait accompli* of core aligned policies (e.g. on coal), such that an overarching Border to Coast Pool policy then becomes within grasp, since it would then be easier for recusant member Funds to fall in with the majority.

We are mindful that the direction of travel with pooling means that Surrey may eventually have most of its assets invested with Border to Coast. Obviously, this eventuality makes a considered, comprehensive, and robust Border to Coast ESG approach & policy crucial.

⁸ Government loses Supreme Court ruling on LGPS ethical investments 29 April 2020 [Online: [LGC Plus](#)]

5.4 Border to Coast's Approach to Stewardship

Considering how 'young' the Pool is, we classed Border to Coast approach in the 'Good' category in relation to Stewardship and ESG as demonstrated by their RI Policy, detailed Voting Policy and TCFD statement. The fact that they are looking at climate scenario analysis is an encouraging sign of a willingness to take a leadership approach and engage with emerging best practice.

Nevertheless, their approach relies heavily on the outsourcing of voting and stewardship activities, including collective engagement, to Robeco. We believe that this approach has been taken as a functional efficiency, and in our view Robeco is a credible partner with a platinum heritage in RI and ESG. As an overlay provider, Robeco's reporting is of high quality and Robeco's external auditor audits active ownership controls on an annual basis, as this audit is part of their annual International Standard for Assurance Engagements control (AAF 01/06).⁹ It should be noted that AAF01/06 is an audit of the procedures and controls associated with the implementation of stated policies, not a review of the quality or relevance of their engagement on specific stewardship or ESG issues.

On climate change in particular, Border to Coast has set out its position well in terms of how climate could affect its investments and also acknowledging its limitations, for example, in the discussion of carbon footprinting in its TCFD report, of which it is (justifiably) critical.

One area where we believe needs more work is demonstrating the 'how' and the outputs of ESG integration for the assets that it manages in-house. In the Border to Coast Annual Responsible Investment & Stewardship Report 2019/20,¹⁰ Daniel Booth, CIO, says:

"For our internal portfolios, in addition to conducting quarterly screening and benchmarking, we also incorporate ESG risk consideration at the individual stock level. Portfolio managers complete detailed investment analysis, including in depth review of ESG factors for portfolio investments, with the support of our Research and RI team. We also include an ESG questionnaire as part of our request for proposal process for selecting external fund managers and private market funds, and on an annual basis after appointment, which are assessed by our portfolio managers and RI team." [page 5]

Border to Coast's identified priorities for 2022 are sound, in our view:

- a. Well-embedded ESG tools and analysis across asset classes for both internally and externally managed sub-funds;
- b. A holistic engagement framework in place, tracking milestones across portfolios and asset classes;
- c. A well-researched approach to requiring disclosures to support our investment process; and
- d. The PRI Principles embedded throughout [their] procurement process and contract monitoring.

There is some mention of the Sustainable Development Goals in the context of Robeco's engagements and how these could be more SDG-focused. This is something that could be explored further, given the potential overlap between the SDGs and an engagement-led approach.

⁹ AAF 01/06 Assurance Reports On Internal Controls Of Service Organisations Made Available To Third Parties [Online: [ICAEW](#)]

¹⁰ Border To Coast Responsible Investment And Stewardship Report 2019/20 [Online: [Border to Coast Website](#)]

5.5 Qualitative Assessment Summary

Overall, we are broadly satisfied with the RI/ESG/Sustainability information provided on Border to Coast and its RI agents. Going forward, the Fund may well wish to discuss with Border to Coast its current managers' approaches on RI, ESG, sustainability and SDG-alignment. Certainly, more could, and should, be demanded of the poorer performing managers to close the gap. Minerva can make recommendation on this, if desired.

We recommend that the Fund looks deeper into Border to Coast's internal approach to ESG integration, as well as seeking to understand the role of ESG in the external asset manager selection and monitoring process. This latter point is of particular importance, given that Border to Coast's present and future influence in this area is so highly consequential for Surrey, overall.

6 Initial Findings – Quantitative Perspective

Surrey's priority exercise outcome(s) addressed in this section of the report are:

	Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;
✓	The starting position of the Fund against the UN 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; and
	The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.

The '**Benchmark**' step of our approach to the SDG mapping exercise saw us take the Fund's existing investments – at the individual portfolio holding level as provided by the in-scope managers – and ingest this information into the Minerva database. There were three main reasons for doing this:

1. **To analyse** the existing investments to establish the Fund's starting position against the SDGs (as represented by the SDG2000);
2. **To identify** material leaders or, more importantly, laggards which would likely increase the risk of undershooting achievement of the SDG goals, we needed to assess the quality of the sustainability governance of the investee companies using Minerva's Sustainable Governance Rating framework; and
3. **To help inform discussions** with the Fund related to investment risks & opportunities in relation to the transition to sustainability and a low carbon economy, we needed to identify which of the Fund's existing investee companies were or were not making emissions disclosures in line with TCFD reporting standards.

6.1 Fund Starting Position vs the SDGs

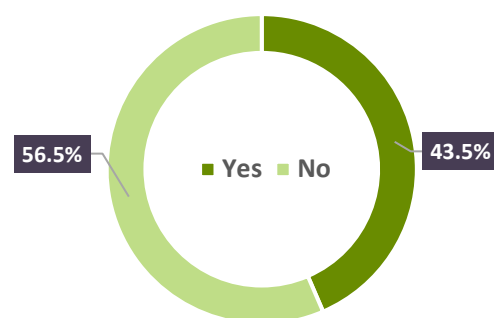
Fund Exposure by Individual SDG2000 Company

Having ingested the individual equity and corporate bond holdings from the Fund's asset managers, we aggregated them together to effectively create a single line entry listing the Fund's economic exposure to each single company.

Comparing the Fund against the SDG2000 we found **an overlap of 43.5%.**

This means that, as at the end of 2019, of the 2,000 companies deemed by the WBA as having the greatest potential to help deliver the SDGs by 2030, **the Surrey Pension Fund had economic exposure to 870 of them** across all of its managers.

Aggregate SDG 2000 Overlap (# of Companies)



It is important to note that this **this overlap is purely accidental**; neither the Fund nor its external asset managers have in place any specific instructions that would have resulted in a conscious alignment with either the SDGs or the SDG2000 (which itself only came into being at the end of 2019).

Figure 1: SDG Overlap by # of Companies Overall

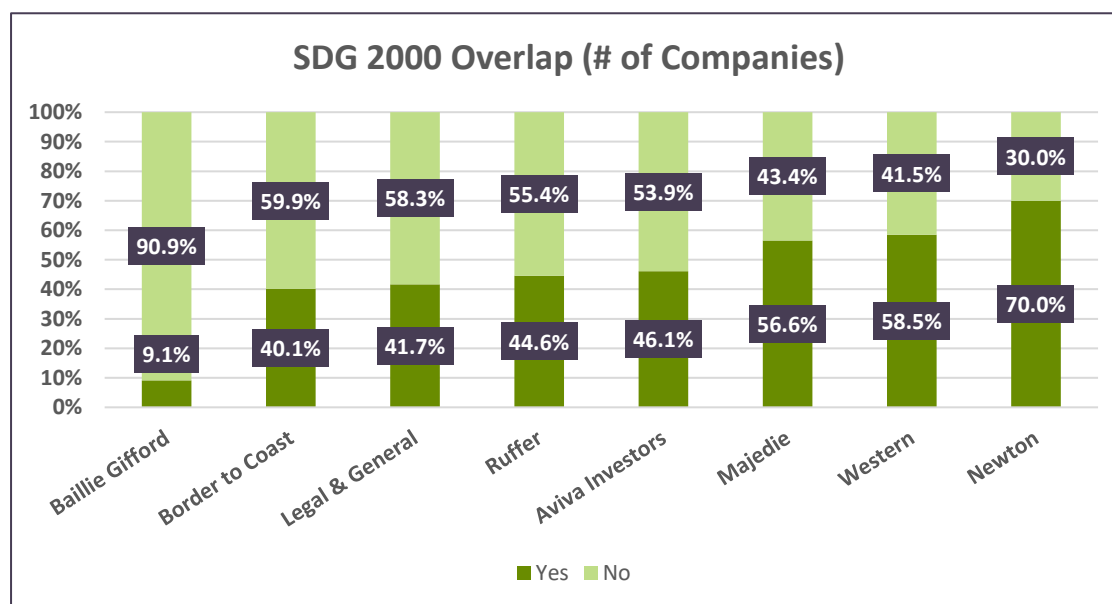


Figure 2: SDG Overlap by Manager

The next piece of analysis undertaken was to show the distribution of this overall exposure to the SDG2000 across the in-scope managers. The chart above shows the overlap between the holdings in each of the managers' portfolios and the SDG2000 companies, again as at 31-Dec-19. Whilst there is a slight anomaly in terms of the Baillie Gifford portfolio (as most of the investments in the DGF are in pooled funds), the percentages shown for the other managers are an accurate reflection of their portfolios' exposure to the companies in the SDG2000.

Newton had the greatest exposure to companies in the SDG2000. This is again an accidental occurrence, and a by-product of their managing a large cap US equity mandate, since some of the largest US companies are prominent members of the SDG2000. We note that Newton is the one manager with a stated intention to bring an SDG product or approach to market, though it is almost

certainly coincidental to the WBA overlap, being explained by the US large cap bias. Border to Coast had the lowest exposure to the SDG2000 companies, with only just over 40% holdings overlap.

Fund Exposure by £ Invested in SDG2000 Companies

Whilst the overlap of the number of companies between those held in the Fund and those in the SDG2000 is of interest, the Fund's true economic exposure to the SDG2000 companies makes for more interesting reading.

Having analysed the Fund portfolio holding valuation data for 31/12/19, we saw that of the £2.94bn ingested from in-scope managers and assets, **£1.86bn - or 63.2%** - of the total 'in-scope' value **was invested in SDG2000 holdings**. This presents a much more meaningful picture in terms of the Fund's economic exposure to the companies most likely to deliver the SDGs, should they be governed and managed on a sustainable basis (see below for further discussion).

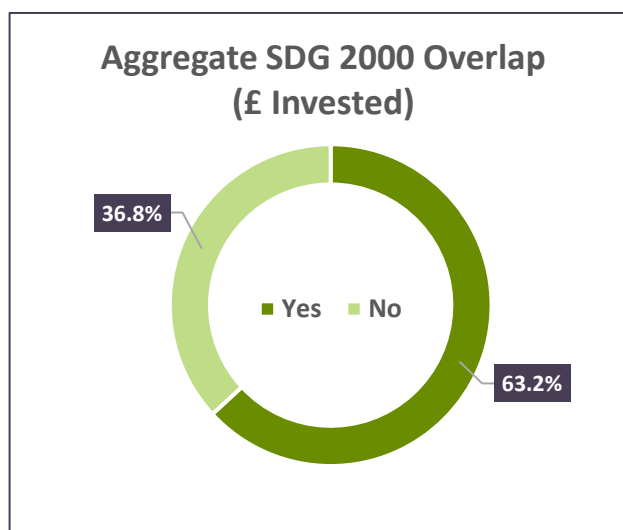


Figure 3: SDG Overlap by £ Invested Overall

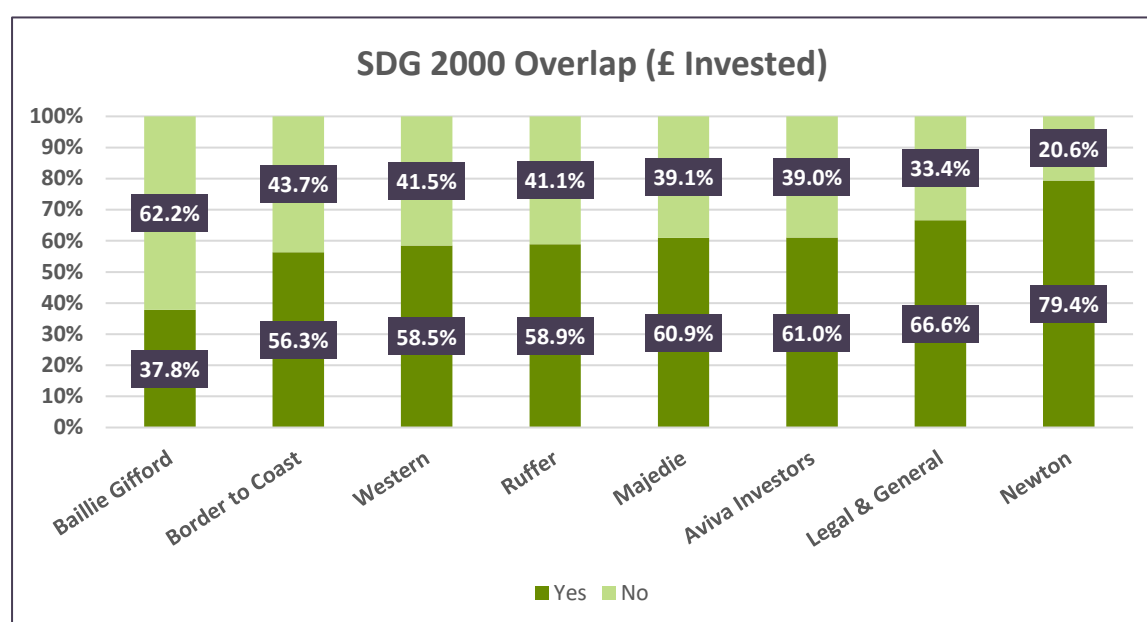


Figure 4: SDG Overlap £ Invested by Manager

The associated piece of analysis shows the value invested in SDG2000 companies for each of the in-scope managers. The previous chart again shows the overlap between the holdings in each of the managers' portfolios and the companies listed in the SDG2000 as at end December 2019, but this time from a £ invested perspective. Again, setting aside the Baillie Gifford portfolio due to its predominantly pooled fund structure, the percentages shown for the other managers are an accurate reflection of their £ invested in the companies in the SDG2000.

Newton again had the greatest economic exposure to companies in the SDG2000, and Border to Coast had the lowest exposure to the SDG2000 constituents, with only just over 56% of their portfolios being in the index – however, this still represent a total of £0.59bn of the Fund's total value.

Fund Geographical Exposure by Individual SDG2000 Company

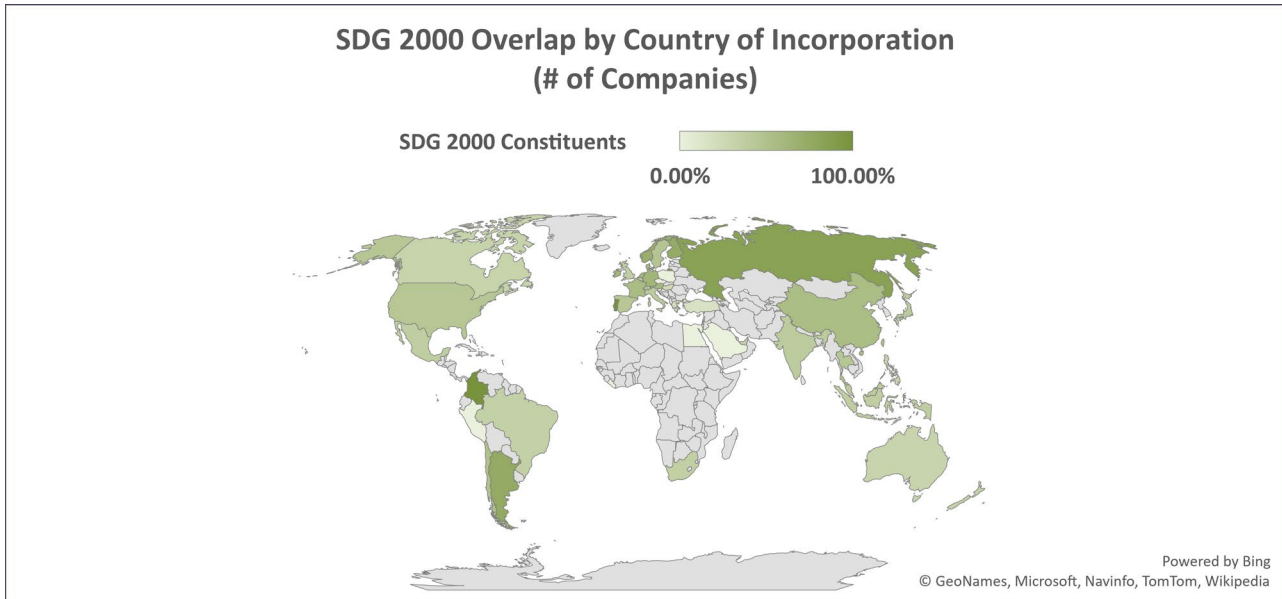


Figure 5: SDG2000 Overlap by Country (# of companies)

When looking at the geographical distribution of Fund's companies in the latest portfolio valuation data provided against the SDG2000; the data shows that the **US market** concentrates the biggest number of companies, followed by the **UK market**, with a proportion of **33% and 11.3% respectively**, of the companies contained within the fund. Looking at the proportion of SDG2000 constituents in the forementioned countries, **44.9% of the companies in the US market** are listed in the SDG200, whereas **36.4% of the companies in the UK market** are in this list, as at 31 Dec 2019.

Fund Geographical Exposure by £ Invested in SDG2000 Companies

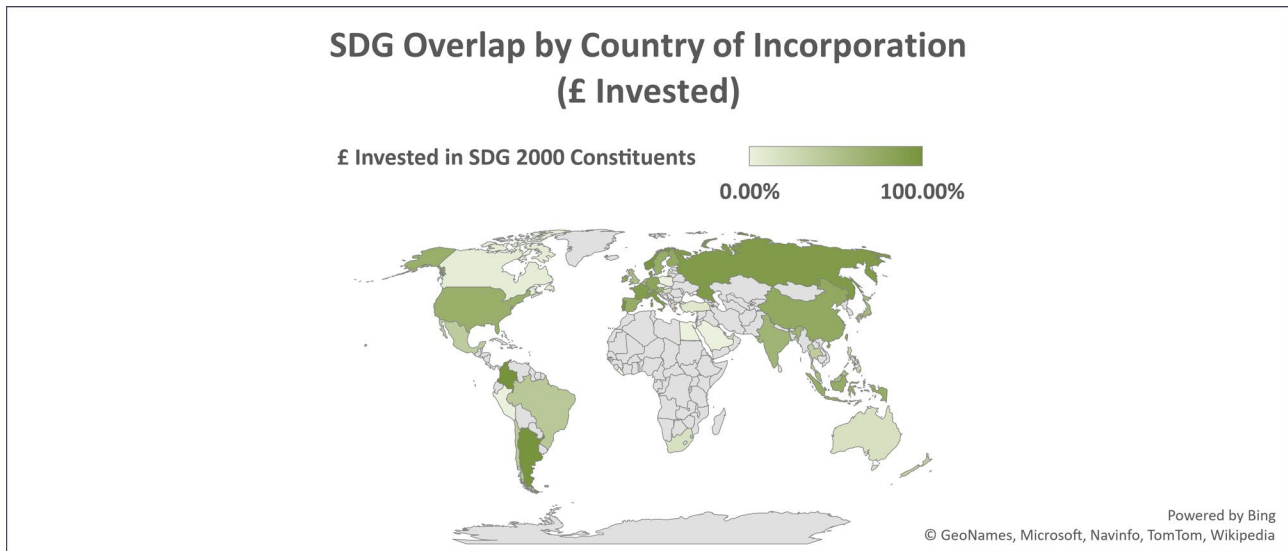


Figure 6: SDG2000 Overlap by Country (£ of investment)

Interestingly, when conducting an analysis of the geographical distribution of the value invested in SDG2000 companies, the **UK market is ahead, with 32.4% of the total value invested**, followed by the **US market, with 30.8%**. Therefore, these two markets concentrate 63.2% of the value invested. However, while **70.7% of the value invested in US is in SDG 2000 constituents**, for the **UK market**, this percentage only represents **53.8%** of the value invested.

6.2 Minerva's Sustainability Governance Ratings

In order to determine the stewardship and engagement momentum needed to drive the SDG potential in each company, the second part of the 'Examine' step in our review was for Minerva to analyse the Fund and individual portfolios from a 'governance of sustainability' perspective.

In almost every global market, securities regulators and industry codes of best practice identify ESG and stewardship as a fiduciary responsibility. Key regulatory initiatives are driving stewardship responsibilities, requiring more transparency and public reporting. Understanding how a fund is impacted by these developments is an important first step to meeting fiduciary objectives.

Minerva's Sustainability Governance Rating ("SGR") measures the alignment of the Fund against global corporate governance and sustainability good practices. The rating works not only at portfolio level, but also cascades down to individual holdings (equities and fixed income).

Minerva's philosophy is to understand the governance of sustainability by issuers, with emphasis on their disclosure of sustainability risks, management, and accountability. The SGR therefore assesses a company across seven pillars of good practice which are fully-aligned with TCFD, Transition Pathway Initiative, UN Global Compact, OECD and ICGN governance principles. In this way the score offers a consistent measure of a company's governance and sustainability maturity rather than performance in respect of specific ESG topics.

Each portfolio constituent is attributed an overall score ranging from A to F (where A stands for best-in-class) representing its cumulative assessment of the governance standards. These scores are then aggregated to provide a single letter score perspective of the Sustainability Governance for the portfolio as a whole.

Figure 7: Minerva Sustainability Governance Pillars



Minerva Sustainable Governance Rating

Using the Fund's external asset managers' portfolio information as at 31-Dec-19, we analysed the holdings to create a Sustainable Governance Rating for each portfolio:

Table 4: Portfolio Sustainable Governance Rating

Manager/Fund	Pillar 1	Pillar 2	Pillar 3	Pillar 4	Pillar 5	Pillar 6	Pillar 7	Rating
	Board and Committees	Financial Reporting	Capital Stewardship	Audit and Reporting	Remuneration	Shareholder Support	Sustainability Governance	Overall
Portfolio 1	51%	100%	65%	69%	35%	94%	52%	Developing
Portfolio 2	60%	100%	64%	57%	49%	100%	33%	Basic
Portfolio 3	54%	100%	67%	74%	38%	96%	54%	Developing
Portfolio 4	59%	100%	67%	81%	65%	99%	43%	Good
Portfolio 5	54%	100%	66%	71%	40%	95%	51%	Developing
Portfolio 6	54%	100%	66%	73%	38%	94%	50%	Developing
Portfolio 7	43%	100%	64%	47%	38%	98%	43%	Basic
Portfolio 8	55%	100%	64%	76%	41%	92%	61%	Good
Portfolio 9	60%	100%	62%	80%	64%	93%	64%	Good
Portfolio 10	55%	100%	73%	75%	34%	98%	63%	Good
Portfolio 11	54%	100%	60%	68%	42%	93%	54%	Developing
Portfolio 12	52%	100%	59%	73%	34%	91%	51%	Basic

Key Takeaway: Achieving a high degree of symmetry between stock selection and ongoing stewardship is essential to help the Fund to achieve its objectives. From this analysis we can see **significant degrees of variance** across a number of dimensions of good governance practice – **notably in respect of sustainability governance factors which are aligned with the TCFD and TPI**. However, the summarised SGR results offer an insight which will help frame future discussions relating to setting and/or assessing external investment managers' approaches to stewardship and sustainability issues which can be addressed in the immediate near term.

6.3 TCFD Alignment of Underlying Fund Investments

TCFD Alignment by Individual Fund Equity Holding

The third, and final, part of the 'Benchmark' step in our SDG mapping exercise project approach relates to the TCFD disclosures made by the Fund's underlying investee companies for which Minerva provides research coverage, across all of the Fund's external investment managers.

TCFD has become the de facto standard for disclosing climate related risks and opportunities. As part of our sustainability governance research process, we look not only for instances where companies have made generalised references to the TCFD but - to protect against box-ticking or 'green-washing' - but our analysts also review the detail of corporate disclosures looking for alignment with the TCFD's four core elements: Governance; Strategy, Risk Management and Metrics/Targets.

Minerva's analysts examined the Fund's holdings as provided by the Fund's managers - not just the SDG2000 constituents - and found that **just over 38.1% of the Fund's listed in-scope equities under coverage have had made some material reference to TCFD** in their latest Annual Report and Accounts.

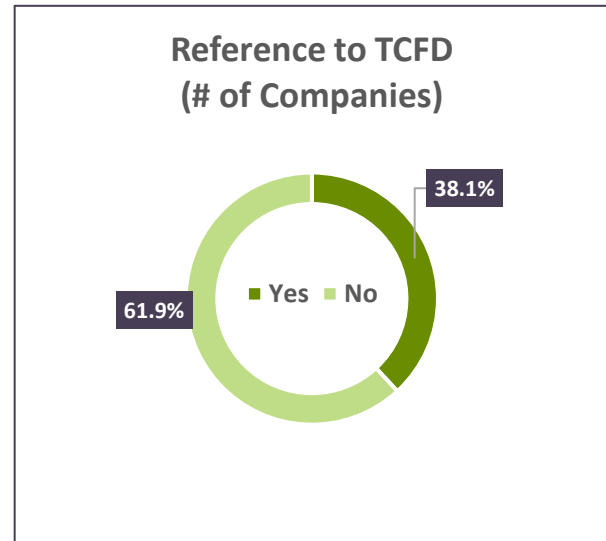


Figure 8: TCFD References by Companies

TCFD Alignment by £ Invested in Individual Fund Equity Holding

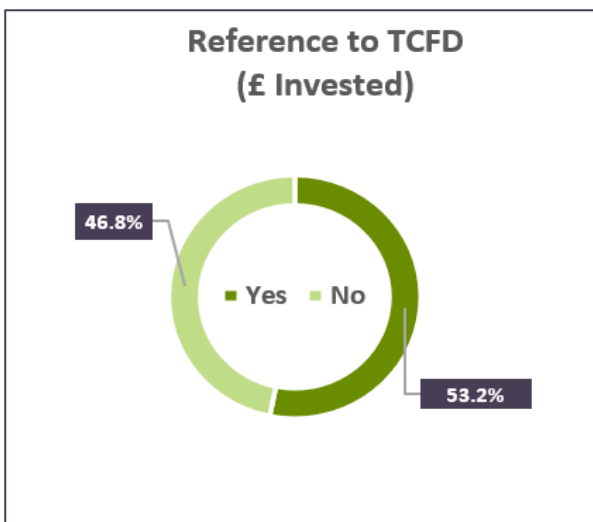


Figure 9: TCFD Reference by £ Invested

Whilst the number of companies held by the Fund making TCFD disclosures is of course of interest, again the Fund's economic exposure to such companies is likely to be more telling, given that it actually represents the money effectively at risk in terms of climate-related risks, and how underlying investee companies treat these risks.

The analysis showed that of the c£3bn analysed from in-scope managers and assets, **£1.56bn - or 53.2% - of the total in-scope value was invested in companies we cover that make meaningful reference to TCFD.**

Again, this presents a more helpful picture in terms of the Fund's economic exposure to the companies that do - and do not - seem to have identified






climate change as a specific risk to their business model, and have begun making disclosure that are helpful to institutional investors, in terms of starting to assess which companies are taking the risk of climate change seriously. As TCFD has been around for the same time as the SDGs, having 53% of the Fund's investee companies by economic value use it as the charting process for climate strategy already is a promising result.

6.4 Quantitative Assessment Summary

Surrey's priority exercise outcome(s) addressed in this section of the report are:

	Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;
	The starting position of the Fund against the UN 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; and
	The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership

The quantitative assessment process of the Fund's underlying investments has produced the following high-level results, which address the key question posed by the Fund relating to its current position with regards the SDGs. As at the end of December 2019:

	43.5% of the Fund's listed equity holdings (including their associated corporate bonds) – or 870 companies in actual terms - were members of the SDG2000;
	However, a more meaningful measure of £1.86bn overlapped with the SDG2000 companies, representing 63.2% of the total in-scope value ;
	Almost all the Fund's external managers had a meaningful £ exposure to the SDG2000 companies;
	Minerva's Sustainability Governance Ratings for the UK and Global Equity portfolios totalling £1.04bn managed by Border to Coast were broadly positive; and
	53% of the in-scope assets by value, totalling £1.56bn, have made some reference to TCFD in their public disclosures, compared with only 38% of the Fund's investee companies by number.

The analysis undertaken and the results generated will help

Inform	Future discussions associated with the Fund's potential for SDG-aligned investment approaches;
Supplement	Qualitative analysis of the policies and implementation of incumbent and future asset managers, in giving a more complete picture, being independently assessed. The benefit of this is chiefly in making the relationship between owner and manager more symmetrical and so enable higher standards and better accountability; and
Contribute	Future deeper dives into investment risks and opportunities in the Fund's assets, in the context of the transition to sustainability and a low carbon economy.

7 Investment Risks & Opportunities

When thinking about the Fund's investments in the context of sustainability and the low carbon economy, there are three levels where these issues can be addressed:

Fund level	Policy: setting an overarching policy, generated from Core Investment Beliefs, that shapes the direction of travel;
Manager level	Expectations: setting explicit expectations at the investment manager mandate level; and
Investment level	Integration: understanding how an investment manager incorporates these twin issues into their everyday individual investment selection, monitoring and engagement processes.

7.1 Investment Risks & Opportunities

The Fund's SDG mapping exercise undertaken by Minerva and Discern has revealed a number of investment risk and opportunity issues, on which Officers and Elected Members may wish to reflect.

It is perhaps not accidental in the key project objectives that Surrey wanted to know whether there was an *"..investment risk/opportunity to the Fund, within its assets....."* using a joined risk/opportunity phrase, since – from an investment perspective - one tends to be closely associated with the other.

Therefore in Table 5 on the following page we have summarised several key issues emerging from our analysis, together with what we believe to be their associated investment risks and opportunities in relation to the transition to sustainability and a low carbon economy.

Table 5: Investment Risks & Opportunities

Issue	Source	Why Investment Risk?	Why Investment Opportunity?
Absence of explicit ESG, climate change or SDG references in any of the Fund's external asset manager investment management agreements	Qual. Analysis	By not explicitly raising these issues, they could be unintentionally left out of the investment process	Adding the consideration of these topics to investment management agreements may help asset managers focus on, and then better understand, these issues
Insufficient detail/rigour in the Selection, Appointment and Monitoring process on RI/ESG by the Fund and by Border to Coast (though latter is recognised as an area for development)	Qual Analysis	The market is rife with greenwash and grade inflation, while there is still a large spread in the quality and sincerity of approaches by asset managers. Failure to uphold a high standard could indulge lacklustre approaches by managers and expose the Fund to the investment and reputational risk of being 'absentee'	Having a well-considered process for assessing asset managers' approaches to sustainability has the potential to result in more risk aware managers being appointed, investing in better run companies who should deliver better long-term investment returns
Voice versus Exit. Omission of the option of divestment from an existing investment on ESG grounds.	Qual Analysis	Not having the option of divesting from companies that are unwilling or unable to mitigate highly material ESG risks or who are unwilling to address similar governance failings reduces the Fund's choices	Having the option to divest provides the opportunity to reallocate capital to other, more sustainably-managed – and therefore more risk-aware – investment opportunities
Analysis has identified the current overlap between the Fund's existing investments and the SDG2000 companies	Quant Analysis	Analysis has identified the lowest sustainability-rated holdings of the Fund's SDG2000 holdings, which represent a potential investment risk if company management are not identifying and addressing all known risks and issues	Taking a proactive identification and engagement approach with the lowest sustainability rated of the Fund's SDG2000 holdings, the Fund has the potential of improving these investee companies' governance of sustainability issues, to potentially improve long term returns
Analysis has identified the current overlap between the Fund's existing investments and companies that publicly state some appreciation of TCFD reporting requirements	Quant Analysis	A significant proportion of the Fund's existing investee companies have made no disclosures relating to TCFD, and so they may not be taking full account of the risks posed by climate change	By seeking out companies that make TCFD-related disclosures, the potential exists that such better-run companies – in terms of being more climate risk aware – have the potential to deliver better returns over the longer term
Historic drivers of equity performance, at the asset class level, may no longer be relevant	Known External Issue	Any investment strategy modelling based on historic performance drivers is, by construction, unlikely to address recently emerging risks such as climate change	By incorporating sustainability and climate change factors into the investment strategy modelling process, the potential outcomes are more likely to reflect more closely the actual reality
Opportunity to implement new benchmarks aligned to SDGs	New Issue	Limited experience with SDG investing due to relative youth of concept	Incorporating SDGs into investment strategy can help to overcome "ethical subjectivity" often associated with ESG investing; new investment opportunities becoming available with pivot towards SDGs/Low Carbon transition

8 Integrating the SDGs

Surrey's priority exercise outcome(s) addressed in this section of the report are:

	Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;
	The starting position of the Fund against the UN 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; and
	The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.

Whilst neither Minerva nor Discern are in the position of giving regulated investment advice, we were – and are – of the view that, in carrying out the SDG mapping exercise, certain possible options would become apparent as to how the Fund could move forward with its desire to more closely align its investment approach with the SDGs, and to integrate them into its investment strategy.

Having carried out both the qualitative and quantitative analysis on the Fund's listed equity (and associated corporate bond) holdings against the SDG2000, we see three main possibilities when it comes to incorporating the SDGs more formally into the Fund's overall investment approach:

1. Close monitoring of SDG2000 constituents

The Fund could, with the help of managers and advisers, agree to closely monitor its exposure to any underlying investee company in any manager portfolio that is also in the SDG2000 index, and their respective performance on the metrics that best reflect a positive or negative contribution to the most relevant SDGs. Given the close working relationship with Border to Coast, the Fund could specify to Border to Coast that Surrey wishes for them to pay particular attention to any such company, and to create a monitoring and engagement policy for them that ensured SDG laggards were identified and contacted, and that SDG leaders were supported and encouraged to strive towards helping deliver the SDGs. There is also logic in asking for those companies who are strong performers on more conventional ESG measures to consider and act on the implications of the WBA analysis. The WBA approach, on its own terms, only has merit if all companies in a benchmark, regardless of their stage of evolution, take the necessary steps to close the 'SDG gap'.

Given that the Fund is in a state of transition as regards pooling, such an approach would have the benefit of not actually requiring any specific short-term changes to the Fund's managers, mandates or indeed overarching investment strategy. It would allow the Fund to act on the SDGs now, while keeping more root-and-branch options under review, as manager approaches develop. Its weakness is that, even assuming managers will be willing to advocate the Fund's position, a positive outcome for engagement can never be assured and is difficult to attribute. It may appear merely as relying on the fallback of more engagement, buying time for a position of 'no change'.

2. Formal inclusion of an SDG alignment standard

The Fund could instruct its managers that in considering investee companies for the Fund to own, they must also include an agreed definition or standard in relation to the SDGs as part of the investment screening process. This may or may not include a formal link to the SDG2000 - but may have associated consequences for asset managers, portfolio benchmarks and even potentially fund investment strategy modelling, since certain sectors with SDG laggards (e.g. oil & gas) might effectively be excluded from the Fund's investible universe. A counter-intuitive aspect of the WBA2000 is that it does contain sectors with high, negative impacts - but is more concerned by what could be achieved by these and other companies in transformative activities pivoting to the SDGs.

3. Committing Fund capital to a specific SDG-focussed product

In the same way that the Fund has invested in a Low Carbon product with Legal and General, the Fund could take the same approach and create a passive or active SDG fund, with the option of incorporating the SDG2000 or an alternative (many are being developed by index providers and asset managers) either as the portfolio's benchmark or as a reference point for any mandate. Although this would provide a clear line of sight to the Fund's commitment to the SDGs, it could also be viewed as not fully aligning with the to-be-defined Core Investment Beliefs. For example, if the Elected Members believe that ESG factors, including climate change and the SDGs, should be considered by all companies, then there would be no need for individual mandates specifically set up to address the SDG alignment issue, as all investments should aim to do that. From a practical perspective, the fewer managers that have to adopt aligned approaches to SDGs, the greater chance of agreement and ability to assess results.

9 Workshop Summary

Surrey's priority exercise outcome(s) addressed in this section of the report are:

✓	Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;
✓	The starting position of the Fund against the UN SDGs;
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✓	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; and
✓	The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.

Minerva provided an initial version of this report to Officers, Elected Members and the Independent Advisor at the end of September 2020, as background reading for the project Workshop. These two steps represented the 'Inform' part of the 4 step process we have followed for this mapping exercise. The Workshop gave us the opportunity to present the findings of our analysis to the Pensions Committee for discussion, and for the Committee to consider whether we had met the Fund's original objective in carrying out this exercise, and what the findings might represent in terms of potential changes to the Fund's overall investment approach. Due to COVID-19 restrictions, the Workshop was held virtually on Thursday 15th October 2020. Minerva divided the Workshop into the following sections, to facilitate discussions around the SDG mapping exercise findings:

- Recap of the Surrey SDGs Mapping Project
- Review the project findings
- Discuss the findings in the context of:
 - PRI's Responsible Investment (RI) Framework
 - "Spectrum of Capital"
 - Surrey's Investment Strategy Statement
 - Border to Coast Stewardship & Investment Policies
- Consider next steps in the context of:
 - The SDGs and the Fund's Investment Strategy Statement (ISS) & stewardship policy
 - Prioritising any specific SDGs that have most investment relevance for Surrey

9.1 Workshop Outcome

The collective view was expressed that the exercise objectives had been broadly met, whilst acknowledging that the concept of aligning investments with the SDGs is still in its infancy, and recognising that there is no universally agreed approach in the investment industry to incorporating ESG considerations.

The analysis undertaken was helpful in terms of knowing where the Fund was starting from, in terms of its current approach to ESG factors and the SDGs. Given the direction of travel for Border to Coast to take on more of the Fund's investments to manage, particular attention to the Surrey/BCPP relationship was deemed of importance – and as the Fund also has a significant exposure to Legal & General, that relationship was also highlighted as being important in terms of next steps. The Committee believed that the exercise report provides sufficient assurance to enable a decision to move to the next stage of more detailed preparation and implementation. Further consideration would be given as to whether the Committee wants to prioritise any specific SDGs over any others.

10 Next Steps

We have now arrived at the final step in the SDG mapping exercise:

Deliver

Take on board feedback, refine reporting and any proposals, and return to deliver final report at formal Pensions Committee meeting

We have taken on board Officers', Elected Members' and the Independent Advisor's feedback following the delivery of the initial report and the holding of the Workshop, to create this final version of the Project Report. Minerva will be present at the next Pensions Committee meeting to summarise the content of this report, and to answer any questions that arise in relation to it during the meeting.

There were three main outcomes from the Workshop, that the Committee indicated are the next steps in terms of the SDG alignment journey:

1) Developing a framework for selecting, monitoring and evaluating investment managers that includes SDG metrics

The exercise identified the relatively early stage that all of the Fund's investment managers are at in terms of developing their own approaches to the SDGs. The qualitative analysis shone a light on this area, and as a result the Committee believe that the Fund needs to update its process when it comes to the appointment and ongoing monitoring of external asset managers, to include reference to the SDGs. This means that the Fund would seek to work with Border to Coast Pensions Partnership to include some agreed SDG metrics in any future investment manager appointment process, whilst also looking to update existing investment manager reporting to capture SDG alignment information.

2) Create a formal framework for engagement /divestment with investee companies

In identifying potential SDG alignment with existing investee company holdings, this exercise has made clear that companies' approaches towards the SDGs, and 'sustainable stewardship' in general, remain variable across industries, sectors and countries. Having a coherent, considered approach towards engaging with its investee companies to help deliver the SDGs is a logical outcome for the Fund from this exercise – since it is through engagement that companies will be encouraged to operate responsibly. The Fund should also consider reserving the right to divest from any given company, should its engagement policy deliver no tangible improvement in company behaviour or conduct. Therefore, the Committee intend to review the Fund's approach towards company engagement, and there is scope for the Fund to explore a collaborative approach with Border to Coast and Robeco to look to incorporate a common set of SDGs metrics.

3) Integrate the SDGs into investment manager engagement activity

Given the importance it has placed on aligning the Fund's investment strategy with the SDGs, the Committee also intend to review how the Fund's external investment managers should best address the topic of the SDGs in their engagements with underlying investee companies. This extends to consideration of how Border to Coast appoint and monitor external investment managers, as much as any directly made and held investment manager appointments and investments.

Officers will now take forward these three main project outcomes, and will work with the Committee to ensure any actions associated with the project outcomes are incorporated into the Fund's Investment Strategy Statement at the appropriate time. Minerva and Discern Sustainability remain available to assist in any way that may be deemed appropriate.

11 Conclusion

Whilst the formal SDG Mapping Exercise is now drawing to a close, we believe that the information provided in this report, and through our regular contact with representatives of the Fund, has met the project brief.

The Fund is now in a better position in terms of understanding where it currently stands from a 'sustainable stewardship' perspective:

- Nine of the Fund's current investment managers, covering all of its equity and corporate bond investments, were carefully assessed through a sustainable investing lens, focussing on the alignment of the underlying investments with the SDGs, best practice sustainability, and TCFD reporting;
- Using the SDG2000 benchmark to measure the Fund's current starting position with respect to the SDGs, we found that there was a high overlap in the Fund's existing investments with the SDGs, although this was not necessarily by design;
- The Fund's greatest SDG exposures were to SDG 8: Decent Work and Economic Growth, SDG 13: Climate Action and SDG 12: Responsible Consumption and Production;
- The Fund's smallest SDG exposures were to SDG 4: Quality Education, SDG 15: Life on Land and SDG 14: Life Below Water;
- Using Minerva's Sustainability Governance Rating to measure company standards in relation to governance and sustainability, including climate change, most of the Fund's underlying investee companies can be classified as being, on average, either 'Good' or 'Developing' in their overall approach to sustainability;
- At the end of December 2019, approximately 38% of the Fund's listed equities covered by Minerva's analysis had made some material reference to TCFD in their latest public disclosures in their Annual Reports and Accounts;
- A number of investment risks and opportunities to the Fund were identified within its assets, in relation to the transition to sustainability and a low carbon economy;
- At the Workshop that took place with Elected Members, having duly considered the findings of this SDG mapping exercise, the Pensions Committee decided that it should inform further actions in relation to the Fund's approach to the SDGs, investment strategy and investments, focussing on:
 - Developing a framework for selecting, monitoring and evaluating investment managers that includes SDG metrics;
 - Building a formal framework for engagement with, and divestment from, underlying investee companies; and
 - Integrating the SDGs into investment manager engagement activity, focusing on activity undertaken by BCPP and LGIM where possible.

We would like to thank Officers, Elected Members, the Fund's Independent Investment Advisor and the Fund's external investment managers for their assistance and active participation throughout this exercise, and look forward to discussing the findings of this report further at their convenience.

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