

**MINUTES** of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 15 May 2014 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

**Elected Members:**

- \* Ms Denise Le Gal (Chairman)
- \* Mr Nick Skellett CBE (Vice-Chairman)
- \* Mr W D Barker OBE
- \* Mr Tim Evans
- \* Mr John Orrick
- \* Mr Stuart Selleck

**Ex officio Members:**

Mr David Munro, Chairman of the County Council  
Mrs Sally Ann B Marks, Vice Chairman of the County Council  
Mr David Hodge, Leader of the Council  
Mr Peter Martin, Deputy Leader

**Co-opted Members:**

- \* Mr Tony Elias, District Representative
- \* Judith Glover, Borough/District Councils
- \* Ian Perkin, Office of the Surrey Police and Crime Commissioner  
Philip Walker, Employees

**In attendance**

Paul Baker, Pensions Manager  
Helen Gibson, Pensions Regulator  
Cheryl Hardman, Regulatory Committee Manager  
John Harrison, Surrey Pension Fund Advisor  
Sheila Little, Chief Finance Officer (Section 151 Officer)  
Alex Moylan, Senior Accountant  
Robert Plumb, Pensions Regulator  
Phil Triggs, Strategic Manager – Pension Fund & Treasury  
Steve Turner, Partner, Mercer  
Matt Woodman, Hymans Robertson  
John Wright, Hymans Robertson - Actuary

#### **16/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies for absence were received from Philip Walker.

The Chairman informed the Committee that Mike Goodman had been promoted to the Cabinet and so had stood down from the Surrey Pension Fund Board. She thanked Mr Goodman for his work on the Board, in particular with the establishment of the Risk Register.

Tim Evans had been appointed to the Board. He is a knowledgeable Member with 35 years experience in pensions.

#### **17/14 MINUTES OF THE PREVIOUS MEETING [14 FEBRUARY 2014] [Item 2]**

The Minutes were agreed as an accurate record of the meeting subject to a change to the date on which the Minutes were to be agreed.

#### **18/14 DECLARATIONS OF INTEREST [Item 3]**

There were no declarations of interest.

#### **19/14 QUESTIONS AND PETITIONS [Item 4]**

There were none.

#### **20/14 ACTION TRACKING [Item 5]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. Many of the actions from previous meetings would be addressed at the current meeting.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

That the actions tracker was noted and the committee agreed to remove the completed actions from the tracker.

**Next steps:**

None.

#### **21/14 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report. He highlighted the recommendation by the Fund's independent advisor that attention be given to the question of rebalancing. The Chairman suggested that the committee return to this issue at the end of the meeting.

2. The committee had previously asked at what rate did Surrey County Council charge for loans (**Action Review ref: A5/14**). This information was included in the committee report. Such rates were assessed by speaking with money market brokers on the morning such transactions were planned to take place.
3. The Chairman suggested that the list of strategies, policies and reporting frameworks approved by the Board underlined how much work had been undertaken in the past year. The Board now had a comprehensive set of strategies and policies. She thanked officers for their hard work.
4. The Strategic Manager – Pension Fund & Treasury highlighted the improved performance of the markets over the past few weeks and stated that the estimated market value of the Fund as of 15 May 2014 was £2,806m.

*Tony Elias joined the meeting.*

5. With regard to the performance of Fund Managers, the Strategic Manager – Pension Fund & Treasury highlighted the under-performance of Franklin Templeton in Quarter 4 and the significant out-performance of Majedie.

*Tim Evans joined the meeting.*

6. Members expressed some concern about Newton's performance. The Surrey Pension Fund Advisor confirmed that Newton was still pursuing a thematic based investment philosophy. Changes to the global equity team had been made in 2012, which had resulted in a reduction in the number of stocks held in the portfolio from around 120 to 80 holdings in order for the manager to demonstrate greater conviction in its investment ideas. It was noted that Newton had maintained a relatively cautious approach to investing which had been reflected in their portfolio. Given the strong rise in markets over the last couple of years it was questioned whether Newton had been too slow to change its view, which may have impacted relative performance. He advised keeping an eye on Newton. The Chairman asked the Surrey Pension Fund Advisor to keep a watching brief on Newton and suggested that the Board review whether to invite Newton to a future meeting after a further quarter's performance results are published (**Action Review ref: A9/14**).
7. Officers confirmed that CBRE had been high on the agenda over the past 18 months. The performance target for the mandate had been discussed with them and subsequently revised. The allocation to CBRE has also been increased through additional funding which was specifically aimed to help the manager reduce the portfolio's exposure to the closed-ended European property holdings. The Mercer representative explained that while the UK element of the property portfolio was doing well, the European property funds continued to detract from relative performance. However, this wasn't as much of a problem now as it was.
8. The Surrey Pension Fund Advisor introduced and expanded on the notes of his meetings with Fund Managers.

9. A member of the Board queried whether the situation in Ukraine could have any impact on the Pension Fund through gas supply disputes. The Mercer representative confirmed that the Surrey Pension Fund does have a small exposure through Franklin Templeton. The Surrey Pension Fund Advisor added that impacts from the Ukrainian crisis had not been seen widely in financial markets. There was continued concern from some Members of potential future effects.
10. In response to a query about why the Fund would be investing in a bond mandate which had a low duration position of 1.4 years, the Surrey Pension Fund Advisor explained that the logic of Franklin Templeton's approach was to develop a portfolio with broad, diversified sources of return from global income and currency markets. The Chairman highlighted that Franklin Templeton had an unconstrained, somewhat contrarian investment approach, which could potentially lead to underperformance in the short-term, but that the manager had a strong track record over the long-term.

**Actions/Further Information to be Provided:**

Board to review whether to invite Newton to a future meeting after a further quarter's performance results are published.

**Resolved:**

- a. To approve the report and the decisions as laid out.
- b. To postpone the decisions on rebalancing whether to make a USD 20m commitment to the Standard Life Secondary Opportunities Fund 11 (SOF 11) to the end of the meeting.

**Next steps:**

None.

## **22/14 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW [Item 7]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report and highlighted that estimates suggest that the target level of return sought from the Surrey private equity programme had been exceeded.
2. There was concern that one specific manager was reluctant to share its Internal Rate of Return (IRR). The Surrey Pension Fund Advisor stated that IRRs tend to show Investment Managers in a good light so it was worrying that the manager would not share this information. The Strategic Manager – Pension Fund & Treasury agreed to request the data for the various funds.
3. Following a discussion about the measurement of private equity performance and the value of using the IRR to present performance, the Chairman requested that future reports present a cash flow analysis of how payments are received over time (**Action Review ref: A10/14**).

**Actions/Further Information to be Provided:**

Future reports on private equity performance to present a cash flow analysis of how payments are received over time.

**Resolved:**

- a. That the Board notes the current position on the Fund's Private Equity investment performance; and
- b. That the Fund continues to commit to follow on funds of the existing private equity managers as they become available and subject to each case going to the Pension Fund Board for approval.

**Next steps:**

None.

**23/14 PENSION FUND BUSINESS PLAN 2013/14: OUTTURN REPORT AND FINAL 2014/15 PLAN [Item 8]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report and then the Pension Manager provided an update on preparation for the new LGPS 2014 scheme. He stressed the lengths the officers had gone to, to keep the Pension Fund membership informed. 70-80 presentations had been made to employee members of the fund and seven employer workshops had taken place. Guidance notes had also been issued. The major changes that payroll departments had to undertake were impressed upon the Board. However all deadlines had been met.
2. The results of the Governance Self-Assessment completed by members of the Board were tabled and are attached as Annexes 1 and 2. The Strategic Manager – Pension Fund & Treasury explained that the rating was from 1 (good) to 5 (poor). The average rating was then calculated for each question and presented alongside the range of responses. The Chairman felt that the big issues to be taken from the self-assessment were that the Board does not have enough time to be truly effective and that meetings do not allow sufficient focus on the 'big picture' strategic issues. She opened up a discussion on how this could be addressed. Members felt that there was value in having additional training and informal discussions between formal Board meetings. The Board wished to develop a general consensus on where the market is headed and an understanding of what other Pension Fund Boards were doing. Pre-meetings with the Pension Fund Board Advisor and the Mercer representative were also supported to ensure that members had the right questions when meeting Fund Managers. There was little support for increasing the number of formal Board meetings. The possibility of having a smaller Investment Sub-Committee was discussed to allow changes to the Investment strategy to be driven through. However there was some concern that this would lead to some members of the Board being more informed than others. The Strategic Manager – Pensions Fund & Treasury was asked to bring a report recommending a way forward for the Board (**Action Review ref: A11/14**).

3. The Chairman suggested that a training needs analysis be carried out by the Board later in the year, adapting the CIPFA questions used previously by the Pension Fund Panel (**Action Review ref: A12/14**).

**Actions/Further Information to be Provided:**

- i. A report to be brought to the next meeting of the Surrey Pension Fund Board on how to address the results of the Governance Self-Assessment.
- ii. A training needs analysis to be conducted later in the year.

**Resolved:**

- a. That progress with regard to the Business Plan objectives in respect of the 2013/14 financial year be noted.
- b. That the final version of the 2014/15 Business Plan be approved.

**Next steps:**

None.

**24/14 ACTUARIAL VALUATION 2013: OUTCOME [Item 9]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report and acknowledged the work of the Pensions Administration Team in terms of ensuring high quality data is held in respect of the Fund's membership.
2. The disbanding of the pooling arrangements in respect of parish councils and other admitted bodies as a result of the actuarial valuation was highlighted. The timing of introducing individualised contribution rates for employers according to their own liability profile was challenging because of the budget-setting timetable across employer bodies. This meant the consultation was not possible which had led to some dissatisfaction with the process followed. However, the Fund had no option but to accept the recommendations from the actuary so the outcome of any consultation would have been the same as what happened in practice. Members highlighted the difficulties that parish councils have in explaining the impact on the parish council precept to parishioners.
3. The Strategic Manager – Pension Fund & Treasury introduced the Funding Strategy Statement which had been consulted upon since the previous Surrey Pension Fund Board meeting. He also confirmed that District and Borough Councils had flexibility to reduce their deficit recovery period.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

- a. That the report be noted and the 2013 Actuarial Valuation and Rates & Adjustments Certificate be adopted.
- b. That the final version of the Funding Strategy Statement be approved.

**Next steps:**

None.

**25/14 PENSION FUND RISK REGISTER [Item 10]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report, highlighting the changes since the previous meeting. The risks of bond yields falling and pay & price inflation had been reassessed and were now listed as the top two risks for the Pension Fund. Although longevity had fallen to the third risk it was still a core risk for the Fund. Mitigating actions outlined for the top three risks were not considered sufficient to address the risks and so the net risk score was the same as the total risk score.
2. The mismatching of assets and liabilities had been raised from the 15<sup>th</sup> risk on the register to the fourth risk. The Chairman stated that she was not convinced that assets and liabilities mismatching was that high a risk for the Fund. The Hymans Actuary suggested that if the Fund took a full asset to liabilities matching approach now the contributions required would be unaffordable. However, the Board needs to check that the Fund is not taking more risks than necessary.
3. Members suggested that the Board needs to focus on the long-term future and getting to full funding. The Mercer representative suggested that the Investment Strategy review later on the agenda would help the Board develop a clear idea of where it wants to get to and the Strategy that should be in place when it gets there.
4. Members queried what assumptions Hymans Robertson uses for the potential reduction in the workforce as a result of the pressures that the public sector is under. The Hymans Actuary responded that there is a risk of the workforce collapsing and this has been addressed through risk management processes. If payroll shrinks, this would have an impact of reduced contributions to the Fund. Mitigating actions are listed for the workforce diminishing in a short period of time.
5. Members suggested that some of the risks appear very similar, eg risks 1, 2, 4 & 10. Officers agreed that the risks could be reviewed to make the register more concise but the Board was also reminded of the objective for the register to be explicit (**Action Review ref: A13/14**). Members requested for Risk 36 to be dropped from the register (**Action Review ref: A14/14**). A further risk to address the implementation of the proposed changes to the LGPS was requested (**Action Review ref: A15/14**).

**Actions/Further Information to be Provided:**

- i. Risks to be reviewed to make the register more concise.
- ii. Risk 36 to be dropped from the register.
- iii. A risk to address the implementation of the proposed changes to the LGPS to be added.

**Resolved:**

That the Risk Register be noted and amendments made reflecting the discussion at the Board meeting.

**Next steps:**

None.

*The Board meeting was adjourned from 11.15am to 11.30am for a short break.*

**26/14 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 11]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the revised Statement of Investment Principles. He explained that the changes were cosmetic and the opportunity had been taken to revise the section dealing with the CIPFA/Myners principles.
2. In response to a question about whether all of the Fund's Investment Managers were from the UK, the Mercer representative stated that Western Asset Management was headquartered in Pasadena although it had an investment team in London. Franklin Templeton is based in San Francisco but also has an investment team in London.
3. It was suggested and agreed that section 2(ii) of the Statement of Investment Principles should state: "To have a strategic asset allocation that is both well diversified and expected to provide long term investment returns in excess of the anticipated rise in the *value of the Fund's liabilities*" (**Action Review ref: A16/14**).

**Actions/Further Information to be Provided:**

The Statement of Investment Principles to be amended as agreed in point 3.

**Resolved:**

That the revised Statement of Investment Principles be approved subject to amendments as discussed at the meeting.

**Next steps:**

None.

**27/14 KEY PERFORMANCE INDICATORS [Item 12]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. An updated KPI Statement was tabled and is attached to the Minutes as Annex 3.
2. The Pensions Manager introduced the report. The Employer Satisfaction Survey results had now been included and the target performance level had been passed.

3. The Strategic Manager – Pension Fund & Treasury also highlighted the Internal Audit report on Pensions Administration which had been found to be effective.
4. In response to a query, the Strategic Manager – Pension Fund & Treasury explained that the performance in Q4 2012/13 had been very good and it was not possible to continue to replicate such a significant return. Rolling forward, the annual return would be impacted by the dropping out of a quarter's significantly high performance.
5. The Strategic Manager – Pension Fund & Treasury agreed to include the estimated deficit of the Fund in future KPI Statements, while making it clear that it is an estimated market value and not an actuarial valuation (**Action Review ref: A17/14**).

**Actions/Further Information to be Provided:**

To include the estimated deficit of the Fund in future KPI Statements, while making it clear that it is estimated market value and not an actuarial valuation.

**Resolved:**

That the KPI Statement be noted.

**Next steps:**

None.

**28/14 PENSION FUND ADMINISTRATION SERVICE LEVEL AGREEMENT [Item 13]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Pensions Manager introduced the report and highlighted that the welcome packs for new scheme members was an electronic pack. Retired members receive a paper payslip when rates change.
2. The Service Level Agreement would be published on the Pension Fund website once it had been agreed (**Action Review ref: A18/14**).
3. Members were assured that Internal Audit look at Pensions Administration annually and pointed out that the last report had been included as an annex to the previous item. The service had been found to be effective.
4. Appeals following a complaint against the Pensions Administration team would be heard by a Panel of senior officers: the Pensions Manager, Head of Legal & Democratic Services, and Chief Finance Officer. In response to a query, the Pensions Manager stated that appeals were better dealt with under delegated powers as they could be quite technical and invariably were concerned with ill-health retirements.

**Actions/Further Information to be Provided:**

The Service Level Agreement to be published on the Pension Fund website

**Resolved:**

That the Service Level Agreement be approved.

**Next steps:**

None.

**29/14 CORPORATE GOVERNANCE SHARE VOTING [Item 14]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report.
2. In response to a query about how many votes were taken against the advisor's recommendation, the Strategic Manager – Pension Fund & Treasury informed the Board that this had happened once during Q4. The Local Authority Pension Fund Forum had recommended that Funds vote against the Barclays remuneration policy and the Surrey Pension Fund followed this advice. The advice from Manifest had been to vote for the remuneration policy as not paying a market bonus would lead to staff leaving. The Chairman stated that the remuneration policy had still been pushed through but the vote was marginal.
3. Members queried why some votes were singled out for consideration by the Board. The Chairman reminded the Board that it had asked officers to send them details of the most contentious/newsworthy votes.
4. The Strategic Manager – Pension Fund & Treasury informed the Board that it was a rare occurrence when votes against company boards were carried. However, he pointed out that while votes against company boards may not be carried at the time of the vote, they often help make the case for change. He gave the example of Marks & Spencer appointing a joint Chief Executive and Chairman. The Local Authority Pension Fund Forum had run a well-supported campaign for separate individuals to hold these posts. The vote against management was not carried although it was a record vote in favour of the resolution at the time. A short time later Marks & Spencer did change their policies and decide to conform to the campaigns objectives.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

- a. That the report on Corporate Governance Share Voting be noted.
- b. That the Responsible Investment and Stewardship Policy for 2014/15 be approved.

**Next steps:**

None.

### **30/14 LGPS REFORM: OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES [Item 15]**

#### **Declarations of Interest:**

None.

#### **Key Points Raised During the Discussion:**

1. The Hymans Actuary tabled a briefing note summarising the Hymans Robertson cost-benefit analysis of fund merger and asset pooling (attached as Annex 4). A further consultation had been announced on 1 May 2014 by DCLG, which acknowledges the initiatives put in place by many administering authorities with regard to collaboration and the set up of collective investment vehicles (CIVs). Hymans had demonstrated that full Fund mergers would delay savings and so the DCLG consultation now rules out mergers and concentrates on asset pooling. The value of local decision-making had also been recognised by the government.
2. The Hymans Robertson representatives highlighted the finding that over the past ten years Local Government Pension Funds in aggregate would have achieved the same outcome if they had invested passively, with significantly lower fees. However, they argued that they were not recommending that the whole of the LGPS goes passive. Where a Fund has good governance it should continue what it has been doing. Where it has poor governance it could move to a passive investment strategy. The representatives then ran through the consultation questions and highlighted the key issues to be considered. They also stated that the consultation invites thoughts on reducing fund deficits although this is not one of the five consultation questions.
3. The Hymans Actuary confirmed that there are currently no CIVs in the market for the LGPS. The London Boroughs are presently setting up a CIV and counties may be able to use them.
4. The Hymans Robertson representatives informed the Board that there are only eight to ten equity managers across the LGPS. If CIVs are established, they are likely to be run by the same investment managers. Benefits of CIVs could include a reduction in fees. The Chairman stated that some investment managers were already voluntarily reducing fees to merged funds. Further benefits of CIVs would include savings on transactional costs as purchases and sales could be netted off.
5. Members were encouraged by the modification of the government's plans in response to evidence.
6. The Hymans Actuary suggested that there should be a good response rate to the consultation and that the concepts in the consultation would benefit all funds.
7. The Chairman suggested that poorly run schemes could consider asking well run schemes to take them over.
8. In response to a query, the Hymans representatives stated that a move to passive investment strategies by local authority pension funds would have no impact on the market in aggregate.
9. Members felt that there was a timing issue and that, by moving quickly, greater benefits could be achieved.

*The Board adjourned for lunch from 12.50pm to 1.30pm.*

10. Members suggested that the initial response to the call for evidence be reviewed and arguments repeated in response to this consultation.
11. The Chairman stressed that the consultation response should highlight good governance and absorb the Hymans Robertson arguments.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

- a. That the report be noted.
- b. That officers be authorised to respond to the consultation with views expressed within the forum of the Board meeting.

**Next steps:**

None.

**31/14 NATIONAL CHANGES TO THE LGPS [Item 16]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report and explained the background to the preparation of the paper for South East 7 attached as Annex 1 to the report. He informed the Board that there would be an officer meeting on 28 May 2014 to work on proposals and that he would report back on the outcomes of that meeting (**Action Review ref: A19/14**). This may be through an informal meeting of the Board.
2. The Chairman informed the Board that the Leader of the Council was particularly keen to look at opportunities for collaboration within the South East 7.
3. The Chairman clarified that while the negotiations were confidential, the report was a public document and had been published on the website.
4. The Chairman informed the Board that Westminster City Council had awarded Surrey with its Pensions Administration and this would come into effect on 1 September 2014. The Surrey Pension Fund already has a partnership with East Sussex which includes pensions administration. This is now fully integrated. There are opportunities to learn from partnerships. For example, Surrey gained a procurement portal from East Sussex and there are functions and practice which has been shared with East Sussex.
5. The Surrey Pension Fund Advisor suggested that there would be other local authorities looking for support on various functions, eg where internal investment managers are close to retirement, funds may look to other local authorities for support.

6. In response to a query about whether there was any limit on the size of mergers or collaboration, the Hymans representatives suggested that there was a scale issue. Large funds were good for infrastructure and liquid assets but not if the investments are being actively managed. Large scale funds can also lead to them being remote from employers although it is possible to keep a local touch while benefiting from limiting replication of written communications. The application of scale requires consideration.

**Actions/Further Information to be Provided:**

Strategic Manager – Pension Fund & Treasury to report back on the outcomes of the officer meeting on 28 May 2014 before the next meeting of the Surrey Pension Fund Board.

**Resolved:**

That the report be noted.

**Next steps:**

None.

*The meeting adjourned for a break from 1.50pm to 2.05pm.*

**32/14 INVESTMENT STRATEGY REVIEW [Item 17]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report which had been discussed informally with Board members. There was a lengthy debate, with key points including:
2. The Chairman queried why some investment advisors (including Mercer) were recommending that LGPS funds establish a liability-driven investment strategy when funds were still a relatively long way from being fully funded. The Mercer representative explained the need to start implementing changes now to prepare for a change to the investment strategy once the fund was fully funded. If the Board waits until it gets to 100% funding, it will very likely miss the opportunity to move to a new strategy when the time is right as the building blocks won't be in place.
3. The Mercer representative highlighted the proposed strategy on page 271 of the agenda packs.
4. The Chairman suggested that she didn't disagree with the strategy but with the timing. She queried the definition used for growth assets which she felt were not currently 91.2% of investments. The Mercer representative highlighted the breakdown of growth assets on page 265 of the agenda packs. There was some debate amongst Members, officers and advisors about the definition applied, in particular in relation to Corporate Bonds. The Mercer representative explained that he considered the main role of this asset class for the Fund was as a return-seeking asset. It was acknowledged that some downside protection was provided relative to adverse movements in the value of the liabilities but that this would not be significant given

the low level of interest sensitivity and lack of any direct linkage to inflation.

5. The Chairman suggested that the Surrey Pension Fund was not currently taking excessive risks, given the level of funding. The Mercer representative suggested that as the funding level improves it is possible to take risk off the table and that a clear plan should be in place to achieve this.
6. The Hymans Actuary suggested that there was a question over whether a large deficit matters and whether the Fund should therefore be seeking to reduce risk. The Mercer representative agreed that Surrey needs to decide if it is happy with the current level of deficit risk. The liabilities are likely to continue to increase, even with good performance by investments.
7. The Pensions Regulator stated that it was not clear if the Regulator would have any remit over investment strategies.
8. The Hymans actuary suggested that if it is intended to de-risk in the future, governance should be put in place early on. Procedures should state what the actuary is expected to do and what the Fund's advisors are expected to do.
9. Members were unhappy to give full approval to the suggested changes at the present meeting. The Chairman requested that three fund managers be invited to an informal meeting of the Board to help it to understand the approach being recommended. It was also suggested that a fee exercise be conducted (**Action Review ref: A20/14**).

**Actions/Further Information to be Provided:**

- i. Three fund managers to be invited to an informal meeting of the Board to help it to understand the approach being recommended. A fee exercise also to be conducted.
- ii. The Board to receive training on synthetic equities.

**Resolved:**

- a. That the Pension Fund Board agrees to investing in a more risk aware manner relative to the Fund's liabilities with a view to the establishment of a liability driven investment strategy (LDI) portfolio. This should be set up on a relatively small scale initially with the level of liability protection increased as and when the funding level moves towards 100%.
- b. That the Pension Fund Board agrees to explore leveraged gilts.
- c. That the Pension Fund Board agrees to explore more diversified sources of return with a view to introducing Infrastructure Debt as a new asset category and increasing the existing allocation to diversified growth funds (DGF).
- d. That the Pension Fund Board does not agree at this time to setting up a framework for a synthetic equity portfolio. However, the Chairman suggested that this would be a useful area to receive training on in the future (**Action Review ref: A21/14**).
- e. That the Pension Fund Board agrees to implementing such changes in the short term, thus preparing a platform for the future strategy requirements, with the ultimate view to locking in some of the improvement in the funding level that has been seen since the valuation date of 31 March 2013.

- f. That the Pension Fund Board agrees to receive ongoing training and Board reports in order to facilitate a definitive decision making process on these strategy issues at future Board meetings. This will include an informal meeting before the next formal Board meeting at which three fund managers will be present to help the Board understand the process being recommended.

**Next steps:**

None.

**33/14 EXCLUSION OF THE PUBLIC [Item 18]**

**RESOLVED:** That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act.

**THE FOLLOWING ITEMS OF BUSINESS WERE CONSIDERED IN PRIVATE BY THE COMMITTEE. HOWEVER, THE INFORMATION SET OUT BELOW IS NOT CONFIDENTIAL.**

**34/14 STANDARD LIFE GFS FUND (GLOBAL FOCUSED STRATEGIES) [Item 19]**

**Declarations of Interest:**

None.

**Key Points Raised During the Discussion:**

1. The Strategic Manager – Pension Fund & Treasury introduced the report. The committee asked a number of questions which were answered by the officers and advisors present, before moving onto the recommendation.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

That an additional £60m be invested into the Standard Life diversified growth funds; with a 70:30 ratio between GARS and GFS. The additional funding to be transferred from passive equities with Legal & General.

**Next steps:**

None.

The Board then returned to Item 6: Manager Issues and Investment Performance to give consideration to making a USD 20m commitment to the Standard Life Secondary Opportunities Fund II (SOF II).

**Key Points Raised During the Discussion:**

1. Concern was expressed about increasing the Fund's exposure to Standard Life.

2. Concern was expressed about the opportunity being a Fund of Funds. However, it was also pointed out that this meant the investment wasn't directly in Standard Life.
3. Members queried what other opportunities exist in the private equity field. The Strategic Manager – Pension Fund & Treasury pointed out that the benefit of this opportunity was that it was a Secondary Opportunities fund. The Mercer representative also reiterated his support for Secondary Opportunities. The Surrey Pension Fund Advisor also felt that this was a good opportunity to be invested in.
4. The Chairman pointed out that this was not a material amount of money.

**Actions/Further Information to be Provided:**

None.

**Resolved:**

That the Board approves making a USD 20m commitment to the Secondary Opportunities Fund II (SOF II).

**Next steps:**

None.

**35/14 PUBLICITY FOR PART TWO ITEMS [Item 20]**

**RESOLVED:** That the item considered under Part Two of the agenda should remain confidential and not be made available to the press and public.

**36/14 DATE OF NEXT MEETING [Item 21]**

The date of the next meeting was noted.

Meeting ended at: 3.50 pm

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**Chairman**

### **Surrey Pension Fund Governance Assessment 2013/14**

Taken as a group, the Board has the right background, experience, collective knowledge and  
The Board has the right number of people to allow for effective and timely decision-making  
The mix of the Board membership is appropriate  
The roles, terms of reference and responsibilities of the Board are appropriate and well under  
The Board's approach to developing and maintaining its level of knowledge and understanding  
Meetings allow sufficient focus on the "big picture" strategic issues (such as funding and invest  
Board members are open, honest and effective in their communication with each other  
All Board members have appropriate opportunities to contribute in meetings  
The Board has the right level of access to the Pension Fund officers  
The members of the Board have access to people with up-to-date investment knowledge, and  
The Board receives adequate support from the officers and external advisors  
The Chairman of the Board provides appropriate leadership and conducts meetings in a way  
The Chairman effectively drives accountability and measurement into the Board.  
The Board meetings are well organised, efficient and effective  
The frequency of Board meetings is appropriate  
The Board meetings are well attended  
The Board meetings are of appropriate length to allow discussion of relevant issues consisten  
The Board's governance framework is appropriate and well documented  
The Board spends adequate time on key strategic investment issues  
The Board has sufficient time and resource to monitor the effectiveness of the Board's investr  
Meetings are conducted in a way which encourages wide debate of the issues and timely deci  
The Board considers compliance with the Myners/CIPFA principles on investment  
The Board adequately monitors the performance of the Fund's administration function  
The Board ensures that the Fund's risk assessments are adequate and reviews these regular  
The Board has a clear view on the Fund's long-term funding objective  
Meeting packs are complete, are received with enough lead time, and include the right inform  
Minutes of Board meetings reflect activities, actions and recommendations discussed at meet  
The Board reviews the statement of investment principles (SIP) on a regular basis

**Member 1**

skills to appropriately carry out the Board's responsibilities	2
	2
	2
stood	3
g is appropriate	2
stment strategy)	2
	1
	1
	1
I these skills, qualities and expertise are put to good use	2
	1
which encourages wide debate of the issues	2
	2
	2
	1
	2
t with the Board's responsibilities	1
	2
	2
ment manager arrangements and has appropriate review mechanisms in place	1
ision making	1
	2
	2
ly	2
	2
ation to allow meaningful discussion	2
ings	1
	2

Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9
2	2	1	2	2	2	2	2
2	1	1	1	1	3	2	2
4	2	1	2	1	2	2	2
2	1	2	1	1	3	1	2
2	2	2	1	1	2	1	2
2	3	2	1	1	3	3	3
2	1	2	2	1	3	2	1
1	1	2	1	1	3	1	2
1	1	2	1	1	4	1	3
2	2	1	3	1	4	1	2
1	2	2	1	1	3	2	2
1	1	1	1	1	2	1	2
1	1	2	2	1	2	1	2
1	1	3	1	1	2	2	2
1	2	2	3	1	2	2	4
2	2	2	1	1	2	2	2
1	1	2	2	2	2	2	3
1	1	2	1	1	2	1	2
2	3	2	2	1	3	3	2
2	3	1	2	1	2	3	3
1	2	2	1	1	3	1	2
1	1	2	2	1	2	2	2
2	2	2	3	1	2	2	3
2	2	2	1	1	2	1	3
2	1	1	1	2	2	2	2
2	1	2	1	1	2	1	2
2	1	2	2	1	2	1	2
2	1	2	1	1	2	1	2

<b>Member 10</b>	<b>Average</b>	<b>Range</b>
2	1.9	1 to 2
2	1.7	1 to 3
2	2	1 to 4
3	1.9	1 to 3
2	1.7	1 to 2
2	2.2	1 to 3
2	1.7	1 to 3
2	1.5	1 to 3
2	1.7	1 to 4
2	2	1 to 4
2	1.7	1 to 3
2	1.4	1 to 2
2	1.6	1 to 2
2	1.7	1 to 3
2	2	1 to 4
2	1.8	1 to 2
2	1.8	1 to 3
3	1.6	1 to 3
2	2.2	1 to 3
3	2.1	1 to 3
2	1.6	1 to 3
2	1.7	1 to 2
3	2.2	1 to 3
2	1.8	1 to 3
3	1.8	1 to 3
2	1.6	1 to 2
2	1.6	1 to 2
2	1.5	1 to 2

## **Surrey Pension Fund**

### **Governance Assessment Comments 2013/14**

#### **Member 1**

It may be because I am relatively new to the Committee, but I do not call having seen any completed internal audit reports being placed on the agendas. Internal audit reports should provide a useful source of assurance to Committee members that control procedures and processes continue to operate effectively.

While training takes place regularly both at the Board meetings and at outside events, I wonder whether it might be worthwhile conducting a training needs analysis for members to identify individual knowledge gaps and skills so that training can be better targeted.

#### **Member 2**

Please stick with the agreed dates for meetings.

Given the transfer of risks to scheme members in the future, there should be more employee representation.

Pleased to see the increase in information on voting at AGMs.

I don't feel very informed about performance on private equity.

More training required on the alternative instruments that are being proposed. I feel very nervous about them.

#### **Member 3**

We need more time to challenge managers on future performance rather than historic. We need as a Board more discussion on our collective views on the future of markets, inflation, etc.

#### **Member 4**

No comments.

#### **Member 5**

Attendance is generally very good but early departures or missing the training sessions could be improved upon.

Perhaps an annual informal meeting with minimal agenda to look at pensions in the round could be useful.

Additional training suggestions: pensions law, changes to the LGPS

**Member 6**

Excellent organisation makes the meetings well structured and this means quality decisions are made.

Again the structure and communications mean members are able to review and agree governance and any changes required.

Member training is available to all and is there to suit the requirements of individuals.

**Member 7**

With a challenging governance and investment agenda, sometimes there is the need for clarifying issues (away from committee) for individual members. Not clear whether this is possible with outside advisors.

The structure and leadership of the Board and its support officers and advisors is generally very good.

With a large Board, discussion is sometime restricted for individual members. Overall, there is confidence in the strategic direction being taken.

**Member 8**

Probably more informal round table discussions and various options for investment required. Also required, general discussions on financial threats and risk exposure.

I find it most helpful where fund managers organise seminars where board members can test their knowledge.

The Board must be alert to changes as opportunities arise. The pension fund is not fully funded, costs are high and leavers will make the fund more mature.

Board members could have individual responsibility for specific items and be tasked in specialist areas. Continuous learning is key.

**Member 9**

I think we need one or two more meetings per year for additional training.

Better asset/liability matching is required in the medium term.

**Member 10**

As a new member, I am still understanding the processes but my induction has been good and I have been encouraged to attend the organised training courses.

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
<b>1</b>	<b>FUNDING</b>							
	<b>IMPROVE FUNDING LEVEL</b> Funding level to increase from current levels of 72%	100%	PT	72.3%	31/03/13	72.0%	31/12/10	→ 0.30%
<b>2</b>	<b>PENSION ADMINISTRATION</b>							
	<b>DEATH BENEFITS</b> Notify potential beneficiary of lump sum death grant within 5 days	95%	PB	100.00%	3 months to 31 Mar 14	100.00%	3 months to 31 Dec 13	→ 0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	90%		94.55%	3 months to 31 Mar 14	99.16%	3 months to 31 Dec 13	↓ -4.61%
	Pay death grant within 5 days of receipt of relevant documentation	90%		100.00%	3 months to 31 Mar 14	97.22%	3 months to 31 Dec 13	↑ 2.78%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	90%		100.00%	3 months to 31 Mar 14	97.22%	3 months to 31 Dec 13	↑ 2.78%
	<b>RETIREMENTS</b> Retirement options to members within 10 days	90%	PB	95.93%	3 months to 31 Mar 14	95.76%	3 months to 31 Dec 13	↑ 0.17%
	New retirement benefits processed for payment following receipt of election within 10 days	95%		97.67%	3 months to 31 Mar 14	99.22%	3 months to 31 Dec 13	↓ -1.55%
	<b>BENEFIT STATEMENTS</b> ABS issued to 95% of eligible active members by 30th September	95%	PB	100.00%	3 months to 31 Mar 14	100.00%	3 months to 31 Dec 13	
	DBS issued to 85% of eligible deferred members by 30th June	95%		100% issued by 26/09/13	3 months to 31 Mar 14	100% issued by 26/09/13	3 months to 31 Dec 13	
	<b>NEW JOINERS</b> New starters processed within 20 days	90%	PB	98.36%	3 months to 31 Mar 14	98.02%	3 months to 31 Dec 13	→ 0.34%
	<b>TRANSFERS IN</b> Non LGPS transfers-in quotations processed within 20 days	90%	PB	98.77%	3 months to 31 Mar 14	100.00%	3 months to 31 Dec 13	↓ -1.23%
	Non LGPS transfers-in payments processed within 20 days	90%		98.77%	3 months to 31 Mar 14	100.00%	3 months to 31 Dec 13	↓ -1.23%
	<b>TRANSFERS OUT</b> Non LGPS transfers-out quotations processed within 20 days	90%	PB	100.00%	3 months to 31 Mar 14	100.00%	3 months to 31 Dec 13	→ 0.00%
	Non LGPS transfers out payments processed within 20 days	90%		100.00%	3 months to 31 Mar 14	100.00%	3 months to 31 Dec 13	→ 0.00%
	<b>MATERIAL POSTED ON WEBSITE</b> Relevant Communications Material will be posted onto website within one week of being signed off	95%	PB	● 100%	3 months to 31 Mar 14	● 100%	3 months to 31 Dec 13	
<b>3</b>	<b>CUSTOMER SERVICE</b>							
	<b>EMPLOYER SATISFACTION/SURVEY</b> Overall satisfaction score for employers to be 80%	80%	PT/PB	● 92%	At Feb 14	n/a	n/a	
	<b>MEMBER SATISFACTION/SURVEY</b> Overall satisfaction score for members to be 80%	80%	PB	● 95%	3 months to 31 Mar 14	● 92%	3 months to 31 Dec 13	
<b>4</b>	<b>INVESTMENT PERFORMANCE</b>							
	<b>INVESTMENT RETURNS/OVERALL FUND PERFORMANCE</b> Returns to at least match the benchmark	Benchmark	PT	<b>BENCHMARK</b> 7.1%	12 months to 31 Mar 14	<b>BENCHMARK</b> 12.5%	12 months to 31 Dec 13	
				<b>ACTUAL</b> 8.6%	12 months to 31 Mar 14	<b>ACTUAL</b> 15.7%	12 months to 31 Dec 13	
<b>5</b>	<b>DATA</b>							
	<b>DATA QUALITY</b> Data quality within the Fund should be at least 90% accurate.	90%	PB	● 99%	12 months to 31 Mar 14	● 99%	12 months to 31 Mar 13	
<b>6</b>	<b>CONTRIBUTIONS</b>							
	<b>CONTRIBUTIONS RECEIVED</b> Pension Fund 98% (total value) of contributions to be received by 21st day of the ensuing period.	98%	PT	98%	Mar-14	98%	Dec-13	→ 0.00%
<b>7</b>	<b>AUDIT</b>							
	<b>CLEAN AUDIT REPORT</b> Receive an unqualified audit opinion from the external auditors	Clean Report	PT/PB	Achieved	12 months to 31 Mar 13	Achieved	12 months to 31 Mar 12	
	Annual audit returns no significant findings	No significant findings		Achieved		Achieved		
<b>8</b>	<b>COST</b>							
	<b>COST PER MEMBER</b> Administration cost per member to remain in lowest CIPFA benchmarking quartile	< lowest quartile	PT/PB	Achieved	12 months to 31 Mar 13	Achieved	12 months to 31 Mar 12	

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# Consultation on LGPS investment structure

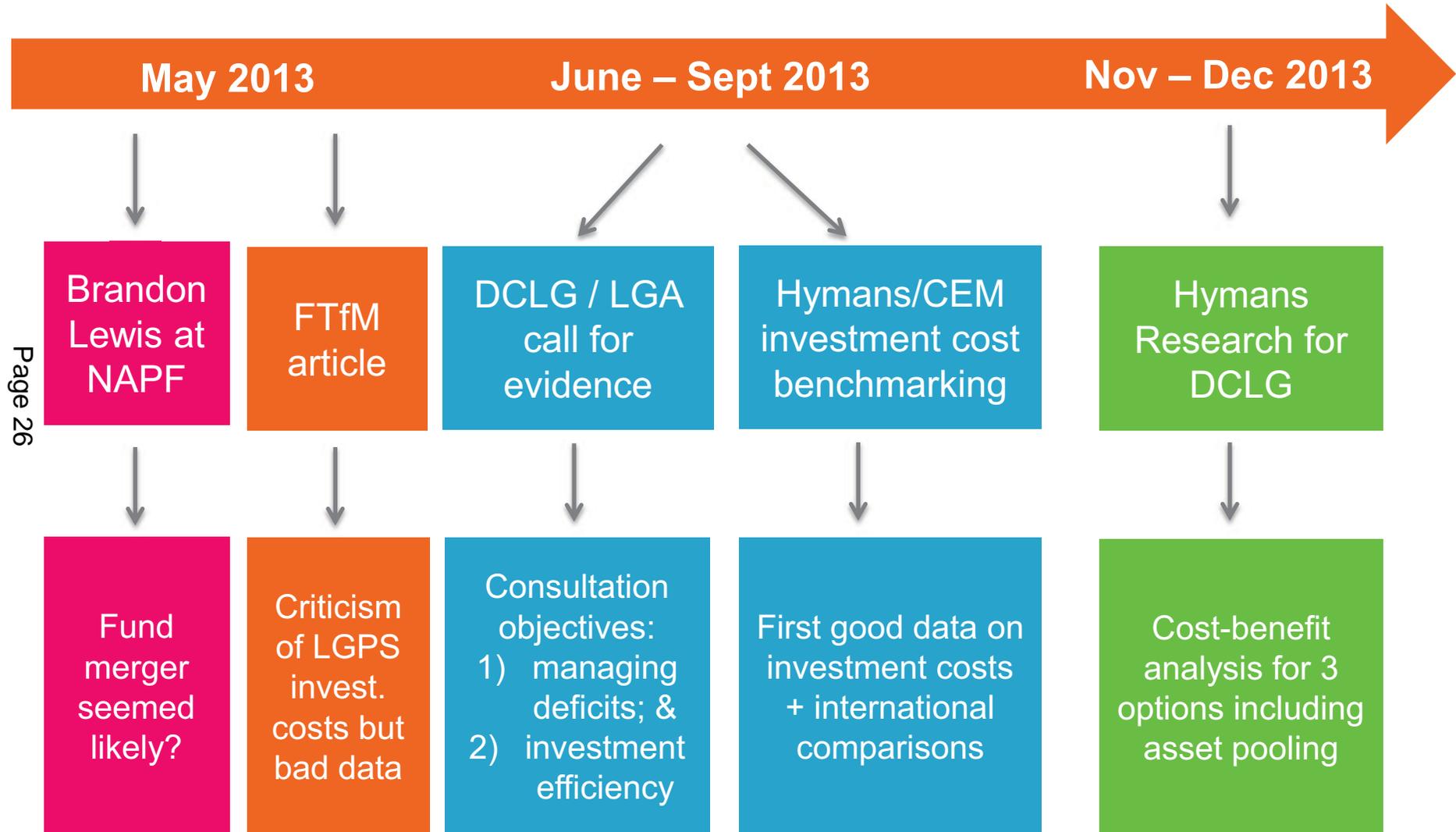
## Briefing for Surrey Pension Fund Board

Page 25

- John Wright
- Matt Woodman
- 15 May 2014

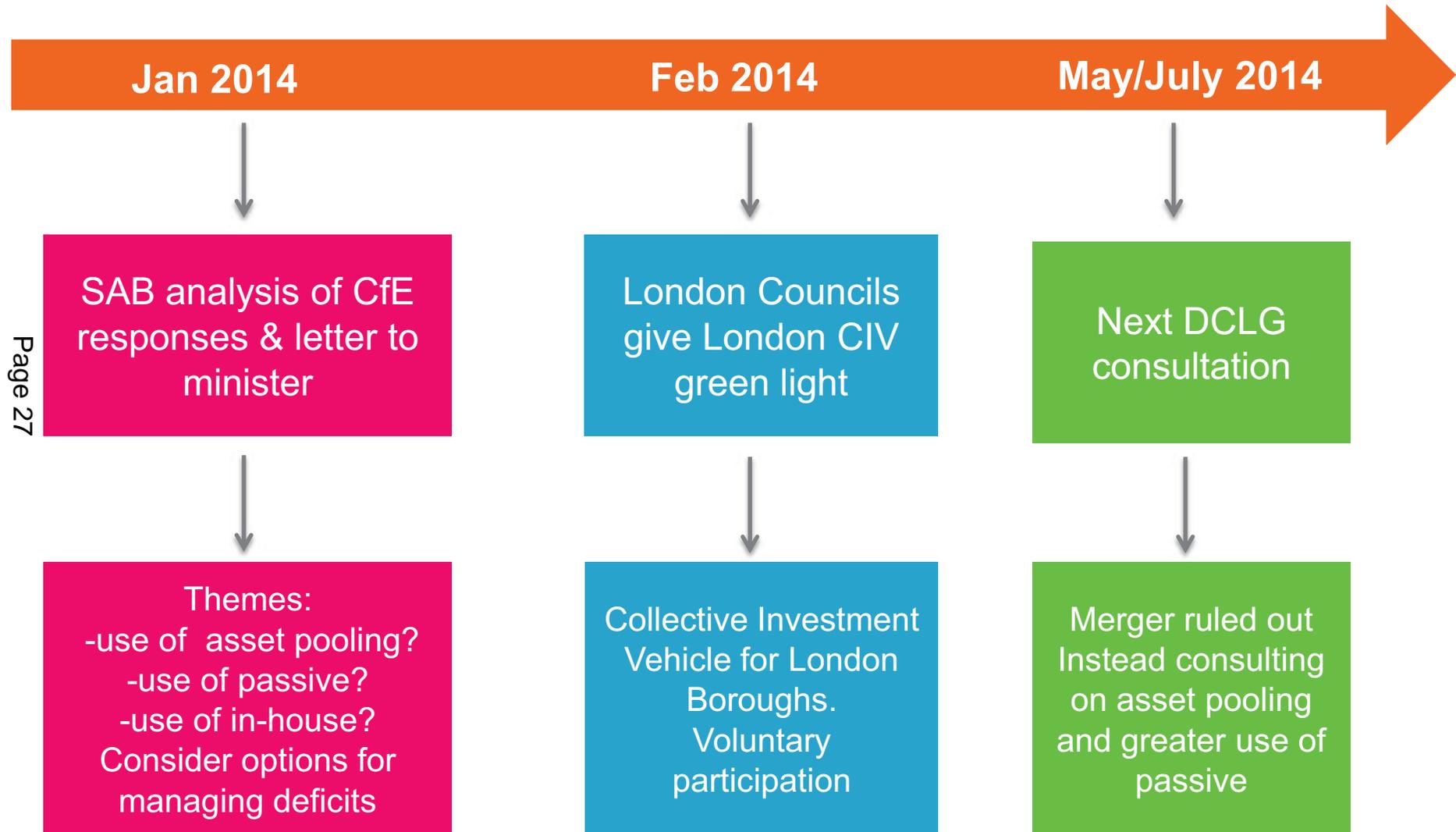
Minute Item 30/14

# Story so far



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# Story so far



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## Research for DCLG\* (December 2013)

Question in brief	Finding
LGPS Investment costs	c£790m per annum
LGPS vs international peers	LGPS lower on some asset classes
Areas for savings	Implementation style (FoFs, passive)
Est savings from no longer using FoF on alternatives	£240m per annum after 10 years (13bps of assets, 136 bps of listed)
Savings if all listed investments passive	£230m per annum (12bps of assets, 15bps of listed)
Transition cost	£215m (£47m stamp duty)
Impact on aggregate LGPS performance for listed	Over last 10 years no impact on performance
Merger vs asset pooling	Merger delays emergence of savings and lost local decision making

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## New government consultation (May 2014)

- Merger no longer government's preferred option
- Instead consulting on:
  - use of asset pooling (collective investment vehicles) for investment scale benefits
  - CIVs for alternatives and listed investments
  - greater use of passive for listed
  - governance aspects
- Consultation closes 11 July 2014

## Consultation Qs

- Q1. Do you agree that CIVs would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Explain and evidence your view.
- Q2. Do you agree with proposal to keep decisions about asset allocation with local fund authorities?
- Q3. How many CIVs should be established and which asset classes should be separately represented in each of the listed and alternative asset CIVs?

## Consultation Qs

- Q4. What type of CIV do you believe would offer the most beneficial structure? What governance arrangements should be established?
- Q5. In light of evidence on relative costs and benefits of active vs passive investment and aggregate LGPS performance data, which option for passive investment offers best value for tax-payers:
  - 1) Compulsion (all listed securities to be passive)
  - 2) Specified % age passive or progressive increase
  - 3) “comply or explain”
  - 4) Funds simply be expected to consider the benefits

## Next

- Consultation closes 11 July 2014
- Date for government decision and action unknown
- Other related developments:
  - London CIV progressing – live 2015?
  - Closer look at ways of managing deficits (SAB)
  - Changes to investment regulations
  - Changes to local governance arrangements

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Initial thoughts on consultation questions?



# APPENDICES

## Research commissioned by Ministers - scope

- Quantify **investment costs** including turnover costs
- Identify potential **cost savings**
- Costs and benefits of active and passive strategies
- Since cannot look at costs in isolation, assess net of fees **performance** against market indices for LGPS in **aggregate**
- Estimate **cost of change** to new operational structures that might be used to deliver cost savings (collective investment vehicles or merged funds)
- Practical and legal impediments to implementation and the realisation of benefits

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Research to inform next phase of consultation

## Out of scope

- A recommendation on which option should be taken forward
- Dealing with deficits
- Member administration
- Quantification of any governance dividend
- Focus on “hard” costs, not “soft” outcomes

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We were not asked to make any recommendation e.g. on the amount that should be invested passively or the most appropriate way forward

## Total fees by asset class and active/passive

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Asset class	% of total assets	Active fees (£000)	Passive fees (£000)	Total (£000)	% of total fees
Equities	65.8	256,963	31,103	288,068	38.5
Bonds and cash	17.6	54,535	7,141	61,674	8.2
Property	6.8	97,996	0	97,996	13.1
Alternatives	9.8	300,883	268	301,151	40.2
<b>Total</b>	<b>100.0</b>	<b>710,377</b>	<b>38,512</b>	<b>748,890</b>	<b>100.0</b>

Source: CEM Benchmarking Inc., data provided by 18 LGPS funds

## Fees analysed by asset class and style of investment

# LGPS aggregate performance

10 years to 31 March 2013: Index and weighted ave. returns (% p.a.) gross of fees

Equity market	UK	North America	Europe ex UK	Japan	Developed Pacific ex Japan	Emerging Markets
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate LGPS	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return	0.1	-1.1	0.2	0.1	0.9	-1.1
Extra cost p.a. of active	0.34*	0.27	0.20	n/a	0.49	0.53

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Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc.

\* This is our estimate of the extra cost which reflects the low fees that the LGPS in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

## When to use active management?

Costs could be reduced by increasing the extent of passive management. This does not mean that we advocate 100% passive for all LGPS funds. The balance between active and passive should depend on:

- Page 38
- your governance budget
  - your investment beliefs
  - your investment objectives, e.g. any specific requirements you have for income or low absolute volatility
  - the expected net of fee returns

## Reliances and limitations

- Data in our report: “LGPS Structure Analysis”, December 2013
- The information in our report is based upon our understanding of legislation and events as at 12 December 2013 and we have used all reasonable endeavours to ensure the accuracy or completeness of the information used in the report.
- We have relied on data and legal advice provided by our partner organisations in compiling the report, CEM and Squire Sanders, both under sub-contracting arrangements. Whilst reasonable efforts have been made to ensure the accuracy of the data and advice expressed, we cannot verify the accuracy of such advice and data and we cannot be held liable for any loss arising from use and/or reliance on such advice and data.
- It should be noted that we do not provide legal services and therefore, we accept no liability to any third parties in respect of the legal opinions expressed in our report. Third parties are advised to take independent legal advice in respect of any legal matters arising out of our report.



**Thank you**

Any questions?