

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 10 SEPTEMBER 2021

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

This paper provides details of the progress made in developing the Surrey Pension Fund's (the Fund's) investment strategy, consistent with the environmental, social and governance (ESG) commitment in its Mission Statement and with actions agreed in the Pension Fund Committee meetings of 11 December 2020, 12 March and 9 July 2021 and further developed in workshops on 6 August and 3 September 2021.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approve the proposed revised Investment Strategy Statement (shown as Annexe 1).
2. Approve the proposed structure for a standalone Responsible Investment Policy (shown as Annexe 2) and authorise for sub-committee of Committee members to be convened to work with officers, Minerva and the Fund's consultants and independent advisors to progress the drafting of a policy for future consideration.
3. Approve the proposal for the internal transition of RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund.

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 ESG considerations.

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 responsible investment approach, consistent with the ESG commitment in its Mission Statement.
3. As a result of the findings of this Committee sub-group, the Fund had chosen to use the United Nations Sustainable Development Goals (SDGs) 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.
4. The Fund appointed Minerva Analytics to examine the existing Investment Portfolio holdings of Surrey Pension Fund and their relationship (positive/negative) to the SDGs, and identify the risks and opportunities associated with the analysis.
5. The Fund received a report from Minerva Analytics in its meeting of 11 December 2020. In response to this report and the Committee approved the following:
 - a) Having considered all aspects of incorporating ESG considerations into the investment approach, and in acknowledgement that there is no universally agreed approach in this area, agrees that the use of SDGs provides a forward thinking and comprehensive approach in referencing the transition to sustainability within the Fund’s investment strategy.
 - b) The Minerva Report provides sufficient assurance to enable a decision to move to the next stage of more detailed preparation and implementation.
 - c) A request for further action from officers and, where appropriate, advisors, to cover the following areas:
 - i) Draft relevant changes to the Investment strategy.
 - ii) Develop SDG into an engagement framework for companies as well as Investment Manager activity.
 - iii) Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers.
 - iv) Work with Border to Coast on developing SDG approach to Pooled assets.
 - d) Agrees that officers provide the following updates for the next meeting:
 - a) Presentation of an implementation plan.
 - b) Propose the method by which progress on implementation is incorporated as part of all future investment strategy reviews.
 - c) Propose the timeline for the assessment and ongoing viability and effectiveness of this approach.

6. At its meeting of 9 July 2021, the Committee approved for the Committee to receive further background to proposals for a revised Investment Strategy Statement, proposed structure for a standalone Responsible Investment Policy and the internal transition of RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund, through a dedicated information session and to convene an additional Pension Fund Committee meeting to allow for the Committee to approve next steps once they have received this information.
7. The Committee have meet for workshops on two occasions since the last formal Committee meeting (6 August and 3 September 2021). The recommendations in this report reflect the conclusions of these meetings.

DETAILS:

Revisions to the Fund's Investment Strategy Statement

8. Officers have now completed their work with the Investment Consultant and Independent Advisor to revise the Fund's Investment Strategy Statement. The revised version is shown as Annexe 1. The changes to the Investment Strategy Statement are substantial with the effect of simplifying the document, making it clearer and removing duplication with other documents.
9. A summary of the proposed changes to the Investment Strategy Statement is as follows (note that the page references are to the tracked changes version):
 - a) Revisions to the asset allocation to more accurately reflect the revisions to the investment strategy as approved by the Pension Fund Committee on 12 September 2019, 12 June 2020, 11 September 2020 and 12 March 2021 (specifically these are the Key Investment Beliefs page 3, Objectives page 5, Investment Strategies Table pages 6-7);
 - b) Revisions to the indexed (passive) portfolio to reflect the proposed termination of the RAFI multi-factor and Low-carbon indexed funds and transition in to the LGIM future world index fund (page 6 (this proposal is detailed later in this report));
 - c) Amendments highlighting the intention to develop a standalone Responsible Investment Policy for the Fund, setting out the approach to ESG issues, including climate change (pages 9-10 (this proposal is detailed later in this report));
 - d) Simplification of the section on the Approach to Asset Pooling (pages 10-11), as the details of membership and governance of Border to Coast Pensions Partnership are set out adequately in other documents;
 - e) Removal of the section on ESG and exercise of rights attaching to investments (pages 12-14), reflecting the intention to develop standalone policies in this area;
 - f) Removal of former Appendix B Investment Manager Performance Targets and Benchmarks (pages 18-19), reported quarterly in the Performance Reports;
 - g) Removal of former Appendix C Border to Coast Sustainable Resources (pages 20-26) and Appendix D BCPP Corporate Governance and Voting Guidelines (pages 27-35), as sections of the Investment Strategy Statement. Links to the relevant sections on the BCPP website are given;

- h) Removal of former Appendix E Private Equity (pages 36-37) detailed private equity funds, reported separately.

10. The Committee considered these proposed changes in more detail in a workshop on 3 September 2021.

The proposed structure for a standalone Responsible Investment Policy

- 11. The Fund opted to use the World Benchmarking Alliance (WBA) SDG2000 to assess its starting position in understanding which companies have the potential to shift the dial in delivering the SDGs, if they were managed with the highest levels of corporate governance. The Benchmark was used to provide a starting position as opposed to being used for assessing periodic progress.
- 12. In order to provide an overarching framework for the Fund's approach to Responsible Investing, including using SDG metrics in selecting, monitoring and evaluating investment managers, it is proposed that the Fund develops a standalone Responsible Investment Policy.
- 13. The opportunity exists to establish and promote a comprehensive and up-to-date RI Policy that reflects both current good practice and the Fund's desire to more closely align with the SDGs, whilst working predominantly through third parties such as Border to Coast and Legal & General Investment Management.
- 14. Officers have worked with Minerva Analytics to produce a 'skeleton format' showing the structure and summarised content, but not the detail, of the following key RI policy pillars (this is shown as Annexe 2):
 - a) Governance: Details of the Fund's approach to the responsible oversight and management of the Fund's investments, and its RI 'beliefs'.
 - b) Investment: Details of the Fund's approach to incorporating ESG/RI factors into the investment process at all levels.
 - c) Implementation: Details of the planned approach to implementing the Fund's RI objectives.
 - d) Stewardship: Details of Surrey's approach to voting at company meetings and engaging with investee companies, with a particular focus on working through Border to Coast.
 - e) Monitoring and Reporting: Details of Surrey's approach to assessing ongoing effectiveness and communicating findings.
- 15. The Committee considered this draft structure in more detail in a workshop on 6 August 2021. It was concluded that the structure was sufficiently high level, but, that further work was required in particular, but not restricted to, the following areas to inform key elements of the standalone Responsible Investment Policy:
 - a) An ambitious but realisable net zero carbon target date for the Fund to aspire to.
 - b) A robust framework to consider exclusions and the consequences of engagement.
 - c) Agreement of metrics for carbon measurement.

16. It was noted at the workshop on 6 August 2021 that an understanding of these key elements would be aided by the findings of the transformation for climate related financial disclosures (TCFD) analysis that officers and the investment consultant, Mercer, are currently working on. It is targeted to present the TCFD report to the Committee at its meeting of 10 December 2021.

Approve the proposal for the internal transition of RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund

17. As part of its pooling commitment, the Fund has embarked on transitioning all of its actively managed listed and legacy unlisted assets to Border to Coast. In the future all assets will be managed by Border to Coast, with only indexed assets excluded from this commitment. The Fund's current provider of indexed assets is LGIM, therefore, the work to develop SDGs into an engagement framework for companies will concentrate on LGIM and Border to Coast.
18. The Fund has considered LGIM's engagement approach through their Future World Framework. This provides both a robust and measurable framework for assessing the effectiveness of their engagement with companies. The Future World Framework engages on key sustainability themes, which are considered essential elements of the 'Future World' and which the Fund feels closely aligns with the SDGs, including but not limited to:
- a) Climate Change Energy (SDG 7: Affordable and Clean Energy, SDG 13: Climate Action).
 - b) Biodiversity (SDG 14: Life below Water, SDG 15: Life on Land).
 - c) Waste (SDG 12: Responsible Consumption and Production).
 - d) Water (SDG 6: Clean Water and Sanitation).
 - e) Human Rights (SDG 10: Reduced Inequalities).
 - f) General Population (SDG 11: Responsible Cities and Communities).
19. Of the current portfolio 23.4% is committed to indexed equity assets with LGIM. The current split of indexed assets with LGIM is as follows:
- a) 42% Global multi-factor (RAFI).
 - b) 42% Low carbon.
 - c) 16% Emerging markets.
20. Officers have worked with the investment consultant, Mercer and the independent advisor to consider the appropriateness of the LGIM's Future World Framework as an alternative.
21. The Committee considered these proposed changes in more detail in a workshop on 3 September 2021.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

23. 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

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

25. 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

26. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

27. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

29. The following next steps are planned:

- a) The revised investment strategy statement to be published.
- b) A sub-committee of Committee members to be convened to work with officers, Minerva and the Fund's consultants and independent advisors to progress the drafting of a standalone Responsible Investment Policy for future consideration.
- c) Officers to work with Mercer and LGIM to transition the RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund.

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions),

Consulted:

Pension Fund Committee Chairman

Annexes:

1. Revised Investment Strategy Statement.
2. Proposed RI policy framework.

Sources/background papers:
