

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE:** 10 MARCH 2023**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**SUBJECT:** RESPONSIBLE INVESTMENT UPDATE**SUMMARY OF ISSUE:**

A key priority of the Pension Fund Committee (Committee) is to approve the Responsible Investment (RI) policy after considering the consultation feedback and set a net zero date consistent with its fiduciary responsibility of meeting pension liabilities.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Accept the recommendation of the Responsible Investment Sub Committee (RISC), that the RI Policy be approved.
2. Approve officers and consultant to review the wording within the RI Policy regarding 'engagement with consequences' to make the escalation process clearer.
3. Note the net zero brief agreed by the RISC.
4. Note the decision of the RISC to appoint Mercer to answer the net zero brief.
5. Approve officers to continue to work with the RISC, investment consultant and independent advisor to facilitate this process.
6. Approve the priority elements regarding implementation of the RI Policy for 2023/4.

REASON FOR RECOMMENDATIONS:

To enable the Committee to fulfil the key priority of agreeing the Responsible Investment Policy and setting of a net zero date and pathway.

BACKGROUND:

1. A key priority for the Committee is to agree the RI policy and set a net zero date. This must be consistent with the fiduciary responsibility of the Committee.
2. The Committee approved the RI policy at the 17 June 2022 meeting subject to consultation. The feedback from the consultation was presented to the RISC on 13 January 2023.

3. Given the uncertainty regarding any impact a particular net zero date could have on the future funding position of the Fund, the Committee requires further exploration of potential net zero dates.

DETAILS:

Consultation feedback

4. The RI policy consultation was launched on 12 September 2022 and closed on 6 November 2022. There were over 7000 responses, of which over 1100 included written comments in the freeform text box. There were also 80 direct submissions.
5. The analysis of the consultation responses was presented to the RISC on 13 January 2023. Annexe 1 contains the independent review of the data produced by Surrey Says.
6. 92% of the responses came through the members channel, 3% from employers and 5% used the public access survey.
7. There was strong support for all areas of the RI Policy. For each question, the average response rate within the Agree or Strongly Agree categories was 70%. No question had more than 7% in Disagree or Strongly Disagree combined.
8. Reviewing the individual sections within the consultation, there was 68.3% in Agree or Strongly Agree for the Fund to use the UN Sustainable Development Goals as the guiding principles for Environmental, Social and Governance (ESG) engagement. For the 11 Beliefs laid out in the Policy there was an average level of Agree or Strongly Agree of 70.4%. There was 67.4% support for the Fund's managers to have an ESG engagement process with investee companies, including an escalation policy with an ultimate sanction of exclusion or divestment considered. Working collectively had the highest level of support at 78.8%.
9. A point of note for Belief 9, regarding 'engagement with consequences', is that there was a higher level of response rate for 'Neither Agree nor Disagree' compared to other questions. This may imply that the wording of this section is not clear enough. Officers propose reviewing the wording with Minerva.
10. In summary, there was strong support for the RI Policy.
11. All consultation results and feedback will be published on the Fund's website.

Net zero date setting

12. A key element of the RI policy is for the Committee to agree a net zero date. At the meeting of 23 September 2022, the Committee did not feel it had enough information to set a net zero date whilst maintaining confidence that it was consistent with its fiduciary duty.

13. In line with the delegated powers of the RISC, a brief was agreed at the RISC meeting of 13 January 2023 to be given to Mercer, the Investment Consultant. The brief is attached in Annexe 2.
14. Mercer responded to the brief at the RISC meeting on 27 January 2023. The presentation is attached in Annexe 3, Part 2
15. In response to the Mercer presentation, the RISC requested a follow-up presentation by Mercer on 13 February 2023, focusing on model choices and assumptions. The follow-up questions can be found in Annexe 4. Mercer's second presentation can be found in Annexe 5, Part 2.
16. Following Mercer's presentation on 13 February 2023, the RISC agreed to appoint Mercer to answer the brief.

RI Policy Implementation

17. Following analysis of the consultation feedback by the RISC, it is proposed that the RI Policy gain final approval from the Committee on 10 March 2023.
18. In line with the RI Policy, the priorities for the year 2023/4 are the following:
 - a: Set a net zero date and trajectory.
 - b: Update the voting policy.
 - c: Submit the RI Policy to the Fund's equity managers for them to report on current compliance and alignment.
 - d: Submit application to become a signatory of the UK Stewardship Code.

CONSULTATION:

19. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

20. 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

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

22. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues, and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

23. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

24. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

26. The following next steps are planned:

- a. Officers and Minerva to re-write the engagement with consequences section of the RI Policy.
- b. Mercer to carry out their analysis in response to the net zero brief and report back to the RISC.
- c. Prepare updated Voting Policy for Committee approval.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Consulted:

Pension Fund Committee Chair

Annexes:

1. Independent review of the data produced by Surrey Says – Annexe 1
2. Investment Consultant Brief – Annexe 2
3. Mercer presentation 27 January 2023 – Annexe 3 (Part 2)
4. Follow up questions from Mercer presentation of 27 January – Annexe 4
5. Mercer presentation 13 February 2023 – Annexe 5 (Part 2)

Sources/background papers:
