Surrey Pension Fund Committee – 10 March 2022

Item 4 - Public Questions

Q1 – submitted by Jackie Macey

I was encouraged to see that Surrey Pension Fund advisers, Mercer Asset Management, are concerned about the generally poor progress that is being made by companies to lower greenhouse gas emissions and have issued the following statement:

“The low number of companies currently aligned to a 1.5 degree Implied Temperature Rise (ITR) shows that significant further progress is needed from companies across all sectors and countries to reduce greenhouse gas emissions. Asset owners and investment managers engaging with underlying companies have a key role to play in this".

It is very significant that Shell and BP do not provide adequate Scope 3 Emissions data and projections. This prevents the ability of organisations such as Transition Pathway Initiative to make accurate assessments of their carbon performance.

A further challenge to being confident in the data produced by companies and fund managers is the practice of offsetting. Friends of the Earth have described offsetting as a ‘Fool’s Paradise’ and explain that an offset approach may actually intensify and cause more biodiversity loss by creating the illusion of biodiversity protection. Monoculture plantations can look good on paper but in reality struggle to achieve the carbon storage that is promised. In reality you cannot plant an ecosystem.

Question: How will SPF put in place robust systems to question the data on which investment decisions are made in light of the frequency with which greenwashing and the omission of Scope 3 emissions play a part in this data? How will SPF know whether carbon offsetting has skewed the data they are relying upon and to what extent this has happened?

Reply:

Assurance of the quality of data and scrutiny of greenwashing will form a key component of the implementation of the new Responsible Investment Policy currently being drafted. This will reflect our focus on the United Nations Sustainable Development Goals (including biodiversity in water and on land.)

We will expect our asset managers to take all necessary steps to ensure the source and accuracy of any investee company data that they use when determining tCO2e, and to be critical when it comes to company decarbonisation plans that involve, or appear to involve, offsetting.

This is a multi-year journey, and the Fund expects data disclosures to improve markedly over time. This is why quality of data will be a key component of our stewardship strategy as part of our Responsible Investment Policy. This will aim to ensure that all investee companies, irrespective of their domicile are taking responsibility for their TCFD-aligned, Science-based transition plans and publishing verifiable data. In the meantime, the Fund will make decisions in relation to its carbon emission reduction on the information available at this time.

Q2 – submitted by Lindsey Coeur-Belle

In light of the IPCC report published in February 2022 and I quote "Human society causes climate change"

The energy sector is one of the systems required to transform. There is a requirement for long term planning and accelerated implementation particularly in the next decade.
Will SPF transform its investment portfolio to 1.5 degrees or below within a decade? And how will you set metrics to measure progress?

Will SPF commit to investment in reusable energy resources and their generation as part of its investment strategy review? And how will you set metrics to measure progress?

Reply:

Will SPF transform its investment portfolio to 1.5 degrees or below within a decade?

The Surrey Pension Fund is currently in process of adopting a Net Zero target and this will be incorporated in our new Responsible Investment (RI) policy.

And how will you set metrics to measure progress?

These will be established through the Fund's Responsible Investment Policy and ongoing TCFD reporting, but the anticipated LGPS investment regulation changes may also help in setting metrics to measure progress.

Will SPF commit to investment in reusable energy resources and their generation as part of its investment strategy review?

The Fund already does this and expects investment in reusable energy to increase as the world moves forward in decarbonising the global economy.

And how will you set metrics to measure progress?

These will be established through the Fund's Responsible Investment Policy and ongoing TCFD reporting, but the anticipated LGPS investment regulation changes may also help in setting metrics to measure progress.

Q3 – submitted by Ian Chappell

"This week's report from the IPCC underlines the need for Surrey Pension Fund to maximise its influence on companies to take immediate and radical action to mitigate the climate emergency. It is heartening, therefore, to see that you are increasing your resources devoted to engagement.

With regard to the other main policy tool that you have available i.e. divestment, I would like to draw your attention to new empirical research on the effectiveness of divestment carried out by the University of Augsburg. The detailed analysis by Professor Wilkens and his colleagues gives very strong evidence that divestment works by:

- lowering the share price of divested companies
  and
- divested companies reacting by cutting their carbon emissions

They have issued a short (5 min) video explaining their findings https://www.youtube.com/watch?v=dorMMn2BBn4 and a report (attached as a pdf) detailing their methodology. I have spoken with Professor Wilkens and he is keen to share his work, respond to questions and possibly run a bespoke webinar for interested parties. He and his colleagues are holding an "open" webinar on Friday 11th March at 3pm via Zoom https://uni-augsburg.zoom.us/j/98328728036?pwd=QUpCb1pWM2FlMXczekMxK3daYm1VUT09

Could I ask that you fully engage with this analysis so that you can satisfy yourselves that their work validates divestment as part of your Responsible Investment policy? I trust that the subcommittee working on your RI policy will consider the research and its implications thoroughly. I expect that this may take a little time, so in the first instance could I ask that you copy me in on any dialogue you have with Professor Wilkens **marco.wilkens@wiwi.uni-augsburg.**

The effects of Mutual Fund Decarbonisation

Reply:

In the Fund's investment decision making and stewardship activities, we rely on advice from our managers and advisor and research from a wide variety of sources, including from academia. We welcome any new and emerging research in formulating our views and approach.

The Fund is also currently designing an ambitious new Responsible Investment (RI) Policy, which highlights that divestment remains an appropriate option in relation to the Fund's investments, should the Fund's investment managers deem that insufficient progress has been made through voting and engagement activity. The option of participating in securities litigation (or Class Actions) is also another method of holding companies to account, should asset owners concerns not be addressed.

Q4 – submitted by Jennifer Condit

I am quite sure that members of the Surrey Pension Fund Committee share my utter dismay at the invasion and devastation of Ukraine. My question centres on the degree to which this war of choice is financed by oil and gas and the platform that SPF - like many major investors -has to respond to this situation.
As context to my question, the critical economic and investment facts on the ground:

- The importance of Oil and Gas to the Russian economy can be measured in various ways, but particularly relevant is its contribution of 39% to the Russian federal budget (*BBC, Towards Net Zero Nov 2021*).
- Equally important is its 60% share of Russian exports (same source)

Fossils fuels are literally paying for this war.

Russia shows limited interest in decarbonising its economy. Per *Carbontracker*, the Russian economy is on track to closer to a 4° world that one of 1.5°.

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The world and the UK in particular have committed to starving the Russian economy as the best hope to reign in hostilities. Economic sanctions will increase, and so will stranded Russian investment assets, particularly in Oil and Gas companies and the Banks that finance them. Values of such investments - already slashed - are exposed to yet further devaluations when and if they begin trading again. With 20:20 hindsight, the sovereign risk underlying investments in these sectors seems wholly inappropriate for a pension fund.

I believe members of the Surrey Pension Fund and Surrey Council tax payers will not want their contributions to SPF to remain exposed to these risks, nor any future economic benefit they might generate to further contribute to their retirement funds.

So my question is: *Would the Committee please disclose what investments SPF currently holds, both directly and indirectly in Russian and Belarussian assets, and in particular in the Fossil Fuel and Banking sectors

Reply:

These questions are addressed in a dedicated urgent paper.

Q5 – submitted by Lucianna Cole

New research from Feedback and World Animal Protection estimates that Surrey Pension Fund currently has approximately £2.2 million invested in industrial livestock corporations, and £0.8 million invested in the soya industry, based on 2020 data.[1] This includes a known £157,057 investment in JBS via the Baillie Gifford Diversified Growth Fund. JBS produce the largest emissions of any livestock company globally and have been linked to 100,711 acres of deforestation in the two years since March 2019.

These investments drive deforestation and contribute to climate change; if current growth trends continue, the global livestock industry will use almost half the world's 1.5°C emissions budget by 2030.[2] To make matters worse, deforestation and forest degradation together account for 15% of greenhouse gas emissions.[3]

Much of Surrey's investment into industrial livestock companies is through indirect investments so my question is: **will Surrey Pension Fund commit to finding out which intensive livestock companies you are invested in, alongside JBS, and conduct research into funds that exclude industrial livestock companies with a view to phasing out all industrial livestock investments over the next few years?**

[1] Follow this link and see "dataset" for the source of this information: https://feedbackglobal.org/local-authority-industrial-livestock-divestment-resources/
[2] Source: https://www.tandfonline.com/doi/abs/10.1080/14693062.2018.1528965
[3] Source: https://www.worldwildlife.org/threats/deforestation-and-forest-degradation

Reply:

Surrey Pension Fund currently has exposure to two of the companies identified by the research through Border to Coast; BRF and JBS. The exposure is through the Multi-Asset Credit Fund and represented c. 0.04% (£241,979) and 0.01% (£60,495) respectively as at 31 December 2021.

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Our pool provider Border to Coast is aware of the research carried out by Feedback and World Animal Protection and has already taken steps to identify exposure across its asset book (details can be provided).

This issue will be part of the Fund's overall stewardship approach.

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