



# Responsible Investment Policy

**Responsible Investment Policy**

**June 2024**

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## Executive Summary

Surrey Pension Fund's Responsible Investment (RI) Policy has been developed around five pillars, to give structure to the Fund's approach:

- 1: Governance:** sets out the background, objectives and governance arrangements of the Fund, and introduces Surrey's RI Beliefs;
- 2: Process:** explains the approach employed by the Fund in identifying RI risks, expectations of where RI risks should be addressed in the investment process, and highlights some examples of the investment risks and opportunities that arise from RI considerations;
- 3: Implementation:** describes how the Fund's RI beliefs and objectives are best delivered over short, medium and long-term investment timeframes, sets out some high-level expectations of any third parties working on behalf of the Fund, and covers the topic of working collaboratively with other likeminded investors;
- 4: Stewardship:** focusses on the main tools available for the delivery of Surrey's RI Policy, which are through voting (for all listed assets) and engagement (for a wider set of assets); and
- 5: Monitoring and Reporting:** sets out the Fund's views on reporting on RI matters, including defining some reporting expectations of its investment managers, and covers the Fund's own bespoke RI reporting needs, including communicating with scheme members and other stakeholders.

The key high-level points of this policy are:

- As a large pension fund responsible for the investment arrangements of its members, it is important that **the Fund has a comprehensive RI Policy**, that is updated periodically;
- Surrey believes that the **United Nations Sustainable Development Goals** provide a useful frame of reference in helping identify and address Environmental, Social and Governance ('ESG') issues within its investment arrangements;
- Surrey believes that **RI issues have the potential to impact investment returns** over the short, medium and long-term
- RI issues and concerns should be addressed primarily (but not exclusively) **at the point of investment** by asset managers, whether that is in relation to an individual stock, or an entire portfolio;
- The **Surrey Pension Fund Committee will set out RI priorities** and will **review** these priorities – and progress made on them - **every year**.
- **Active stewardship remains the preferred approach** when it comes to investments – with engagement over divestment being the initial approach;
- **However, legal action and/or divestment remain appropriate options**, should an engagement process prove unsuccessful;
- Surrey will seek to ensure **appropriately structured RI reporting is provided by its agents**, so that the Fund can meet its own RI stewardship, reporting and communication objectives.

# Section 1: Governance

## 1.1 Definitions and Purpose

### 1.1.1 Purpose Statement of the Fund

The **Surrey Pension Fund** ('Surrey' or 'the Fund') is part of the national **Local Government Pension Scheme** ('LGPS'). Surrey County Council is responsible for managing the fund and is known as the '**administering authority**'. There are over 350 employers participating in the Fund, including the county council, district and borough councils, universities, colleges, academies and private companies providing public services. The Fund has almost 113,000 current, deferred and pensioner members with assets of £5.8 billion.

The Fund's **Vision**, is:

'Providing our customers with a better tomorrow'

This is delivered through its **Mission Statement**:

'Responsibly delivering a first-class customer experience'.

### 1.1.2 Surrey Pension Fund - Background Information

The **County Council** is the designated statutory body responsible for administering the Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the **Surrey Pension Fund Committee** ('the Committee'), which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Leaders;
- one representative from the external employers;
- one representative of the members of the Fund.

The Committee is advised by a representative of the Fund's professional investment consultant, an Independent Investment Advisor, the Director, Corporate Finance and Commercial and the Assistant Director – LGPS Senior Officer. The Committee meets on at least a quarterly basis.

Assisting, monitoring and scrutiny of the Fund are delegated to the **Local Pension Board**, which is made up of:

- four employer representatives;

- four employee representatives;
- an independent chairman.

The Local Pension Board is advised by the Assistant Director – LGPS Senior Officer, the Head of Investments and Stewardship, the Head of Accounting and Governance and the Head of Service Delivery. The Local Pension Board meets on at least a quarterly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

### 1.1.3 Purpose of the RI Policy

A standalone RI Policy was created in 2022, to reflect the increased importance of RI matters, and to capture recent changes in terms of institutional investors approaches towards RI and ESG factors.

It sets out the Fund's approach as a responsible asset steward in addressing RI issues associated with its investment strategy, and to communicate the Fund's position to stakeholders.

The expectation is that, given that approaches to RI and ESG factors are continually developing, the Fund's RI Policy will be reviewed annually and updated regularly to reflect developing good practice.

### 1.1.4 Definition of RI and Links to the SDGs

The Fund believe that investments made on behalf of scheme members should be sustainable in the short, medium and long-term through the fundamental identification and integration of ESG factors into the investment selection, monitoring and deselection process. Whilst the Fund has an overriding fiduciary and public law duty to act in the best long-term interests of scheme members to achieve the best possible financial returns with an appropriate level of risk, it also recognises that RI considerations increasingly reflect real financial risks, and as a result these factors should also be included in the investment decision-making process.

Since early 2020, the Fund has worked to understand how its investments might impact on the delivery of the [United Nations Sustainable Development Goals](#) (SDGs). The SDGs are 'an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.'

The results of an SDG Mapping exercise were delivered in early 2021, which showed a link between the Fund's investments and their potential impact on the delivery of the SDGs. The Pension Fund Committee determined that this link was worth exploring further, and as a result identified the link between the Fund's investments and the SDGs to be an important part of any future RI activity.

### 1.1.5 RI Links to Assets

The views, beliefs and expectations set out in this RI Policy are important to the Fund, in terms of its governance activity as a 'sustainable steward'. Accordingly, this RI Policy is of relevance to all the investment assets held by the Fund, managed on its behalf by its agents. Surrey is responsible for the creation, maintenance and communication of this Policy to its agents, and also for monitoring the results and outcomes of the implementation of the policy, with the assistance of its agents.

## 1.2 RI Beliefs

### 1.2.1 Surrey's RI Beliefs

Surrey's Key RI beliefs have been agreed and are set out below:

- **Surrey believes that the United Nations Sustainable Development Goals** represent an appropriate foundation in terms of the Fund's overall RI approach
- Surrey believes that **taking account of RI considerations can provide investment opportunities, as well as identifying investment risks**
- Surrey **requires the consideration of ESG factors to be incorporated into the portfolio construction process** of all investments made by its investment managers.
- RI considerations are important **irrespective of asset class**
- **RI considerations are important across all time horizons.** This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by our stakeholders
- Going further, Surrey believes that ESG factors are relevant in **the context of benchmarking, risk analysis and investment opportunity identification**
- **Responsible management of RI Issues** by Surrey and its agents **is also considered a reputationally important issue**
- Surrey views **climate risk** - and the issues which contribute to it - **as being of significant direct and indirect concern to all stakeholders**, and as a result the Fund's approach towards 'Net Zero' is a prominent area of focus
- Surrey believes in an **'Engagement with Consequences'** approach. This advocates the use of **engagement over divestment** as the means to promote our RI beliefs - however, **taking legal action** against company management or **selling an asset** remain options when it comes to inadequately addressed ESG concerns in the investments made by our managers

- We also recognise the value in **engaging collaboratively** to leverage greater influence together with other investors who share our priorities through joint initiatives and organisations
- The **exercise of our ownership rights through voting** is an important part of implementing our RI beliefs

### 1.2.2 RI Beliefs and Different Asset Classes

Surrey expects its investment managers – **irrespective of the asset class they manage** – to take the Fund's RI Beliefs into account when managing investments on behalf of the Fund.

Surrey readily acknowledges that – currently - incorporating ESG/RI issues into the process of making and then monitoring investments is more straightforward for some asset classes than others – for example, in relation to actively managed listed equities as opposed to Government bonds. The fact that some asset classes are at an earlier point of development in terms of ESG integration does not exclude them from Surrey's objective to be a responsible asset steward. Accordingly, the Fund expects its investment managers for such asset classes to demonstrate leadership in addressing and communicating ESG/RI issues in their investment process.

Surrey expects its investment managers to report on their ESG/RI factor integration approaches for all asset classes. All investment managers will be required to describe how, and the extent to which, they incorporate ESG/RI issues into their investment processes, and any new investment managers appointed will also be required to disclose their ESG/RI approaches at the time of their consideration for appointment.

### 1.2.3 Surrey's RI Priorities

The following topics have been identified as specific RI priorities for the Fund:

- 1) Actively seek to align the Fund's RI approach with the United Nations Sustainable Development Goals;
- 2) Achieving 'Net Zero' in terms of all of the Fund's investments by 2050 – or sooner, if possible;
- 3) Become a Signatory to the UK Stewardship Code 2020;
- 4) Report in line with the Recommendations of The Task Force On Climate-Related Financial Disclosures (TCFD);
- 5) Work with Border to Coast Pensions Partnership ('BCPP' – the Fund's regional asset pool) and the Fund's non-pooled investment managers to ensure understanding and integration of this Policy;
- 6) Identify and implement any required contract changes to formalise the RI Policy with all relevant agents;
- 7) Identify specific RI reporting requirements for the Fund, and communicate these to all relevant agents; and

- 8) Explore the range of third-party collaborations/bodies to identify best match for any RI priorities.

### 1.2.4 Surrey's Progress with the SDGs

In 2020 and 2021, Surrey undertook ground-breaking work to understand the Fund's starting position against the SDGs and how it can further contribute towards the delivery of these goals.

The Fund used the World Benchmarking Alliance's (WBA) SDG 2000 Benchmark to understand its starting position against the SDGs, as the most robust approach in understanding how best to target systematic change with the world's most influential companies. The companies targeted within the SDG 2000 have the most potential to help deliver the SDGs if they are managed and run in a sustainable manner and become leaders in their sectors for others to follow as an example.

The findings from the Fund's mapping against the WBA SDG 2000 are summarised below;

- Approximately 63% of the Fund's equity and corporate bond holdings are also in the WBA SDG 2000 Index
- Whilst the overlap against the WBA SDG 2000 was purely coincidental, it presents an opportunity to focus on these holdings, and how these companies are managed. Improving the management of these companies can allow them to make progress in helping deliver the SDGs.

The Fund has since used this analysis and worked with the Pension Fund Committee to discuss how it can integrate the findings into its Investment Strategy as well as ensuring the SDGs form the foundation of its Investment Core Beliefs.

Some ongoing areas of focus in relation to the SDGs are:

- Working with BCPP in using its influence to engage with its invested companies.
- Seeking further SDG-friendly investment opportunities.
- Developing future Climate Impact (SDG 13: Climate Action) related performance reporting and how it impacts the Fund's investments.

## 1.3 Governance Arrangements

### 1.3.1 Surrey's Governance Structure

The Fund is part of the national Local Government Pension Scheme (LGPS). The County Council has appointed a Pension Fund Committee with responsibility for the management of the Pension Fund. The Pensions Committee oversees the management of the Surrey Pension Fund and act as trustees of the Fund



Governance arrangements for pension schemes in the public sector require Surrey County council, as an administering authority for the LGPS (Local Government Pension Scheme), to have in place a local pension board. The role of the Local Pension Board is to assist the Surrey Pension Fund Committee comply with all the legislative requirements to ensure the scheme is being effectively and efficiently governed and managed. The Local Pension Board:

- Plays a key advisory role in assisting the Surrey Pension Fund Committee in managing the Surrey Pension Fund;
- Ensures that the Surrey Pension Fund Committee is compliant with LGPS and other relevant regulations;
- Is made up of eight members, with equal representation of scheme members and employers; and
- Has regular meetings (at least twice a year).

### 1.3.2 Surrey's RI Resources

As at March 2024, there were 69 full time team members and 14 fixed term/agency staff associated with the oversight and administration of the Surrey Pension Fund, of which 2 Full Time Equivalents (FTEs) focus specifically on the investment arrangements of the Fund. The Fund also has in place an Investment Consultant, and an Independent Investment Advisor to assist in the management of the Fund's investments.

Surrey will make use of existing arrangement to their full potential and – with the approval of the Pension Fund Committee - will seek additional resources where deemed necessary to deliver the Fund's RI objectives and reporting requirements.

Surrey also expects its agents (BCPP, its master custodian and accounting service provider, Northern Trust, its non-pooled investment managers and Stewardship Advisor) to support it in terms of providing an appropriate level of information and cooperation to enable Surrey to meet its requirements and developing its RI monitoring and reviewing capabilities.

### 1.3.3 Surrey Culture & RI Fit

Surrey's aims to deliver a first-class service to stakeholders through strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. The highest standards of corporate governance are fundamental to our approach, underpinned by informed decision making, taking ESG considerations into account, comprehensive risk assessment & management, and the use of technology. The Fund's prevailing RI approach was developed further in 2020, where it was agreed that the UN Sustainable Development Goals should play a key role in helping shape the Fund's stewardship activities. The recent expansion of the investment and pensions team reaffirms our commitment to providing stakeholders with a first-class service, whilst enabling Surrey to deal with the increasing RI challenges facing the Fund and scheme members' investments. The Fund has also

demonstrated its commitment to high standards of corporate governance through its long history of voting and engagement activities, monitoring the stewardship activity of its investment managers, by its membership of the Local Authority Pension Fund Forum (LAPFF) and latterly by agreeing the stewardship approach of the Border to Coast pool with the other partner funds.

#### **1.3.4 Statement on Conflicts of Interest**

Surrey recognizes the need for the clear identification and consideration of any conflicts of interest – real or perceived, and also notes that having a Conflicts of Interests Policy is a requirement of becoming a UK Stewardship Code 2020 Signatory. Accordingly, a Conflicts of Interest Policy has been in place for a number of years, and can be found on the Fund's website.

## Section 2: Process

### 2.1 RI Perspective

#### 2.1.1 Process for Identifying RI Issues, Themes and Risk

RI issues, themes and risks typically cover ESG factors. Surrey's position is that these factors should be taken into consideration when investment decisions are made, and in ongoing monitoring of investments held, to enhance long-term sustainable financial performance.

Accordingly, Surrey believes that it is primarily the responsibility of its investment managers to effectively identify, mitigate and report on such risks, specifically those that may be financially material, as part of their investment selection, monitoring and deselection process. Surrey expects its investment managers to take a holistic approach to identifying risk as opposed to a stand-alone concern and believes that RI risks should be fundamentally integrated into a sustainable investment approach.

Surrey also considers the Pension Fund Committee's and Local Pensions Board's views on RI issues, themes and risks when formulating and updating its RI Policy.

#### 2.1.2 Linkage of RI risks to Investment Strategy

The Pension Fund Committee has the responsibility for setting investment strategy with due regard for Surrey's funding position and risk appetite. The Fund's investment strategy has allocations to different asset classes, including equities, bonds, real estate and infrastructure assets. It is primarily through the individual investments in these asset class that RI risks are identified, mitigated where possible, and reported. Whilst RI issues - such as climate change - have long-term financial implications for the Fund and its stakeholders, clearly short-term actions are necessary to start to address the long-term challenges.

Surrey's expectation is that its investment managers, having taken the Fund's RI views into account, are responsible for the identification, mitigation (where possible) and reporting of RI risks, over short, medium and long-term timeframes. The Fund's investment managers should be able to clearly identify the actions that they have taken to identify and mitigate (where possible) RI risks in the context of the short, medium and long-term - and then be able to report this activity to Surrey.

#### 2.1.3 Integrating RI Beliefs & Issues

Surrey firmly believes that the addressing of ESG factors and RI issues should be incorporated at a fundamental level into the investment selection, monitoring and deselection processes of their investment managers, irrespective of the asset class concerned.

Whilst Surrey remains responsible for setting its own investment strategy, it relies to an increasing extent on BCPP for ensuring appropriate investment arrangements and options are put in place. For any investment managers appointed – now, or in the future - Surrey expects BCPP to ensure that:

- the managers have in place processes to include ESG factors and RI issues into their investment process at a fundamental level;
- the managers report back on how these processes work; and
- BCPP reports back to Surrey their monitoring and assessment of these processes.

#### 2.1.4 Process for Reviewing and Revising RI Risks

Surrey will make use of a ‘top-down’ and ‘bottom-up’ approach to reviewing and revising the RI & ESG risks that the pool and its partner funds face:

**Top-down:** members of the Pension Fund Committee, with the support of Officers, the Investment Consultant and the Independent Advisor, can feed into the RI risk identification and management process, by providing any comments, views or priority concerns they might have to BCPP and their non-pooled investment managers, for further investigation and mitigation; and

**Bottom-up:** the Fund’s asset managers investment activity and stewardship approaches can also generate RI or ESG issues or concerns that can be included in the Fund’s RI risk identification and management process.

Surrey intends to use this twin track approach to further develop the Fund’s existing Risk Register, to ensure it continues to cover a wide range of known ESG and RI risks that might affect the investments of the Fund.

## 2.2 RI Factors and Investment Process

### 2.2.1 Techniques Available to Help Identify RI Risks and Opportunities

Surrey believes that utilising a combination of both traditional financial and ESG factor analysis can enhance long-term performance of the Fund’s assets through enabling the identification of a broader range of risks and opportunities. Statistical tools such as scenario models and company specific data can be used to help monitor and mitigate RI risks, and identify RI opportunities.

Different techniques that Surrey may utilise as part of RI risk management include measuring and reporting on carbon-equivalent emissions of individual investments, portfolios and managers; encouraging active engagement for business strategy alignment with the targets of the Paris Agreement; and creating a Risk Register to monitor and identify possible future material risks.

Surrey actively encourages its agents such as BCPP, the master consultant, and the external non-pooled asset managers to provide relevant, transparent, and accessible ESG-related information through reporting. Reporting expectations may also be driven by other factors, such as reporting that is aligned with The Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.

Surrey's agents are expected to evaluate RI risks on an ongoing basis, with regular reporting being used as a mechanism to inform decision-making and assess and monitor progress towards the Fund's RI objectives.

### 2.2.2 RI Risk Expectations of Investment Managers

Surrey's expectation is that its investment managers, having taken its RI views into account, are responsible for the identification, mitigation (where possible) and reporting of RI risks, over short, medium and long-term timeframes. Surrey's investment managers should be able to clearly identify any such actions that they have taken to identify and mitigate RI risks in the context of the short, medium and long-term and then be in a position to report this activity.

### 2.2.3 Defining ESG Factors, Issues and Considerations

The Fund expects RI activities undertaken by its agents to cover all asset classes across all markets in which the Fund invests, including equities, fixed income, property, infrastructure, and private markets.

ESG concerns should be embedded into the investment process of any investment managers appointed to manage Fund assets, and the impact of these factors must be considered on a regular basis. To help define ESG issues, the Pensions and Lifetime Savings Association ('PLSA') has provided a simple breakdown of some individual E, S and G factors – this is shown in the following diagram:



Source: 'ESG and Stewardship: A Practical Guide to Trustee Duties' PLSA June 2019

Surrey expects its agents to at least use these descriptions of ESG concerns as a starting point for their own approaches to defining these factors – but not be limited to just these specific areas of concern.

#### 2.2.4 Key RI Risks and Opportunities for Institutional Investors

When thinking about responsible investment, there are four levels where RI issues can be addressed by the Fund:

Investment level	<b>Integration:</b> incorporating ESG & RI issues into the everyday individual investment selection, monitoring and engagement processes
Manager level	<b>Expectations:</b> setting explicit expectations at the investment manager mandate level
Authority level	<b>Policy:</b> setting an overarching policy, generated from core investment beliefs, that shapes the direction of travel
Pool level	<b>Policy:</b> through the BCPP RI Policy and Corporate Governance & Voting Guidelines (developed with input from Surrey)

The following table sets out several key investment risks and opportunities for institutional investors such as the Fund, in the context of identifying and managing RI issues:

Issue	Why Investment Risk?	Why Investment Opportunity?
Absence of explicit ESG / RI references in any of BCPP's investment manager management agreements	By not explicitly raising these issues, they could be unintentionally left out of the investment process	Adding the consideration of these topics to investment management agreements may help asset managers focus on, and then better understand, these issues
Insufficient detail/rigour in the asset manager selection, appointment and monitoring process on RI/ESG by BCPP (and by the Fund for any investments held outside the pool)	The market is rife with greenwash and grade inflation, while there is still a large spread in the quality and sincerity of approaches by asset managers. Failure to uphold a high standard could indulge lacklustre approaches by managers and expose the pool and the partner funds to the investment and reputational risk of being 'absentee'	Having a well-considered process for assessing asset managers' approaches to sustainability has the potential to result in more risk aware managers being appointed, investing in better run companies who should deliver better long-term investment returns
Historic drivers of equity performance, at the asset class level, may no longer be relevant	Any investment strategy modelling based on historic performance drivers is, by construction, unlikely to address recently emerging risks such as climate change	By incorporating sustainability and climate change factors into the investment strategy modelling process, the potential outcomes are more likely to reflect more closely the actual reality.
Opportunity to implement new benchmarks aligned to ESG/RI factors	Methodology for benchmark construction needs to be demonstrably 'competent', in terms of helping deliver targeted/required investment return	Incorporating RI issues formally into investment strategy can help to overcome "ethical subjectivity" often associated with ESG investing; new investment opportunities becoming available with pivot towards low carbon transition
'New' investment opportunities appear that are different from traditional investment choices	By moving into the relative 'unknown', there is a risk that the investments do not live up to expectations in terms of their investment performance and their diversifying potential	. Investing in new areas such as clean energy provide the potential to generate diversified investment returns away from historically core asset classes
Increased pressure on 'Governance Budgets' in terms of training and monitoring	There is a danger that by focussing on parts of the investment spectrum (e.g., 5% allocation to clean energy infrastructure) that a fund's 'Governance Budget' for considering all assets is put under unhelpful pressure	With a greater focus on RI matters, this presents a fine opportunity for asset stewards to review their Governance Budgets, and how they spend them

## Section 3: Implementation

### 3.1 RI Perspective

#### 3.1.1 Surrey's Approach to Implementing the RI Beliefs

There are a number of paths through which Surrey's RI beliefs can be implemented:

- 1) At the fundamental level of the investment process, by its investment managers;
- 2) Through active stewardship by the Fund and BCPP voting at listed company meetings, following their respective Voting policies;
- 3) Through the Fund's investment managers engaging with companies and entities associated with the investments they hold on behalf of Surrey; and
- 4) Through collective action between Surrey, BCPP, other LGPS pools and other third parties with common stewardship interests

The expectation is that the approach to the implementation of RI beliefs will not be static and is expected to change over time as good practice develops. Surrey does not expect one path to dominate the implementation approach; rather it expects a combination of the routes shown to be used.

#### 3.1.2 Delivering RI Objectives in the Short / Medium / Long-term

RI considerations are important across all time horizons, but especially in the medium and long-term. This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by the Fund's stakeholders.

Maintaining a strategic RI commitment includes the setting of objectives against which to measure progress. This means that it is appropriate to set RI objectives which are defined in the short, medium and long-term.

**Short-term objectives** - one to three years - may be more likely to be activity-related (for example, committing to a defined number of engagements, or a defined number or percentage of successful engagements). Output-related targets are not irrelevant (for example - annual reporting of climate risk related metrics such as asset-generated Green House Gas (GHG) emissions attributable to the investments) but are more likely to become significant when viewed over the longer term. Voting-related measures lend themselves particularly well to short-term objectives setting, such as the proportion of meetings voted, and alignment of voting with RI strategic engagement priorities. Additionally, there are a number of regulatory and market initiatives which themselves bring annual reporting



requirements, such as the Stewardship Code, TCFD and the PRI, all of which also provide a framework for reporting of metrics which can be included in short term objective setting;

**Medium-term objectives** – three to five years – will include output or impact-related metrics which should aim to demonstrate a positive trend over multiple years. In terms of climate risk, positive trends in terms of portfolio progress towards Paris Agreement alignment and climate scenario analysis might be reasonable to expect; and

**Long-term objectives** – over 5 years - may include fixed long-term strategic targets such as a commitment to ‘Net Zero’, achievement of Paris Agreement /COP26 alignment.

The Fund notes the position of Surrey County Council and a number of the Fund’s scheduled and admitted bodies who have declared a ‘climate emergency’. Climate risk is the most prominent thematic concern. As the regulatory environment evolves towards requiring the reporting of climate risk strategy and management by LGPS pension funds, short, medium and long-term metrics are equally significant. In the short term, activity-related metrics such as annual asset-related GHG emissions, investment manager reviews (including policy as well as performance review) and strategic engagement progress targets all contribute towards a consistent approach to medium and long-term objective delivery.

Medium term objectives should include positive progress towards long-term targets, using Paris Alignment and scenario analysis as metrics.

### 3.1.3 Implementation Roles in Surrey’s Governance Structure

The Pension Fund Committee is the official decision-making body for the Fund that has been created by Surrey County Council under its duty as the Administering Authority, and as such will have the ultimate say on the Fund’s RI Policy, and general RI approach. The Pension Fund Committee is assisted in its management of the Fund by the Local Pension Board made up from representatives of members and employers of the scheme.

The fulfilment of statutory duties ultimately lies with the Pension Fund Committee, who are responsible for the management and oversight of the Fund, including the following activities:

- Determining the Fund’s investment beliefs
- Setting the Fund’s strategic asset allocation
- Producing the Fund’s stewardship policies, including this RI Policy
- Arrangements for holding its agents (including BCPP) to account
- Requesting specific investment options from BCPP
- The timing of any transition of assets to BCPP

## 3.2 RI Expectations & Agents

### 3.2.1 Surrey's RI Beliefs and Agents

Investment manager selection, investment activity and ongoing monitoring processes are central to the effective implementation of the Fund's RI Policy. Surrey expects its appointed agents to clearly demonstrate how the identification, consideration and management of ESG factors and RI issues is embedded into their respective processes, and how those processes support the Fund's RI Policy. They must be prepared to enable Surrey to monitor and report on any RI-related objectives.

### 3.2.2 Surrey's Main Agents

**Border to Coast Pensions Partnership:** BCPP plays a central role in the investment arrangements of the Fund. This includes the investment management and monitoring of RI-specific elements of mandate delivery (for example, ensuring on-going strategic alignment between the BCPP-managed investments and the partner funds' RI Policies), with which BCPP can track progress towards RI objectives. BCPP also ensure that any external investment managers' procurement and selection processes contain ESG and RI considerations, including the request for proposal (RFP) criteria and scoring and the investment management agreements.

**Non-pooled Investment Managers:** Our directly appointed managers must be able to clearly demonstrate how the topic of ESG is embedded into their investment processes and are expected to fully support the Fund in monitoring and reporting on any RI-related objectives.

**Custodian:** The custodian of both the Fund and BCPP, Northern Trust, is expected to support our service providers in carrying out their respective roles in the execution of the Fund's RI Policy, as well as in relation to services provided by Northern Trust themselves which are relevant (for example securities lending and reporting).

**Advisors:** The Fund's advisors are expected to support and, where relevant to their engagement, help Surrey with the implementation and further development of the RI Policy.

### 3.2.3 Surrey's RI Expectations of Agents

Surrey expects all of its service providers to have a verifiable public commitment to Responsible Investment (for example, being a PRI signatory). We also expect all service providers to have their own standards regarding sustainable business practices which are also in alignment with the Fund's RI Policy, including socially responsible business practices and commitments in relation to environmental standards including, but not limited to, TCFD reporting.

Surrey expects its investment managers to manage assets in alignment with the Fund's RI Policy. Investment manager RI policies may be directly or independently reviewed to verify

on-going alignment with the Fund's existing Policy and any applicable regulatory or best practice standards (including, but not limited to, the UK Stewardship Code 2020 and TCFD).

The Fund's investment managers are expected to provide reporting at least annually in terms of RI-related activity associated with their mandate, and more frequently where their mandates require them to do so (for example with quarterly reporting of voting and engagement activity). Investment managers are required to provide a robust explanation of any positions they have adopted which are not in alignment with either the Fund's RI Policy or any RI-related performance objectives set out in their mandate. Surrey also expects its investment managers to be signatories to/comply with any local 'sustainable stewardship' initiatives such as the Stewardship Code in the UK.

When it comes to engagement, the investment managers are expected to engage in constructive dialogue on behalf of the Fund, and to use their influence to encourage companies to adopt best practice in key ESG areas. Any engagements undertaken on investments held by the Fund should be reported, along with an assessment of the effectiveness of the engagement, and whether the engagement issue has been resolved or is ongoing.

Surrey expects its investment managers – including BCPP - to develop and provide adequate and appropriate reporting across all mandates for the Fund to use in its own stakeholder reporting. This might include information to support the Fund becoming a signatory to the UK Stewardship Code 2020, TCFD-aligned reporting, carbon footprinting, climate scenario analysis and Paris Alignment information.

### **3.2.4 Codifying and Monitoring RI Expectations**

Agent Service Level Agreements (SLAs) will include provisions relating to supporting RI activity, resourcing, strategy, performance, progress towards objectives and reporting. Certain objectives will be contract-specific, reflecting the nature of the service (for example, in relation to the asset class in question for an investment manager, the range of ancillary services provided by a custodian, or the specialist services provided by a third party outsourced service provider).

New Investment Management Agreements (IMAs) will set out specific expectations regarding resourcing, deliverables, targets and/or objectives. Monitoring of these will be carried out and are expected to form a part of the routine investment manager engagement meetings, feeding into the existing investment manager reporting and review processes.

Changes required for existing IMAs to reflect the Fund's RI expectations will be discussed with the Fund's incumbent investment managers, and then properly incorporated into the existing contractual arrangements via a side letter or addendum.

## 3.3 RI Collaboration

### 3.3.1 Surrey's Approach to Collaboration

Surrey believes that collaborative action on ESG and RI matters is of fundamental importance to achieving change. Through working with like-minded investors, the expectation is that more can be achieved by having a 'louder' voice. Surrey continues to collaborate with others on key stewardship issues via the Local Authority Pension Fund Forum (LAPFF), with other Border to Coast Partner Funds, and via the Cross-Pool Responsible Investment Group.

### 3.3.2 Furthering RI Objectives Through Collaboration

To date, Surrey's main approach to collaborative action has been as a member of the [Local Authority Pension Fund Forum \(LAPFF\)](#). Surrey, however, recognizes the importance of wider collaboration in terms of helping deliver the Fund's RI beliefs and expectations, and so the Fund's ESG 'implementation process' also includes:

- Voting at listed company meetings;
- Engaging with investee companies at fund manager level; and
- Collaborating with other institutional investors on matters of prioritised importance

### 3.3.3 Key Aims of Any Partnerships or Affiliations

The key aims of any partnerships or affiliations are to ensure that:

- the Fund's RI beliefs and concerns are addressed as efficiently and effectively as possible;
- the long-term investment performance of the underlying investments is maximised through the identification and minimisation of ESG & RI risks;
- the Funds' views are amplified with likeminded investors to increase the chance of bringing about meaningful change; and
- that scheme members' invested monies continue to be managed in a sustainable manner.

## Section 4: Stewardship

### 4.1 Surrey's Approach to Stewardship

#### 4.1.1 Overview of Surrey's Approach

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Surrey endorse the [UK Stewardship Code 2020](#) which set high standards for those investing money on behalf of UK savers and pension scheme members. As a global investor, the partner Fund seeks to apply good stewardship standards globally, whilst recognising local markets specificities.

The Fund believes in making long-term sustainable investments, whilst integrating ESG risk considerations into the investment process and promoting good governance and 'sustainable stewardship'. They believe that good stewardship practices can have a material impact, in terms of:

- Avoiding value destructions
- Identifying significant risks; and
- Locating investment opportunities.

#### 4.1.2 Surreys' Stewardship Policy

By being a founding partner of BCPP and being responsible for the appointment of non-pooled asset managers, Surrey is able to set expectations of both, and also set expectations of BCPP when it comes to manager appointment, monitoring and termination.

Surrey have set certain stewardship expectations of their agents in terms of ESG factor and RI issue implementation – and the feedback from these agents will be used on an ongoing basis to ensure clarity of purpose and shared direction of travel.

#### 4.1.3 Combining Surrey's Approach with its Agents

One key intention of this RI Policy is to set out Surrey's approach as a 'sustainable steward' of the Fund's assets. This policy reflects current 'good practice' and will be updated periodically as good practice continues to develop. However, the Fund recognizes that its agents may already have in place their own RI policies that reflect current responsible stewardship good practice. The intention is not to completely override any existing well-considered RI approaches, but for any perceived gaps to be filled with the appropriate content of the Fund's RI Policy.

#### 4.1.4 Stewardship Monitoring

Surrey's stewardship activity takes place through 4 main routes:

- through the activities of its investment managers (such as voting at company meetings and undertaking direct engagements with investee companies);
- through the discretionary activities of the BCPP partner funds (such as collaborating on voting actions on specific shareholder resolutions at company meetings);
- through any activities directed by BCPP itself on behalf of the pool's asset owners (such as any prioritised engagement activity); and
- through working collaboratively with other investors (such as working with other LGPS pools on issues such as TCFD reporting from investee companies or asset managers).

The stewardship activities of the Fund's investment managers are regularly reported back to the Fund. Some of this information is publicly reported via the Council's website through reports submitted for consideration by the Pension Fund Committee – for example, the quarterly voting activity undertaken.

## 4.2 Voting

### 4.2.1 Surrey's Approach to Voting

Surrey aims to be an informed and responsible long-term investor of the companies in which it invests, directly or indirectly. The Fund has a commitment to encourage responsible corporate behaviour, which is based upon the belief that active oversight and stewardship of companies encourages good long-term value creation and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries. To that end, the Fund has a Voting Policy in place which sets out its stewardship views and expectations of investee company managements. For the assets held by BCPP, the pool also has a Voting Policy which seeks to uphold high standards of corporate governance for the pooled listed assets.

### 4.2.2 Surrey's Voting Policy

Surrey has long had a Voting Policy, which sets out the principles of good corporate governance, and how Surrey seeks to exercise its influence on investee companies. The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner. The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, it will focus attention on the major asset holdings, i.e., UK, EU, US, Far East and Emerging Markets assets.

The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner. To that end, it has created [a bespoke Voting Policy](#). In general, the Fund aims to support corporate management in their stewardship role, but for instances where the Fund cannot support management it either vote against company management or abstain.

The main areas of corporate governance covered by the Fund's Voting Policy are as follows:

- Audit & Reporting
- Remuneration
- Capital
- Sustainability
- Investment Decisions
- The Board
- Shareholders' Rights
- Other Resolutions
- Shareholder Proposals

Surrey periodically reviews its Voting Policy, taking current or developing stewardship issues into account, and incorporating any feedback received from the ongoing discussions with the investment managers. The Fund's Voting Policy was most recently updated in Q4 2023.

#### 4.2.3 Surrey's Investment Managers & Voting

Surrey's Voting Policy originally related to all the Fund's listed equity managers, but as more of the Fund's assets were transitioned into the Border to Coast pool over the last few years, the direct stewardship responsibility for these assets moved to BCPP. [BCPP have created their own Voting Policy](#), which is applied to the assets under their management.

As at May 2024, there remained only one non-pooled manager whose listed equity investments are currently covered by the Fund's own Voting Policy:

- Newton (Global Equities)

The expectation is that over time all these assets will either be transferred to BCPP, or the monies invested reallocated to other asset classes. In the meantime, the Fund's Voting Policy is still applicable to the proper stewardship oversight of these assets.

Surrey receives a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in line with the Voting Policy, on a regular basis. This information is regularly submitted to the Pension Fund Committee for its consideration.

#### 4.2.4 Use of Agents in Voting Activity

Surrey has contracted with Minerva Analytics since 2013 to provide consultancy advice on share voting and the wider spectrum of company corporate governance. Minerva has assisted the Fund in ensuring that its stewardship approach reflects the most up-to-date standards. This helps Officers and the Pension Fund Committee learn of the latest

stewardship developments that can then be reflected in the Fund's Investment Strategy Statement (ISS).

Surrey expects that its UK-based investment managers will be signatories to, and comply with, the Financial Reporting Council's Stewardship Code (the Code). Surrey also expects its non UK-based investments managers to provide a formal statement on their approach to stewardship of client assets.

#### 4.2.5 Voting and Securities Lending

Securities lending is an activity where assets are borrowed by a third party, in return for a fee. Collateral is provided at the point of the asset being borrowed, which is held until the asset is returned. One aspect of securities lending is that the legal title of the asset is transferred to the borrower, which means that any votes attached to the asset transfer to the borrower.

Surrey is of the view that, as responsible asset stewards, they should vote at all company meetings for the assets they own. Accordingly, Surrey expects that any assets that are out on loan should be recalled with sufficient time to permit votes to be cast.

### 4.3 Engagement

#### 4.3.1 Surrey's Approach to Engagement

As long-term asset stewards, Surrey seeks to positively influence companies' ESG approaches through the use of voting rights and by formal shareholder engagement.

Surrey expects its investment managers to follow this model of responsible asset stewardship, but the services of other third-party providers may be sought when necessary to help identify issues of concern and engage with investee companies.

Surrey believes that the best way to influence companies on RI matters is through an ongoing process of responsible ownership:

**1) Assess:** the identification and consideration of all material issues and risk factors associated with any given investment (including ESG & RI factors);

**2) Invest / Divest:** having assessed the appropriateness of an investment opportunity, the active decision is made to buy (or sell) the asset;





**3) Steward:** responsible oversight of the asset involves engaging with the investee company, voting at listed company meetings and engaging with company management on issues of concern;

**4) Report:** providing the results of the stewardship back to the client, so that they are informed on how the asset is being managed, and whether there are any current concerns.

This process is circular and ongoing; however, it may be the case that after several attempts at constructive engagement with an investee company that the initial concerns expressed have not been addressed satisfactorily, and so either legal action (by way of a **Class Action** process with other investors) or divestment/sale of the asset is appropriate next steps in the Fund's 'Engagement with Consequences' approach.

#### 4.3.2 Engagement Responsibilities

The responsibility for undertaking engagements is shared between the Fund, BCPP and the investment managers insomuch as:

- individual investment managers follow their own approaches towards engaging with investee companies on all matters that have the potential to affect investment performance;
- BCPP currently uses the services of Robeco, to report on engagements undertaken by its managers;
- Surrey is able to set any engagement priorities for the investment managers – both those within BCPP, and the non-pooled managers; and
- Either Surrey or BCPP – working on their own or with other investors – are able to take legal action against investee companies through participating in a Class Action, where deemed appropriate.

#### 4.3.3 Engagement & RI Themes

Whilst the Fund has not currently explicitly set any engagement or RI-themed priorities, it supports those that have been set by Border to Coast. These are:

Environmental	Social	Governance
<ul style="list-style-type: none"> <li>▪ Low carbon transition</li> <li>▪ Waste and water management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Social inclusion through labour management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Diversity of thought</li> </ul>

The Pension Fund Committee has the right to determine any specific engagement or RI-themed priorities and will look to its agents to help with their monitoring and delivery.

#### 4.3.4 Position on Divestment and a 'Just Transition'

Surrey believes in an 'Engagement with Consequences' approach towards its investments - constructively engaging with investee companies on any identified ESG & RI issues, rather than immediate divestment. As Surrey is externally managed, the actual implementation of the 'engagement with consequences' approach in relation to individual investments falls to its investment managers. Engagement is a legitimate step by our managers in an escalation process where issues are identified, communicated to company management and their responses are assessed. However, Surrey does not believe that engagement should be an open-ended process without resolution. It is important that the materiality of each engagement is analysed, and that the response is carefully considered, so a conclusion can be reached as to whether the original issue has been resolved, has a reasonable expectation of being resolved, or is not likely to be resolved at all.

If initial engagement does not lead to the desired results, escalation by the managers may be necessary. Options for this escalation include collaborating with other investors, supporting shareholder resolutions, voting against directors or other relevant meeting agenda items, attending Annual General Meetings (AGMs) in person to raise concerns, publicly expressing concerns and co-filing shareholder resolutions.

If, after the escalation process, the investment case is still seen as fundamentally weakened, the decision may be taken by the manager to sell the company's shares. Regulatory, legal, reputational, environmental, social and governance issues are all risks that may be considered.

Surrey believes its investment managers should seek to first engage with investee companies on issues that they perceive to present a material financial risk. However, the reporting of these engagements, their materiality, the engagement outcomes and their implications have not always been clearly communicated. Surrey commits to work with its investment managers to improve the disclosure and reporting of engagement activities undertaken on its behalf. Surrey will ask its investment managers to justify specific investments where it feels that engagement is not being effective or where financial risk may not be reflected in valuations. Where engagement fails to mitigate perceived material financial risks then Surrey expects its investment managers to consider stronger measures including collaborative engagement and/ or investment action.

Surrey supports the objectives of the Paris Agreement, specifically Article 2, 1(a), which is:

"Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change." Accordingly, the Fund expects its investment managers to make climate risk a key component of any engagement process on Surrey's investments.

Surrey also believes in a 'Just Transition' to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of rapid, wholesale industrial change.

The investment exclusions currently in place for the Fund are listed below:

**Russian restrictions:** All managers are abiding by governmental sanctions against Russia and Belarus and new investments into the region are prohibited. The Fund's position is to review existing investments with a view to exiting in due course as and when markets permit, as long as the current circumstances prevail. The statement by the Surrey Pension Fund can be found [here](#), The Surrey Pension Fund is saddened by and strongly condemns the invasion of Ukraine by Russia. | Surrey Pension Fund

Equity restrictions currently in place, by fund manager

**BCPP:** BCPP have exclusions related to two areas - thermal coal & oil sands and cluster munitions.

BCPP will not invest in public companies where more than 70% of revenue is derived from thermal coal and/or oil sands. For illiquid investments in private markets, the threshold is reduced to 25%.

There will also be no investment in companies contravening the Convention on Cluster Munitions (2008). This excludes from investment companies where there is evidence of manufacturing cluster munition whole weapons systems and those manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

**LGIM:** There are no exclusions relating to their market capitalisation linked index funds.

The Future World product range does execute exclusions. Future World products apply the Future World Protection List and the Climate Impact Pledge.

The Future World Protection List is a set of exclusions based on companies which fail to meet either globally accepted principles of business practice, or whose business is incompatible with a low-carbon transition. No company with over 20% of revenue derived from thermal coal mining and extraction and/or thermal coal power generation and/or oil sands can be considered for investment. Neither are manufacturers of controversial weapons or companies in perennial breach of the UN Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies. More details on LGIM's Future World Protection List can be found [here](#), Future World Protection List Methodology ([lgim.com](http://lgim.com))

The Climate Impact Pledge is LGIM's engagement with consequences approach related to climate engagement. Using a set of metrics for assessment, companies that remain consisted laggards generate votes against the Chair for all products and divestment from the Future World funds. More details can be found here, [Climate Impact Pledge | Climate change | LGIM Institutional](#)

**Newton:** The Fund has not imposed any explicit exclusions related to the Newton mandate, other than those relating to Russia and Belarus. However, for their pooled range, the manager does have exclusions in companies involved in cluster munitions and this policy is taken into account when investment decisions are made for the Surrey Pension Fund.

#### 4.4.5 Engagement Across Asset Classes

Surrey believes that engagement is a key part of being a responsible asset owner; however, some assets are easier than others, in terms of undertaking engagement activity. Set out in the following table are some high-level views on how engagement is, and could be, carried out by Surrey or its agents – either individually, or collectively with other like-minded investors - across the asset classes in which the Fund is invested:

Asset Class	Engagement Options
Equities - Index	<ul style="list-style-type: none"> <li>Implementation of a bespoke Voting Policy for non-pooled assets that codifies Surrey's approach into specific voting actions</li> <li>Implementation of a bespoke Voting Policy for pooled assets that codifies BCPP's approach into specific voting actions</li> <li>Direct engagement by Robeco or by asset managers with companies held on an index-driven basis linked to engagements undertaken for any actively held holdings</li> </ul>
Equities - Active	<ul style="list-style-type: none"> <li>Implementation of a bespoke Voting Policy for non-pooled assets that codifies Surrey's approach into specific voting actions</li> <li>Implementation of a bespoke Voting Policy for pooled assets that codifies BCPP's approach into specific voting actions</li> <li>Direct engagement by Robeco or by asset managers with companies held on an active basis – via direct meeting / letter / email / call / attendance at investor events</li> </ul>
Fixed Interest - Government Bonds, Government Index Linked Bonds	<ul style="list-style-type: none"> <li>Limited direct engagement options – consideration of RI issues affecting national Governments and their responses to them typically sits at the investment appraisal stage, prior to investing</li> </ul>
Fixed Interest - Multi Asset Credit, Corporate	<ul style="list-style-type: none"> <li>Direct engagement is possible for Surrey's asset managers or Robeco on listed companies that also issue debt owned by the Fund</li> <li>Engagement with companies issuing debt – via direct meeting / letter / email / call / attendance at investor events</li> </ul>

Asset Class	Engagement Options
Index Linked Bonds	
Real Estate - Pooled	<ul style="list-style-type: none"> <li>Investment via collective vehicles means that engagement activity has to be at investment manager level, particularly if a fund of funds is the chosen vehicle of investment</li> </ul>
Infrastructure - Pooled	<ul style="list-style-type: none"> <li>Investment via collective vehicles means that engagement activity has to be at investment manager level, particularly if a fund of funds is the chosen vehicle of investment</li> </ul>
Private Debt / Equity / Venture Capital - Direct	<ul style="list-style-type: none"> <li>Direct ownership of private companies, or loans to private companies means that RI considerations and expectations can be established from the outset, and influence can be exerted directly on these investments as a relatively small group of investors are the owners.</li> </ul>
Private Debt / Equity / Venture Capital - Indirect	<ul style="list-style-type: none"> <li>Investment via collective vehicles means that engagement activity has to be at investment manager level, particularly if a fund of funds is the chosen vehicle of investment</li> </ul>
Cash	<ul style="list-style-type: none"> <li>For banks holding cash deposits that are listed entities, engagement can take place in the same manner as for Equities, if the bank shares are held as part of an existing investment. Where money market funds are used, engagement would again be possible at a secondary level, engaging with the investment managers of the funds involved.</li> </ul>

## Section 5: Monitoring and Reporting

### 5.1 RI Monitoring

#### 5.1.1 Surrey's Approach to RI Monitoring

Surrey believes that monitoring RI activities and outputs is vital in ensuring alignment of RI performance with the Fund's stated approach. Surrey will monitor RI activities undertaken on its behalf in relation to the short, medium and long-term objectives set out in the RI Policy and in any individual Investment Management Agreements.

#### 5.1.2 Reporting Expectations of Surrey's' Asset Managers

Individual Investment Management Agreements (IMAs) or Service Level Agreements (SLAs) with investment managers should set out the information transparency requirements necessary for monitoring alignment between the RI performance of any mandate and the RI expectations set by the Fund.

Whilst specific asset classes bring their own specific requirements, all investment managers are expected to support the Fund in reporting on ESG factors together with climate risk mitigation objectives in alignment with TCFD, and other stewardship activity for the purposes of reporting under the UK Stewardship Code 2020.

Investment manager reporting should include some elements on their specific business which are universally applicable, including:

- any material updates to the firm's own RI policy during the year;
- RI governance developments; and
- any developments in their RI process.

Additionally, Surrey expects the investment managers to disclose some fund level information which is also universally applicable to all asset classes, including:

- details on alignment with any key RI objectives set by the Fund, and what measures (if any) remain to be carried out
- use of ESG data (e.g., details of data sources and tools used, verification, scope of portfolio coverage of the data)
- ESG Risk Management (e.g., updates or changes to ESG risk management processes, positive and negative examples of how ESG factors have impacted investment decisions)
- current key ESG risks and opportunities associated with the Fund's investments
- any material RI 'incidents' (details of incident, and explanation of any investment actions taken as a result)
- Performance Targets (e.g., material developments in progress towards targets; disclose whether assets are on target, exceeding or underperforming their ESG target; any RI related changes made to the performance benchmark)

- Asset class level reporting requirements are asset specific in nature: listed equity, fixed income, and private equity manager reporting should include, but not be limited to:
  - Portfolio composition
  - ESG factor incorporation
  - ESG performance and action plans
- Additionally, Private Equity should also include:
  - Monitoring and Incident Response
  - Exit strategy
- Infrastructure, Real Estate and Forestry are expected to report on all of the above, save for ESG incorporation

Surrey expects the following to be reflected in the stewardship reporting of its investment managers:

- explaining the implementation of their stewardship policies
  - how ownership rights have been exercised
  - any changes to the manager's engagement processes
  - examples of engagement and how they relate to monitoring and investment decisions
  - details on measurement of engagement success
  - details on whether engagements have been concluded successfully, concluded unsuccessfully, or are ongoing
  - information on how portfolio managers have been involved in active ownership activities
- Additionally, listed equity and fixed income investment managers should include details of any collaborative engagements and how they have contributed to their stewardship and engagement strategy

Any listed equity voting reporting should cover:

- Any changes in voting policy
- Specific results of voting activities and decisions, including summary statistics, policy alignment as well as case studies
- Stock-on-loan related voting issues (where investment managers are responsible for their own securities lending programme)
- Outcomes of voting audits
- Examples of results of resolutions voted
- Proportion of shares voted in the period
- Breakdown and rationale of votes cast against management

Surrey also expects its investment managers to provide climate change reporting in line with TCFD recommendations. This is to include:

- Climate Change: Governance
  - Engagement with companies regarding addressing climate change
  - Positive/negative changes in investee companies' oversight of climate issues
  - Describing management's role in assessing and managing risks and opportunities
- Climate Change: Strategy
  - Describe risks and opportunities over the short, medium and long-term (according to reporting horizon)
  - How these risk and opportunities are factored into strategies
  - Describe strategy resilience in the face of climate scenarios, including a +2 degrees Celsius or lower scenario
- Climate Change: Risk Management
  - Any changes in processes for integration of these risks into the overall risk management process
- Metrics and Targets
  - Disclose the metrics used and how these have changed over time
  - Scopes 1, 2 and (where currently possible) 3 GHG emissions, weighted average carbon intensity
  - Describe the targets used to manage climate related risks, opportunities and performance against targets

### 5.1.3 RI Reporting Standards and Agents

Where specialist agents (such as, for example, RI consultancy, third party ESG portfolio reporting, proxy voting services, engagement services or securities litigation specialists) are appointed to provide services to Surrey which contribute to the implementation of the Fund's RI Policy, reporting requirements will be set out in their contractual arrangements, reflecting by reference to the elements of this RI Policy to which the services relate.

### 5.1.4 RI Monitoring & Reporting

It is key to ensure that the scope and nature of the RI monitoring requirements placed upon the Fund's agents are proportionate and aligned with the Fund's RI Policy. It is Surrey's view that the reporting expectations placed on the Fund's agents, as set out in this RI Policy, should not be onerous. Surrey believes that they reflect what should reasonably be expected of a professional asset management firm, either because of regulatory requirement or from client interest and demand.

### 5.1.5 Monitoring Expectations of Border to Coast

As Surrey's primary source as the provider (or procurer) of investment management services, it is essential that Border to Coast is able to undertake appropriate monitoring of the Fund's investments and investment managers. Explicit monitoring expectations will be discussed with Border to Coast on an ongoing basis, but Surrey's position is that the pool should



undertake comprehensive and ongoing monitoring of the Fund's investments and investment managers, which includes assessing how ESG factors are identified, incorporated into the investment process and managed. Investment and manager monitoring requirements are likely to grow over time, and so Surrey will work with Border to Coast and the other partner funds to ensure the pool is able to meet client monitoring requirements.

## 5.2 RI Reporting

### 5.2.1 Surrey's Approach to RI Reporting

Any reporting arrangements put in place need to be able to meet the varied reporting requirements of the Fund, now and in the future. Whereas historic investment reporting has predominantly focussed on asset holdings, valuation and performance, future reporting requirements are likely to place a greater emphasis on stewardship matters, such as:

- More detailed information on voting activity, and variances from the Fund's and BCPP's Voting Policies
- Engagement activity, along with outcomes achieved
- Clearer information on asset sales/divestments, with a particular emphasis on asset disposals made primarily in relation to unacceptable ESG factor risks
- Carbon intensity of specific investments and portfolios
- Content to enable the Fund to complete their own Stewardship Code 2020 and TCFD reporting

### 5.2.2 RI Reporting Commitments

There is likely to be considerable overlap in terms of the content needed from the Fund's agents for the different reports produced by Surrey - such as those covering the Fund's Annual Report & Accounts, Stewardship Code 2020 Compliance, TCFD Reporting, Voting and Engagement Activity and scheme member communications.

Surrey expects that, whatever the reporting requirements - existing, regulatory-driven or aspirational - its agents work closely in cooperation with the Fund to help it meet these requirements through the provision of timely stewardship information.

### 5.2.3 RI Reporting Delivery Methods

Surrey will ensure that RI reporting is accessible to its stakeholders. The Fund's core position is that key RI information is communicated with its stakeholders via a number of routes:

- On the Surrey Pension Fund website
- In the Fund's Annual Report & Accounts
- Through regular reports submitted to the Pension Fund Committee and Local Pensions Board

Over time, the information disclosed is expected to expand to include more RI-related information, such as climate scenario modelling. Stakeholders will be kept up to date on progress to expand reporting requirements via the Fund's and Council's websites. Contact details will also be provided for stakeholders who have specific requirements in terms of reporting accessibility, to ensure that the information available can be accessed by all relevant parties.

#### 5.2.4 Key Reporting Expectations of Agents

Surrey expects their agents to support them in the delivery of, and reporting against, these RI Guidelines and the RI expectations, in addition to their normal investment-related reporting. Set out in the table below is a short description of the information that Surrey expects its agents to provide, split across the three main current agents – BCPP, the Fund's master custodian Northern Trust and the non-pooled investment managers:

Agent	Reporting Expectations
<b>BCPP</b>	<ul style="list-style-type: none"> <li>▪ Monitoring of the external investment managers, covering their ongoing appropriateness to manage assets on behalf of the Pool and the partner funds</li> <li>▪ Any other existing reporting that Surrey currently receives from BCPP</li> </ul>
<b>Northern Trust</b>	<ul style="list-style-type: none"> <li>▪ Investment accounting &amp; valuation information relating to the investment arrangements managed by the non-pooled investment managers</li> <li>▪ Performance information relating to the investment arrangements managed by the non-pooled investment managers</li> <li>▪ Custody safekeeping reconciliations relating to the assets, derivatives and cash associated with the investment arrangements of the non-pooled investment managers</li> <li>▪ Securities lending activity, including information covering the recall of assets on loan for voting</li> <li>▪ Confirmation of the successful submission of votes cast on behalf of the Fund through its agents</li> <li>▪ Any other existing reporting that Surrey currently receives from NT</li> </ul>
<b>Non-pooled Investment Managers (including LGIM)</b>	<ul style="list-style-type: none"> <li>▪ Investment performance information relating to the investment arrangements managed by each investment manager</li> <li>▪ Details of their specific ESG / RI policies</li> <li>▪ Details of their approach towards TCFD reporting</li> <li>▪ Details of their approach to climate modelling of their specific investments</li> <li>▪ Details of any engagements undertaken in relation to the investments they manage on behalf of the Fund</li> <li>▪ Any other existing reporting that Surrey currently receives from the non-pooled investment managers</li> </ul>

### 5.2.5 Reporting Expectations of Border to Coast

Reporting expectations of Border to Coast are determined collectively by the pool's partner funds. As a result, Surrey is able to have direct input in ensuring its reporting requirements are met. And whilst it is recognized that different partner funds are likely to have slightly different reporting requirements, there are likely to be common pieces of information that each fund needs. Surrey's RI reporting requirements of Border to Coast cover areas such as voting, engagement, portfolio carbon intensity measurement and other ESG reporting requirements as specified by the Fund. Surrey also expects Border to Coast to undertake regular reporting on the investment, stewardship and ESG-associated activities undertaken by any external investment managers appointed by the pool.

## 5.3 Stakeholder RI Communications

### 5.3.1 Reporting RI Issues to Stakeholders

In terms of stakeholder reporting requirements associated with RI, due consideration will be given to the reporting requirements of all key stakeholders, including:

- Surrey Pension Fund Committee and Local Pensions Board
- Scheme members and employers
- Interested third parties

RI issues are reported to stakeholders via several channels, including the Fund's websites, Pension Fund Committee papers, Annual Reports, and also by other avenues such as Stewardship Code 2020 reporting.

### 5.3.2 RI Reporting Content, Access, and Frequency

Surrey aims to report its RI activities in a manner which is deemed to be in line with best practice. This includes regular disclosures that demonstrate to stakeholders how Surrey oversees the implementation of the Fund's RI approach. From content prepared for the Fund's Annual Report & Accounts, member communications and for the Fund's own website, the intention is to provide RI information that is accurate, engaging, accessible and timely.

# Glossary

Term	Definition
<b>Administering Authority</b>	An Administering Authority is responsible for maintaining and investing its own fund for the <b>LGPS</b> . This means the Administering Authority is responsible for making all decisions relating to the operation of the Fund.
<b>Agent</b>	Any third party working on behalf of the Fund. This covers <b>BCPP</b> , non-pooled investment managers, custodians and other third parties providing investment-related services.
<b>BCPP</b>	<b>Border to Coast Pensions Partners Limited</b> – the <b>LGPS</b> pool of which Surrey is one of the founding partner funds. Responsible for some of the investment arrangements of the Fund.
<b>Class Action</b>	A Class Action is a type of lawsuit where one of the parties is a group of people or investors who are represented collectively by a member or members of that group. <b>LGPS</b> Funds typically participate in class actions to seek financial redress from investee companies over destruction of shareholder value caused by company management actions.
<b>COP26</b>	The UK hosted the 26th UN Climate Change Conference of the Parties ( <b>COP26</b> ) in Glasgow on 31 October – 12 November 2021. The COP26 summit brought parties together to accelerate action towards the goals of the <b>Paris Agreement</b> and the UN Framework Convention on Climate Change.
<b>Custodian</b>	An entity – usually a bank – that provides custody of assets, along with associated services such as investment accounting, cash management, dividend collection and repatriation, proxy voting, securities lending and investment performance measurement & reporting
<b>ESG</b>	<b>Environmental, Social and Governance</b> – usually used in reference to ESG ‘factors’ or ‘characteristics’, in the content of a Fund’s, portfolio’s or investee company’s approach to sustainability issues or risks
<b>IMA</b>	<b>Investment Management Agreement</b> – the formal contract between the procurer of investment management services and the firm providing them. Contains specific details of the nature of the investment services required, along with other details such as any benchmark to be used, risk controls, fees paid and client reporting requirements.
<b>Investee Company</b>	Relates to an underlying investment in a listed equity, corporate bond or private equity in which an investment manager has made an investment on behalf of the pool
<b>LAPFF</b>	The <b>Local Authority Pension Fund Forum</b> is a voluntary association of 85 public sector pension funds and seven pool companies based in the UK with combined assets of over £300 billion. It exists to ‘promote the long-term investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest’.
<b>LGPS</b>	The <b>Local Government Pension Scheme</b> is a statutory pension scheme for employees of local authorities.

Term	Definition
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
PRI	<b>Principles for Responsible Investment</b> – initially a United Nations-backed organisation but is now a freestanding commercial entity. Asset owners and asset managers can subscribe to have their responsible investment approaches assessed and graded by PRI.
RI	<b>Responsible Investment</b> – a broad term used to cover sustainability issues in investment management
SDGs	<b>United Nations Sustainable Development Goals</b> - a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.
SLA	<b>Service Level Agreement</b> – a document put in place between the procurer and provider of services to establish certain aspects of the service delivery, usually around service standards, timeliness, deliverables and reporting
Stakeholder	Relates to parties that have an interest in the investment arrangements of the partner funds – this covers <b>LGPS</b> scheme members, employers and other bodies in the scheme, but also includes local taxpayers
TCFD	<b>Task Force on Climate-related Financial Disclosures</b> - created by the Financial Stability Board in 2015 to improve and increase reporting of climate-related financial information.
UK Stewardship Code 2020	Established by the Financial Reporting Council, The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.