

CASE STUDY

Surrey Pension Fund

The **IMPACT INVESTING**
PRINCIPLES *for* **PENSIONS**



Surrey
Pension
Team

PENSIONS
FOR
PURPOSE

What are The Impact Investing Principles for Pensions?

The Impact Investing Principles are a practical guide to impact investment and provide four concrete steps pension schemes can take to pursue an impact investing strategy – see figure.

Drawn up to meet the growing need for best practice guidelines on how to set, implement, review and measure an impact investment strategy, The Principles were designed by the *Impact Investing Institute* in partnership with *Pensions for Purpose* in consultation with leading practitioners and with input from stakeholders including pension funds, investment consultants and managers as well as member associations.

Increasingly pension schemes want to reduce negative impacts and risks that arise from carbon emissions,

biodiversity loss, poor governance and inequality, which affect their portfolios. Pension funds are interested in investment opportunities that have a positive impact on the environment and society, and also secure a competitive financial return. The Principles make it easier for pension schemes to reach that goal.

The Principles were designed to be dynamic and to reflect the fast-evolving nature of impact investment. Pension schemes already working with the Principles participate in *Pensions for Purpose's* Community, a peer-learning platform that shares relevant resources and hosts events. This group, along with other initiatives and partnerships, provides evidence-based feedback to ensure the Principles remain cutting-edge and responsive.



Surrey Pension Fund

We spoke to Lloyd Whitworth, Head of Investment and Stewardship at *Surrey Pension Fund* to compile this case study



Fund facts 2023

Assets under management (AUM): **£5.6bn** (Dec)

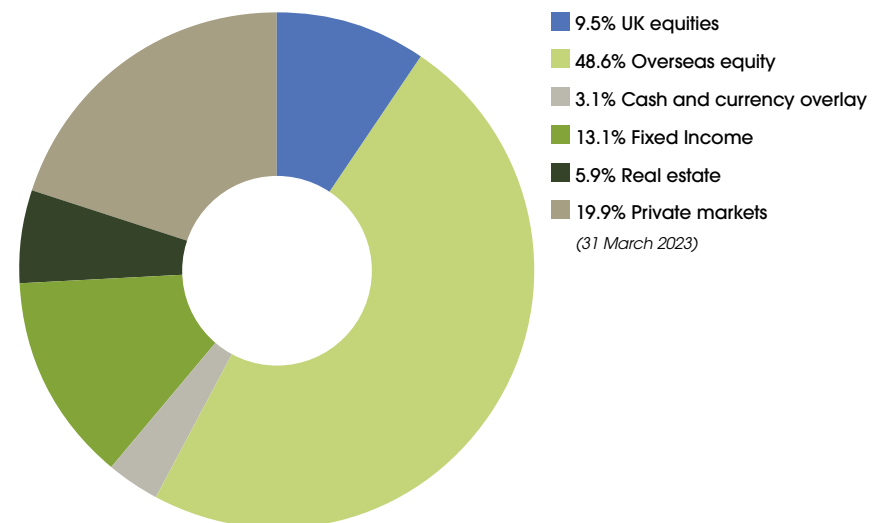
Employers represented: **345** (March)

Number of members: **115,000** (March)

Impact journey facts:

- Private market commitments of £340mn to dedicated climate-related mandates.
- Potentially 2.4GW of renewable energy production from a single private investment.
- Achieve net zero by 2050 or sooner.
- UN sustainable development goals (SDGs) used as the foundation for all responsible investment decisions.
- Updated, approved responsible investment and voting policy.

Fund's asset allocation



Surrey Pension Fund

Why did you choose to use The Impact Investing Principles for Pensions?

The Principles for Pensions have continued to provide a helpful framework in understanding impact through maintaining a focus on outcomes and providing an extra dimension when exploring managers' propositions.

The *Fund* has used the sustainable development goals (SDGs) as a framework for its responsible investment (RI) investment, commissioning a mapping exercise back in 2020. This framework continues to be the basis of the *Fund's* approach and was further used to establish the *Surrey Pensions Fund's* new responsible investment policy. The beliefs and expectations *Surrey* has of its asset managers are clearly laid out in the document. The policy can be found on the *Fund's* website, [Surrey responsible investment policy, survey findings](#). There is an acceptance this arena can be fast moving; consequently the policy will be reviewed annually for best

practice. The initial policy was agreed by the committee in June 2023, after a period of consultation with employers, members and the public. The consultation received over 73,000 responses and analysis can be found on the *Fund's website*, RI consultation analysis. There was overriding support for the direction the *Fund* was taking.

The largest single investment is in the *LGIM Future World Global Fund*, a position added to during the year. This fund tilts the portfolio for over 30 different environmental, social and governance (ESG) factors. Meanwhile, the *Fund's* emerging market equity exposure was switched from a passive to active mandate during the year. *Surrey* was keen to continue to invest in the development of emerging economies as this supports a number of SDGs. However, this investment accounted for an outsized proportion of the *Fund's* carbon footprint. By switching to an active approach, it is hoped that the carbon footprint will fall by approximately 50% while still allowing the *Fund* to support development and a just transition.



How have you progressed with each Principle?

Set impactful objectives

1

Surrey Pension Funds net-zero target has been agreed as 2050 or sooner. The 'or sooner' element is significant and will be reviewed annually to determine whether it can be brought forward. The target was set after the *Fund's* investment consultant conducted analysis and modelling, helped by third parties, to answer questions from the committee. A summary of this analysis was made public in the *Fund's* committee papers and the date was agreed by the committee in June 2023. *Surrey* has migrated the majority of its active equities and fixed income to a pooling partner, *Border to Coast Pensions Partnership (BCPP)*. The equity assets have interim carbon emission reduction targets of 53% by 2025 and 66% by 2030, compared to 2019.

With the aid of the *Fund's* RI consultant, voting policy has been aligned with the RI policy and best practice. The policy, approved at the June 2023 committee meeting, has been updated to account for the latest stewardship code and to align with best practice from the *UK Corporate Governance Code*, the *International Corporate Governance Network*, the *Organisation for Economic Cooperation and Development*, EU Directives, the *Financial Conduct Authority* diversity rules, guidance from the *Pensions & Lifetime Savings Association*, the *Investment Association Principles of Remuneration* and *BCPP*.

The *Fund's* single largest private market investment is through the *BCPP* Climate Opportunities Fund, supporting renewable energies and helping finance transition to a lower carbon world.

Appoint investment consultants and managers with impact integrity

2

Surrey's independent advisers have been fully integrated in the *Fund's* responsible investment developments. The setting of their net-zero target followed extensive analysis by the investment consultant covering climate models, scenario analysis and investment opportunities, as they responded to a mandate set by the committee. The *Fund* also has a dedicated responsible investment consultant. They helped *Surrey* develop its RI policy and align and update the voting policy.

As mentioned earlier, The *Fund's* pooling partner, *BCPP*, has developed two dedicated private markets funds, which allow the *Fund* to specifically invest impactfully. The *Fund* has committed more capital to the second Climate Opportunities offering and has been a key supporter in the initial launch of UK Opportunities. All of the *Fund's* equity managers are aligned to the *Fund's* RI policy and seek to have a real-world impact through their investments and engagement. The range of areas covered continues to be dynamic and growing, as seen in the factors used by the *Legal & General Investment Management's* Future World Global Fund.

The independent advisers and fund managers are fully integrated and aligned to the *Fund's* objectives, having helped set them or been hired because of them. Data is reviewed at every committee meeting and ESG reports from *BCPP* are always included in the papers.

How have you progressed with each Principle? *continued...*

Use your voice to make change

3

The *Fund's* voting policy was updated in June 2023 and aligns to the RI policy which lays out the *Surrey's* RI beliefs and the expectations it has regarding fund manager and investee companies' behaviours. The *Fund* favours an 'engagement with consequences' approach and all of the *Fund's* asset managers are aligned to it.

The *Fund* keeps up to date with issues related to its objectives and stewardship guidelines through collaborative work within the *Border to Coast Partnership* and the *Local Authority Pension Fund Forum (LAPFF)*, as well as by the team all engaging in effective continuous professional development.

Members' views are important to the *Fund*. While a small minority of scheme members contact us directly regarding investment, the *Surrey* conducted an extensive consultation during 2022 and there was a relatively strong response rate.

The Committee has made it a priority for the *Fund* to become a signatory to the *UK Stewardship Code*, with plans to submit its first application in 2024. The *Fund* is a member of the *LAPFF* and the *Cross Pool RI Group*, and supports *BCPP* in its membership of various organisations, including the *Principles for Responsible Investment*, *Climate Action 100+* and *The Institutional Investors Group on Climate Change*.

Manage and review your impact

4

While it is not a requirement of the *Fund* to produce a *Task Force on Climate-related Financial Disclosures (TCFD)* report it has been doing so since 2019. This report details the activities the *Fund* has been engaged with over the past year and its progress towards net zero. This report is reviewed and approved by the committee each year, as is the RI policy and the investable universe for the net-zero date itself. The report also includes scenario analysis completed by both the investment consultant and the actuary. The review process and analysis will determine the requirement or otherwise of any change to objectives.

Since 2018, the weighted average carbon intensity of the *Fund* has fallen by over 58%.

We communicate what the *Fund* is doing regarding impact to members through the annual report, annual fund meeting and committee papers, as well as limited press and social media activity. This is extremely important as we are accountable for scheme members' savings and thus is not an optional activity. the *Task Force on Climate-related Financial Disclosures*, RI policy, voting policy and equity holdings are published on the website. The Committee papers can be found on the [Surrey County Council website](https://www.surreycc.gov.uk) and include a breakdown of all investments made by the *Fund*.

“The Principles have continued to provide a helpful framework in understanding impact through maintaining a focus on outcomes and providing an extra dimension when exploring managers’ propositions.”

Lloyd Whitworth

HEAD OF INVESTMENT & STEWARDSHIP, SURREY PENSION FUND



PICTURE CREDIT: LUÍS EUSEBIO, UNSPLASH

“Pensions for Purpose has recently completed updated impact investment training with the *Surrey Pension Fund* committee. It is clear the Fund is ambitious, wanting to pursue impact to the greatest extent. Proactively looking to reduce net-zero targets to be additional rather than just aligned is important and seeking out real-world impact. It is encouraging to see *Surrey Pension Fund* are steadily progressing on impact across their portfolio. We see our role as pushing and challenging pension funds on what more they can be doing.”

Charlotte O’Leary

CEO, PENSIONS FOR PURPOSE



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Find out more about the Principles

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