Surrey Pension Fund Committee – 11 December 2020

Item 4.2 Public Questions

Q1 – submitted by Helena Ritter

In November, the UK Government released their '10 Point Plan for a Green Industrial Revolution'. This plan sets out significant investment (£12 billion in total) in renewable energy production and green technology development here in the UK, as well as announcing a ban on sales of new petrol and diesel cars from 2030. Clearly, the need to transition away from fossil fuels is being recognised and legislation is being implemented by the Conservative government to start this transition.

Does Surrey Pension Fund recognise that such policy changes and shifts in government investment to favour renewable energy production are an ongoing demonstration that the future profitability of their investments in fossil fuels are increasingly uncertain?

Reply:

The Fund welcomes the Government's 10 Point Plan for a Green Industrial Revolution as you had mentioned, and we agree that this policy change encourages renewable energy production in the near future. We see this as a positive opportunity from an Investment perspective.

The 10 point plan clearly emphasises the need for private investment to support this renewable energy transition; £20bn in offshore wind energy, £4bn in low carbon hydrogen, £300m in nuclear power, £3bn in zero emission vehicles, £11bn in greener buildings. As an asset owner we recognise that the majority of renewable investment opportunities are still mainly evident in Private Markets as opposed to publicly listed companies, an issue that is widely acknowledged within the Financial Services Industry. We would expect and actively encourage engagement from our fund managers with our invested companies such as the likes of Shell and BP amongst others, on how they address this policy development and how they can potentially accelerate this transition with their capital.

Point 10 of the Government's Green Industrial Revolution plan highlights the requirement to report against TCFD which we are already doing and will continue to use this framework to develop our own Climate Risk reporting approach as well as our own approach to mapping against the United Nations Sustainable Development Goals;

'We will harness the international reputation of the UK's world leading financial sector to encourage private investment into supporting innovation and manage climate financial risk. In line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), we intend to introduce ***mandatory reporting of climate-related financial information across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.'***

The Fund is currently in the process of redefining its Investment Core Beliefs, with further progress to be reported in both our December 2020 and March 2021 Pension Fund Committee meetings. We would encourage you to keep yourself informed on this, as we report on progress in defining our Investment Core Beliefs as well as our Revised Investment Strategy Statement.

https://mycouncil.surreycc.gov.uk/ieListMeetings.aspx?CommitteeId=334

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Q2 – submitted by Ian Chappell

"As a preface to my question, I would like to cite two recent, and different, statements by the Surrey Pension Fund Committee addressing risk in its portfolio:

—In his October 20th letter reply to me, Chairman Evans states quite forthrightly: "We recognise that the energy transition presents a significant and first order risk for investors" Indeed. On this we agree.

—Meanwhile, in Note 20 to its Financial Statements for the year 2019/20, Nature and extent of risks arising from financial instruments, and in particular in section a) Market Risk, SPF states "Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain.

For risks identified in this note, the SPF quantifies the amount of risk inherent in its holdings. Why does the SPF not specifically address the risk of energy transition in this note to its financials? Is SPF not failing to seize the opportunity to discuss in its official disclosures the amount of risk being taken, and the steps available to it to ensure such risk is in balance with expected rewards of holding investments which carry an oversize exposure to the coming energy transition?"

Reply:

In response to your question, we do acknowledge and have reported Climate Change as a risk within our first Taskforce for Climate Related Financial Disclosures (TCFD) report, as well as in our Responsible Investment Policy. We also expect further development of our Climate Risk reporting through TCFD going forward.

With regards to reporting Climate Risk in our Statement of Accounts, our Accounts are prepared in accordance with both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice as well as by our own Auditors' expectations, who are themselves guided by the Financial Reporting Council (FRC). As such, there usually is less flexibility in what we can report through our Statement of Accounts as opposed to the Annual Report. We do however, agree that it is a risk to our investments similar to the more conventional market related risks.

Based on the Department of Work and Pensions' (DWP) most recent consultation on Climate Risk reporting for Pension Funds in August 2020, we expect this area to develop considerably over the next few years. This will be integrated into Pension Funds' Statement of Accounts preparation and Annual Reports going forward.

Q3 – submitted by Jenifer Condit

My question concerns the L & G MSCI World Low Carbon Index Fund which SPF invested in, in January 2019.

What was the £ amount of the original investment in the fund?

Have there been any subsequent trades in this fund? If so, please provide dates and amounts.

Would you please provide the total return on investments in this fund from original investment date through November 30, 2020 and also provide the same return information for the L & G RAFI fund in which SPF is invested for the same time period? Would you also please provide the breakdown of returns as between income and price change?

Reply:

The value of our original investment in our LGIM RAFI Fund was £322,575,693.19 and £325,173,398.86 in our Low Carbon Fund at the date of transition which was 16 January 2019.
The performance returns for both funds against their indices are shown below from their date of inception 16 January 2019 to 30 November 2020

	Fund	Index
Investment Sector Fund	% p.a.	% p.a.
MSCI World Low Carbon Fund	16.73	16.83
RAFI Multifactor Fund	10.08	9.55

Please see the attached files regarding information on the subsequent trades of these funds. However, our fund manager LGIM have advised us that they are unable to provide the split between income and capital return, given these are accumulation units and therefore any income is wrapped up in the price.

Q4 – submitted by Anna Humphris

All of us know that fossil fuel is the biggest reason our planet will soon not be able to support life as we know it. Most of us also know that the financial value of fossil fuel is decreasing. I therefore can't understand why Surrey Pension Fund continues to invest in an industry that will not only yield a poor financial return for pension recipients but will also accelerate the destruction of our planet.

I have been informed that the Surrey Pension Fund believes that investing in fossil fuel is still a good way forward because you feel doing so encourages fossil fuel companies to rapidly transition to clean energy. I personally don't think that is a sound reason as I'm not aware of any fossil fuel extractor who is aligned to the 2°C Paris agreement target, which UK government is signed up to. I therefore ask if you can please identify a single significant fossil fuel extractor who is aligned to the 2°C Paris target?

Reply:

Although we acknowledge that no fossil fuel company has yet explained how their strategy and Scope 1,2 and 3 emissions are in line with the 2 Degree Scenario we have still seen positive commitments in this area, backed by strong shareholder support. Shell and Equinor have already developed plans to diversify their investments while BP has also agreed to set out how its investments are in line with the Paris Agreement. It is also worth mentioning that Companies who are regularly pushed to align with the 2 Degree scenario, across multiple industries not specific to the fossil fuel industry, are also dependent on governments and regulators to enable them to make this transition, through policy change. These companies also act in the interests of their shareholders, so would need to demonstrate how they represent strong viable investments over the long term, through diversifying their business

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operations. This explains the need for engagement across a wide range of stakeholders, all key in driving a low carbon transition.

Surrey Pension Fund takes climate risk extremely seriously and is fully supportive of proposals from the UK government, TCFD and global accounting standards boards to ensure that, as prudent investors, we have sound evidence to support our investment approach.
In the context of our fiduciary responsibility for the fund, we take a nuanced approach to investee companies which balances the needs for long-term risk adjusted returns and the need to move towards a zero-carbon economy.

Having considered the matter in great detail, divestment is not an option that we believe to be consistent with our fiduciary responsibility, nor would it accelerate the achievement of the zero-carbon target. Rather, we believe that divestment will leave companies in the hands of less concerned stewards who would not, through active engagement and voting, hold management to account for their transition plans.

The Surrey Pension Fund is playing a full part in the transition to a low carbon economy. Rather than just a singular focus on fossil fuel issues at the expense of other important Environmental Social and Governance factors, the Fund has just completed the first stage in a ground-breaking exercise aimed at aligning the Fund's investment strategy more closely with the United Nations' 17 Sustainable Development Goals (SDGs). The initial results of this exercise are very promising and are covered in Item 12 on the agenda for the Pensions Committee meeting scheduled for 11 December 2020. This report marks the start of additional work we will be undertaking with our external asset managers and the Border to Coast pool, where we will be asking them to consider the SDGs in the context of investments made and held.

As part of the updated strategy, we will also be reviewing stewardship and engagement, including the use of voting at company meetings, dialogue with investee companies and, if engagement is deemed to be ineffective in bringing about any meaningful change, what additional steps may subsequently be required. As this programme of work is ongoing, further updates will be brought forward for the Pensions Committee's consideration, and will be made public in the usual manner via the Council's website

Q5 – submitted by Isobel Griffiths

I write as a member of Surrey Pension Fund and believe that as members, we have a right to know how our money is invested. Do you agree with this, and if so, would you accept that Surrey Pension Fund therefore has a responsibility to communicate to members the investments it makes with their money, including data on shares held in fossil fuel companies, given that the reduction in fossil fuel use is now an urgent global imperative? Has the fund informed members of the extent of its shareholding in fossil fuel companies in the last three years?

Reply:

We agree that Pensions Funds should communicate to their Members how their money is invested, and it is an area we are more than happy to engage with our Members on.

We have reported on Investment Issues through our Employer Newsletter, in coordination with our Pensions Administration Team's production of our Members' Annual Benefits Statements. We have recently published our 2019-20 Annual Report this month, which provides further information on how much of our Equity and Fixed Income portfolios have reported against the Taskforce for Climate Related Financial Disclosures (TCFD), which is the Industry standard for reporting against Climate Risk. We have also reported our most recent mapping project against the United Nations' Sustainable Goals (UN SDGs) also in our 2019-20 Annual Report. We provide our fossil fuel exposures through Freedom of Information requests usually on a quarterly basis and we also publish our Investment Strategy Statement on our website (surreypensionfund.org), which provides more detail on our Investment Approach.

Q 6 – submitted by Simon Hallett

The pension fund committee has often conveyed its enthusiasm for engagement with companies over ethical issues and in relation to carbon emissions. I would like to ask therefore whether Surrey Pension Fund is planning to support the 'Say on Climate' initiative (www.sayonclimate.org) started by Sir Chris Hohn, founder of hedge fund TCI who must rank as one of the most successful ever investors as well as one of the most philanthropic, having endowed the $6bn Children's Investment Fund Foundation.
The initiative is simple and direct: It seeks to table AGM resolutions requiring companies to do three things:

1. Publish and annual disclosure of emissions
2. Have a credible plan to reduce emissions
3. Put that plan to an annual shareholder vote

These would seem to be reasonable and practical requests from any asset owner cognisant of the risks from climate change and transition to a low carbon economy,

Will SPF publicly support this initiative and lobby its investment managers and Border to Coast to support such resolutions for companies in which they are invested and to propose such resolutions where they are lacking?

Reply:

The Fund has already become a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD), the industry standard for reporting on Climate Change from a Governance, Strategy, Risk Management and Metrics perspective. We, as well as Border to Coast, aim to develop our Climate reporting through this framework going forward.

The Fund is currently in the process of redefining its Investment Core Beliefs, with further progress to be reported in both our December 2020 and March 2021 Pension Fund Committee meetings. We are happy to take your feedback on board on the Say on Climate initiative, as we report on progress on defining our Investment Core Beliefs as well as our Revised Investment Strategy Statement.