Surrey Pension Fund Committee – 23 September 2022

Item 4 - Public Questions

Q1 – submitted by Lucianna Cole

Impacts from the climate crisis are already being felt in Surrey. These are just three recent examples:

- This summer's record temperatures and dry conditions have led to an increased number of wildfires, including, but not limited to, Bisley ranges, Crockers Farm in Dorking, and multiple fires at Hankley Common and Frensham Little Pond, which have damaged huge areas of wild spaces.
- In July multiple places in Surrey exceeded the previous highest ever temperature recorded in the UK, including Charlwood which reached 39.9C, Wisley which reached 39.3C and Chertsey which reached 32.2C.
- In August Surrey residents in GU5, GU6, RH4, RH5 and RH12 were left with no water, or very low pressure, on one of the hottest days of the year, just days after an official drought was declared in Surrey and much of the South East during the driest summer in the UK for over 50 years.

Unless we take urgent action to reduce greenhouse gas emission this is only going to get worse. Given this urgency, my question is:

Why is the new Responsible Investment Policy taking so long with Surrey Pension Fund continuing to drag their feet when it comes to selling investments in fossil fuels?

Reply:

At its meeting of 10 September 2021, the Pension Fund Committee approved the proposed structure for a standalone Responsible Investment (RI) Policy. The Committee further approved for a responsible investment sub-committee (RISC) of Committee members to be convened to progress the drafting of a policy for future consideration. Following three meetings of the RISC, the RI Policy was approved by the Pension Fund Committee at its meeting of 17 June 2022, subject to consultation. The Committee believes that this important document should go through a thorough consultation process with the pension fund membership and public. Obviously, this has added time to the final approval process given the time needed to establish the consultation, the time period of the consultation, and the analysis of the results.
`

Q2 – submitted by Kevin Clarke

"What is SPF's reaction to the motion passed by Mole Valley DC requesting that the Surrey Pension Fund and its investments are net zero by 2035?"

A copy of the motion is attached herewith.

Reply:

The Fund and Committee note receipt of the motion passed by Mole Valley District Council (MVDC). The Committee will include MDVC, as well as the Fund's other 300+ scheme employers in the consultation process regarding the RI Policy.

4

Q3 – submitted by Clive Teague

'My previous supplementary question asked for an assurance that no part of the investments in the Climate Opportunities Fund included funding for fossil fuel exploration or extraction. Your answer was that you could give no such assurance. Since this fund is clearly named to attract investments aimed at improving the climate emergency rather than fuelling it, please could you explain what criteria are used when investing money from the Climate Opportunities Fund?'

Reply:

Climate Opportunities will target investments related to the development of a low carbon economy and the associated energy transition. The fund documentation does not contain specific exclusion against investment in fossil fuel exploration or extraction. However, the criteria for investments will be to make a material positive impact on climate transition over the long term.

Q4 – submitted by Lindsey Coeur-Belle

According to the IPCC Working Group 111 report "Climate Change 2022 Mitigation of Climate Change "(April 2022) the key barriers to achieving 1.5 degree pathways include:-
a) a lack of global cooperation
b) a lack of governance of land and energy transformation
c) increases in resource intensive consumption.

Global greenhouse gas emissions must reduce by at least 43% by 2030 and methane by 33%. Without immediate and deep emissions reduction, it will be impossible.

Will this committee guarantee that it targets within its Responsible Investment Policy that are, at the least, in line with the Paris Agreement?

Reply:

Surrey Pension Fund supports the objectives of the Paris Agreement and this is specifically highlighted in the draft RI Policy. This policy will be adopted subject to consultation.

Q5 – submitted by Jenifer Condit

The Committee is no doubt aware of current concerns about the existence of *CARBON BOMBS;* that is extractive projects planned by fossil fuel companies that each contain at least 1bn tonnes of climate-heating CO_2, triple the UK's annual emissions. It has recently been reported that fully 40 of these Carbon Bombs are projects of Russian oil and gas companies, 19 of which benefit from foreign finance. These foreign financiers include a number which are owned by SPF through its manager BCPP (based on most recent disclosure). So while SPF has stated its intention NOT to finance Russian fossil fuel companies, you are still, in effect, financing their growth, even if unintentionally. Here is a useful database of foreign carbon bomb financiers -
https://www.leave-it-in-the-ground.org/resources/investors-in-russian-carbon-bombs/

Specifically worth mentioning are Citigroup, Allianz, Credit Suisse, Nomura, HSBC, and Lloyds, each of which has extended credit to one or more of these projects. The list of foreign institutions owning shares in these Russian operators is a much longer one, but it's hard to know whether these are investments held by the institution for its own book or rather 4
on behalf of its clients, and whether these are active or passive. But where credit has been extended it seems pretty clear that an active decision was made by the financial institution.

I have asked previously about SPF's plans to engage more aggressively with the management of financial institutions you invest in, as regards the inadequacy of their responses to the climate emergency. Now, we see cases where more active engagement seems ESSENTIAL due to the planetary risks being run by allowing these massive Russian extraction projects to carry on. In particular, the SPF and BCPP are indirectly, and presumably unintentionally failing to honour your own published commitments to limit exposure to Russian companies, particularly the oil and gas companies fuelling current war and global economic chaos.

My question, then, is this: In light of these disclosures, how will you prioritise engagement with each of these institutions regarding their financing of Russian extraction and what tools can you use to insist they call in these credits where possible, and certainly refuse to extend them; will you vote against management where they show reluctance; will you sell your shares in any of these financial institutions if they fail to address these exposures; and could you please disclose which other financial companies with Russian Carbon Bomb exposures you own via your other managers?

Reply:

The approach of our fund managers is to engage with financial institutions regarding their total exposure and lending appetite for all carbon intensive projects irrespective of country. Carbon Bombs are distributed world-wide, so a global approach is needed. For example, according to the Leave-It-In-The-Ground Organisation, [Carbon Bombs - LINGO (leave-it-in-the-ground.org)](https://leave-it-in-the-ground.org), there are more carbon bombs in the USA than Russia.

With regard to our jointly owned asset management company and largest manager of our assets, Border to Coast, Environmental, Social and Governance (ESG) risks are embedded into their investment decision-making process when analysing and monitoring investments. Specialist third-party data providers are used with the evaluation of environmental risks and opportunities specifically covered. 'Financing Environmental Impact' is a key issue for Banks reviewed by their ESG data provider and forms part of the company's assessment. This review evaluates a bank's entire loan book (encompassing lending in all countries) down to a granular level including the extent to which companies' loan and underwriting portfolios comprise borrowers facing material risks associated with climate change, and the carbon intensity of the loan portfolio.

Engaging with financial institutions, including banks, is key given the pivotal role they play in the financial system. In Q1 2021, the Border to Coast voting and engagement partner, Robeco, launched a new engagement theme on the climate transition of financial companies using the Task Force on Climate-related Financial Disclosures framework.

As with all companies under engagement, where a company is not being responsive or insufficient progress against the engagement objectives are made, escalation may be necessary. This includes collaborating with other investors to increase influence and pressure, voting and potentially filing shareholder resolutions and attending AGMs. If following this, the escalation strategy does not have the desired impact and the investment case has been fundamentally weakened, the decision may be taken to sell the holding.

4 Our index manager, Legal and General Investment Management (LGIM), has a longstanding engagement programme, the Climate Impact Pledge, Climate Impact Pledge 2022 - Net zero: going beyond ambition (lgim.com), targeting approximately 1,000 companies in 15 climate-critical sectors.

The financials and oil & gas sectors are included under their Climate Impact Pledge. For banks and insurance, they assess specifically whether there is evidence that the firm is reducing its involvement in fossil fuels, and whether it has policies to cover high-emitting sectors. They expect the financials sector to transition away from financing/ underwriting high carbon activities and expect disclosure of Scope 3 emissions associated with investments, including those from lending, insurance, investment and advisory activities. Companies failing to meet these minimum expectations may be subject to voting sanctions and/ or divestment.

They also recognise the importance of deeper individual engagements. Across the sectors under the Climate Impact Pledge, roughly 60 companies are selected for in-depth engagement, in which sector experts from across LGIM's investment teams participate alongside their stewardship team.

According to LINGO, the Bank of China is one of the top 10 financiers for Russian carbon bombs. LAPFF was represented at the 2022 AGM of Bank of China where the board was asked about commitment to net zero financed emissions and a policy to prohibit financing new capacity additions for coal power. As a member of the Asia Collaborative Engagement Platform for Energy Transition, LAPFF continues to meet with other investors in progressing collaborative engagement on climate and energy transition with banks in Asia. Also in 2022, LAPFF has engaged with Standard Chartered, Barclays and HSBC on their climate change strategy for financing clients and transition planning.