Notice of Meeting

Surrey Pension Fund Board

Date & time	Place	Contact	Chief Executive
Friday, 13 February 2015 at 9.30 am	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	Cheryl Hardman Room 122, County Hall Tel 020 8541 9075 cherylh@surreycc.gov.uk	David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Elected Members

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

Co-opted Members:

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

AGENDA

1 **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

2 **MINUTES OF THE PREVIOUS MEETING: 14 NOVEMBER 2014** (Pages 1 - 20)

To agree the minutes as a true record of the meeting.

3 **DECLARATIONS OF INTEREST**

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 **QUESTIONS AND PETITIONS**

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*9 February 2015).*
2. The deadline for public questions is seven days before the meeting (*6 February 2015).*
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 **ACTION TRACKING** (Pages 21 - 24)

An action tracker is attached, detailing actions from previous meetings. The Board is asked to review progress on the item listed.

6 **MANAGER ISSUES AND INVESTMENT PERFORMANCE** (Pages 25 - 76)

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

7 PENSION FUND BUSINESS PLAN 2015/16 (Pages 77 - 88)

The 2001 Myners Report recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints.

8 REVISED STATEMENT OF INVESTMENT PRINCIPLES (Pages 89 - 108)

With adjustments to asset allocation within the Pension Fund, it is necessary to approve a revised Statement of Investment Principles (SIP).

9 RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY (Pages 109 - 138)

Shareholders have a clear interest in promoting the long term success of the companies in which they invest. As the ultimate owners of those companies, there is a clear incentive to vote the shares in a constructive way with the companies' long-term sustainability the ultimate objective. This paper will recommend that the Pension Fund take responsibility for the voting of its shares according to its own Responsible Investment and Stewardship Policy, a draft of which is attached to the paper.

10 CORPORATE GOVERNANCE SHARE VOTING (Pages 139 - 146)

This report provides a summary of the Fund's share voting process in Q2 and Q3 2014/15.

11 LOCAL GOVERNMENT PENSION SCHEME: GOVERNANCE REGULATIONS (Pages 147 - 162)

The report explains the planned changes to the governance of the Local Government Pension Scheme (LGPS) as a result of the Public Service Pensions Act 2013 and Regulations issued on 28 January 2015. The key requirement is for a proposed new Local Pension Board to assist the Administering Authority in the running of the Pension Fund and to monitor compliance with rules and standards.

12 KEY PERFORMANCE INDICATORS (Pages 163 - 168)

In line with best practice, Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

13 PENSION FUND RISK REGISTER (Pages 169 - 174)

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls
implemented to mitigate the risks. This should be recorded in a risk register, which needs monitoring on a quarterly basis.

14 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Board will be on 15 May 2015.

David McNulty
Chief Executive
Published: 6 February 2015

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 14 November 2014 at G30, 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

Jason Bailey, Pension Services Manager
Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Sheila Little, Director of Finance (Section 151 Officer)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager – Pensions & Treasury
Steve Turner, Partner, Mercer

52/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Ian Perkin and Sheila Little (Director of Finance) informed the Board that they would need to leave at lunchtime for other engagements.

A number of Members would be late due to heavy traffic.

53/14 MINUTES OF THE PREVIOUS MEETING: 19 SEPTEMBER 2014 [Item 2]

The Minutes were agreed as an accurate record of the meeting.

54/14 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of interest from the Board. John Harrison (Surrey Pension Fund Advisor) offered a standing declaration of his role at UBS.

55/14 QUESTIONS AND PETITIONS [Item 4]

There were none.

56/14 ACTION TRACKING [Item 5]

Declarations of Interest:
None.

Key points raised during the discussion:

1. In relation to A12/14 (training needs analysis), the Strategic Finance Manager – Pensions & Treasury informed the Board that there were still some outstanding questionnaires to be completed. The Board was reminded that the questionnaire needed to be completed even if they had filled in a previous version. A report would be brought to the February meeting.

Actions/Further information to be provided:
None.

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

Next steps:
None.

57/14 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

Declarations of Interest:
None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions & Treasury introduced the report.
2. The Board was informed that the 2016 dates for the Board had been agreed and would be circulated separately (**Action Review ref.: A26/14**).

Judith Glover arrived at 9.44am.

3. The Strategic Finance Manager – Pensions & Treasury explained the necessity to reassess the data on which prices were agreed with Legal & General before reporting back to committee in February 2015. The Board supported the process.

John Orrick arrived and Phil Walker left the meeting at 9.48am.

4. Members asked for information on the profit achieved by Mirabaud on the investments made with them during the period of the contract. Officers agreed to calculate the sum and provide the Board with the information (**Action Review ref.: A27/14**).
5. Members queried whether the recent ruling by the Employment Appeal Tribunal would have any impact on the Pension Fund. The Director of Finance informed the Board that she had been looking at the issue from a Surrey County Council perspective but did not believe that there would be any significant impact on the Pension Fund. The Employers Representative stated that the Police and Crime Commissioner's Office had concerns that the ruling would have a significant impact on the Police Service with a knock-on impact on the Pension Fund.
6. The Surrey Pension Fund Advisor introduced the notes of the meetings with Fund Managers on 7 November 2014.

Tim Evans arrived and Phil Walker rejoined the meeting at 9.56am.

7. The Board went on to discuss whether the accounting scandal and potential litigation at Tesco would have any impact on stocks.

Tony Elias arrived as 10.05am.

8. The Board discussed the differing views of investment managers on the potential for emerging markets.
9. The Strategic Finance Manager – Pensions & Treasury highlighted the private equity cash flow analysis as requested previously by Members.

EXCLUSION OF THE PUBLIC

RESOLVED: That under Section 100A 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.

PART TWO
IN PRIVATE

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

10. The Mercer representative presented an analysis of the Fund's private equity portfolios and fund managers. Members asked a number of questions and these were answered by officers and the Fund's advisors. It was suggested and agreed that the Board should meet with two private equity managers – one which takes a Fund of Funds approach and one which makes direct investments. This would help the Board to understand and compare the different investment approaches. It was agreed that Standard Life (incumbent manager) should be asked to present to discuss further the merits of a Fund of Funds approach. Further consideration would be given which single manager should be invited (**Action Review ref.: A28/14**).

PUBLICITY FOR PART TWO ITEMS

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

PART ONE
IN PUBLIC

11. The Mercer representative provided an update on progress in setting up a framework for a liability driven investment (LDI) strategy. A paper was circulated and is attached to the Minutes as Annex 1. The Board discussed the proposed trigger level. It was suggested that a trigger be set now and reviewed at each Board meeting.
12. The Mercer representative assured the Board that if the LGPS has to move to a passive investment strategy, there should not be any impact on the setting up of this framework, given that the LDI assets are to be managed on a passive basis.
13. The Mercer representative presented a report on the range of options for the future management of the ex-Mirabaud portfolio. He recommended that the assets are reallocated to Majedie for the reasons set out in the confidential annex 4.
14. After discussion, the Board accepted this recommendation. However, it was recognised that this could be subject to further review given the anticipated announcement from government on passive investment within the LGPS and its impact on reallocating assets to an active investment manager.
15. The Mercer representative provided a report on the proposed alternative manager options regarding the Global Equities portfolio currently managed by Newton, as set out in the confidential annex 5.

EXCLUSION OF THE PUBLIC

RESOLVED: That under Section 100A 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.

PART TWO
IN PRIVATE

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

16. Members discussed the options regarding the Global Equities portfolio currently managed by Newton.
17. Members discussed the uncertainties in the global equities market given the anticipated announcement from government on passive investment within the LGPS and its impact on reallocating assets to an active investment manager.

PUBLICITY FOR PART TWO ITEMS

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

PART ONE
IN PUBLIC

18. The Strategic Finance Manager – Pensions & Treasury introduced the Financial and Performance Report.

The Director of Finance left the meeting at 11.45am.

19. The Chairman informed the Board that the Pension Fund had been shortlisted for the Fund of the Year (above £2bn) award, the Strategic Finance Manager – Pensions & Treasury had been shortlisted for Finance Officer of the Year, and the Senior Accountant had been shortlisted for Emerging Pensions Manager of the Year at the Local Government Chronicle Investment Awards 2014.

Actions/Further information to be provided:

a. The 2016 dates for the Surrey Pension Fund Board to be circulated in due course.
b. Officers to provide the Board with information on the profit achieved by Mirabaud on the investments made with them during the period of the contract.
c. The Board to meet with two private equity managers – one which takes a Fund of Funds approach and one which makes direct investments.

Resolved:

i. To note the report.
ii. To reallocate the assets previously managed by Mirabaud to Majedie, subject to the decision by Government with regard to passive investment becoming mandatory for the LGPS.
iii. To review Newton further and receive presentations from the selected managers highlighted in the confidential annex 5.
iv. That the yield trigger for the LDI strategy be set at 0%.

Next steps:
None.

The Board adjourned at 11.55am to meet a Fund Manager. The Board reconvened at 12.45pm, without Ian Perkin.

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58/14 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 7]

Declarations of Interest:
None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions & Treasury introduced the report and outlined the revisions since the previous meeting.

Actions/Further information to be provided:
None.

Resolved:
That the revised Statement of Investment Principles be APPROVED.

Next steps:
None.

59/14 CORE BELIEF STATEMENT [Item 8]

Declarations of Interest:
None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions & Treasury introduced the report. He clarified that the Core Belief Statement was not a statutorily required document but that it was best practice. He explained that those Boards which agree with all parts of the Core Belief Statement will operate effectively. Where there are disagreements, the Board is likely to be dysfunctional.
2. Members felt that the Statement would be useful for people joining the Board and should also be used as a check for decisions.
3. There was support for having a Core Belief Statement.
4. It was agreed that in paragraph 2.1 the word 'present' be added prior to 'cash flow'.
5. It was agreed that either 'The Fund believes' be added to the start of each paragraph or removed from paragraph 4.3.
6. It was agreed that a further belief statement be added: 'A well-balanced portfolio has an appropriate mix of passive and active investments'.

Actions/Further information to be provided:
None.

Resolved:
That the Core Belief Statement be APPROVED subject to the amendments listed above.

Next steps:
None.

The Board adjourned for lunch at 1pm and reconvened at 2.05pm without Tony Elias.

60/14 CLASS ACTIONS [Item 9]

Declarations of Interest:
None.

Key points raised during the discussion:
1. The Strategic Finance Manager – Pensions & Treasury introduced the report.
2. Members queried what would happen if both of the law firms that the Pension Fund is contracted with want to take action on the same cases. The Strategic Finance Manager – Pensions & Treasury informed the Board that a decision would be made on the merits of the case.

Actions/Further information to be provided:
None.

Resolved:
i. That the Surrey Pension Fund Board AGREES to the signing up for the US and non US class action monitoring and securities and corporate litigation services with Grant & Eisenhofer PA.
ii. That decisions to instruct Grant & Eisenhofer PA (and the Fund's existing firm of class action US attorneys) on any individual cases should be decided on their merits, taking into account all risks, with a decision made by the Director of Finance in consultation with the Pension Fund Board Chairman, Strategic Finance Manager and Director of Legal & Democratic Services.

Next steps:
None.

61/14 PENSION FUND RISK REGISTER [Item 10]

Declarations of Interest:
None.

Key points raised during the discussion:
1. The Strategic Finance Manager – Pensions & Treasury introduced the report.

Actions/Further information to be provided:
None.

Resolved:
That the revised Risk Register be NOTED.

Next steps:
None.

62/14 KEY PERFORMANCE INDICATORS [Item 11]

Declarations of Interest:
None.

Key points raised during the discussion:

1. The Pensions Services Manager introduced the report and explained that recent staffing changes within the pensions administration team and the impact of the 2014 scheme changes had led to some recent short-term deterioration in performance.

Actions/Further information to be provided:
None.

Resolved:
That the Key Performance Indicators statement be NOTED.

Next steps:
None.

63/14 LOCAL GOVERNMENT PENSIONS SCHEME: DRAFT GOVERNANCE REGULATIONS [Item 12]

Declarations of Interest:
None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions & Treasury introduced the report. A proposed structure for the Review Board would be brought to the February 2015 meeting of the Board.

Actions/Further information to be provided:
None.

Resolved:

i. That the report be NOTED.
ii. That the draft response to the consultation from the Surrey Pension Fund Board be NOTED.

Next steps:
None.

64/14 DATE OF NEXT MEETING [Item 13]

The dates of the next meeting and the AGM were noted.

Meeting ended at: 2.30 pm

Chairman

MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

SURREY PENSION FUND
RISK MANAGEMENT UPDATE

NOVEMBER 2014

STEVE TURNER

MARSH & McLENNAN COMPANIES

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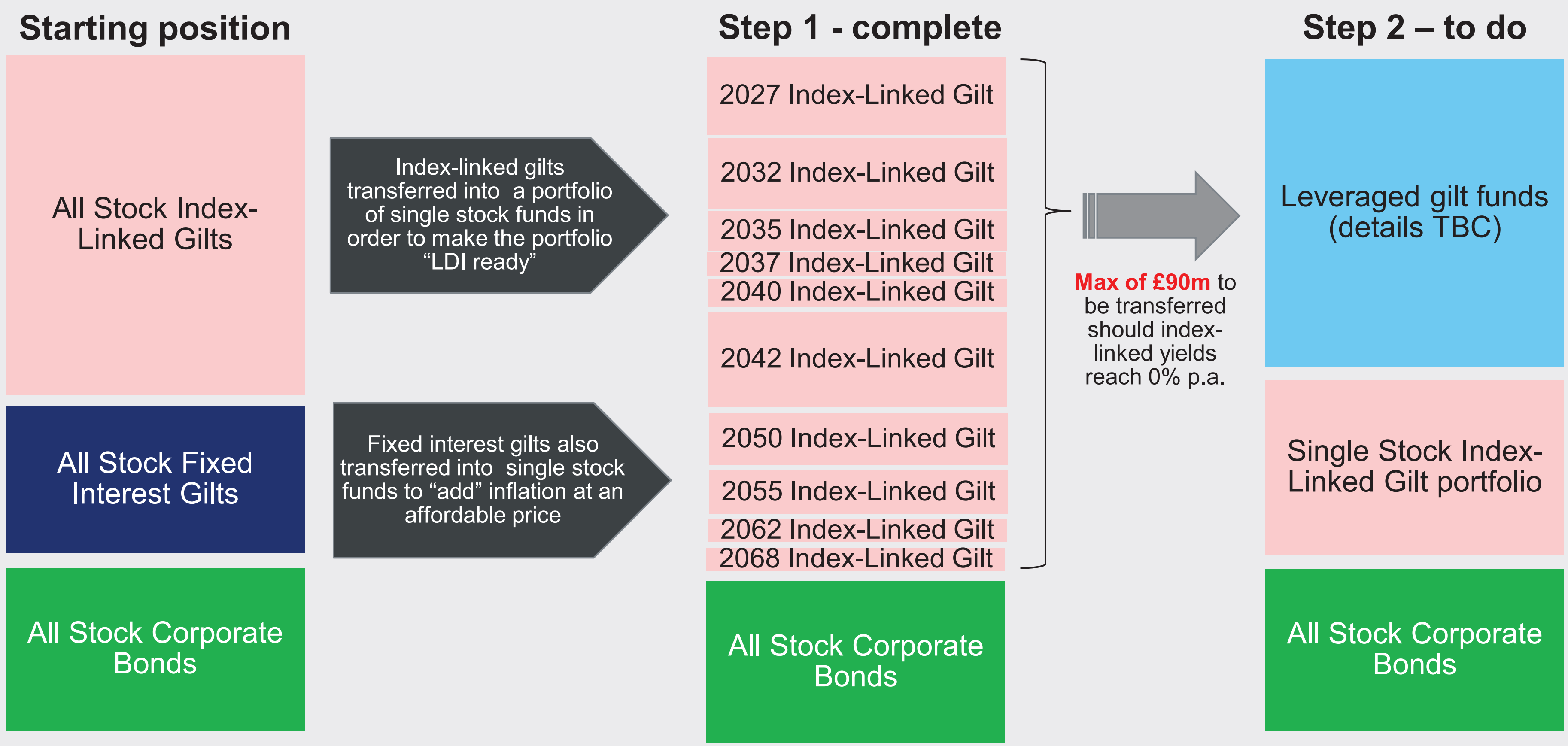
RESTRUCTURING L&G GILT PORTFOLIO
OVERVIEW OF THE IMPLEMENTATION PLAN

We have been working with L&G to develop an implementation plan which is illustrated below. We have provided advice on Step 1 and L&G implemented this trade on 3 November 2014. The next step will be to structure the initial LDI portfolio and to agree the details of the proposed yield trigger.



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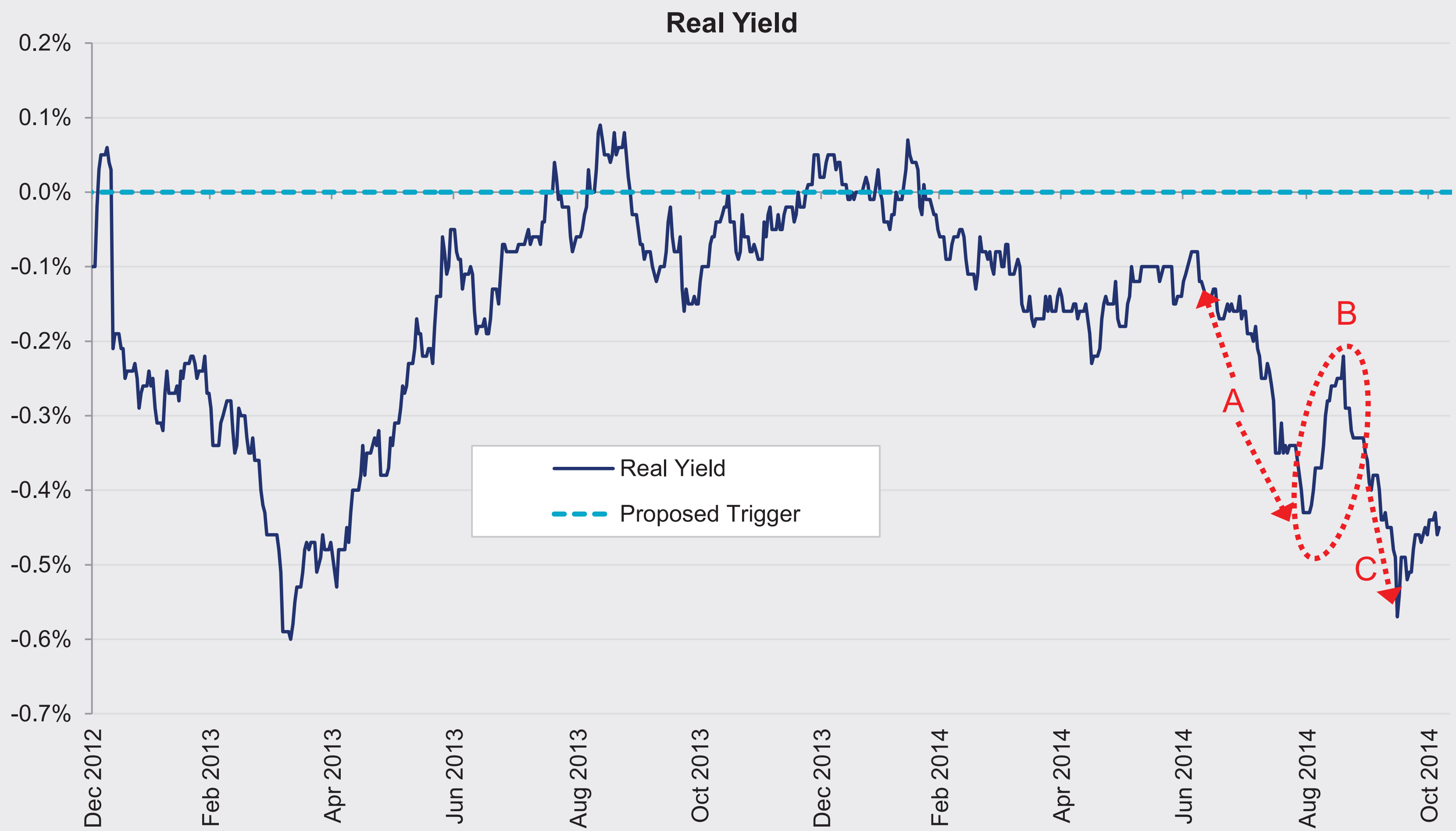
MOVING TO LEVERAGED GILT STRUCTURE
PROPOSED GILT TRIGGER



A – ECB set the deposit rate to -0.1% in June. This resulted in a flee to UK Government Bonds which has led to yields falling.

B – Around the Scottish referendum there was further volatility, with some respite once it became apparent that the "no vote" would win.

C – Towards the end of September, there was a sell-off in return seeking assets as economic data and forecast deteriorated. As such, investors displayed a 'flight to quality' which lead to a further fall in yields.

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RESTRUCTURING THE L&G GILT PORTFOLIO
REVIEW OF THE TRANSITION

L&G Fund	Previous allocation (Date: 22nd October 2014)		New allocation (Date: 3 November 2014)	
	£m	%	£m	%
All Stocks Fixed Interest Gilts	43.8	30.2	-	-
All Stocks Index-Linked Gilts	101.5	69.8	-	-
2027 Index Linked Gilts	-	-	26.2	18.2
2032 Index-Linked Gilt	-	-	22.6	15.7
2035 Index-Linked Gilt	-	-	11.6	8.1
2037 Index-Linked Gilt	-	-	7.2	5.0
2040 Index-Linked Gilt	-	-	8.2	5.7
2042 Index-Linked Gilt	-	-	28.0	19.5
2050 Index-Linked Gilt	-	-	15.4	10.7
2055 Index-Linked Gilt	-	-	13.1	9.1
2062 Index-Linked Gilt	-	-	6.9	4.8
2068 Index-Linked Gilt	-	-	4.6	3.2
Total L&G gilts	£145.3m	100%	£143.8m	100%
Interest rate hedge ratio	**-**	**5%**	**-**	**6%**
Inflation hedge ratio	**-**	**4%**	**-**	**6%**

Source: L&G (asset values), Mercer (hedge ratios).

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REVISED FEE BASIS

L&G Passive Funds	Previous fee basis		Revised fee basis	
	% p.a.	Estimated fee p.a.	% p.a.	Estimated fee p.a.
UK equity	0.0425%	£115,000	0.04%	£110,000
Global equity	0.11%	£375,000	0.08%	£270,000
Emerging Market equity	0.25%	£100,000	0.175%	£70,000
Corporate bonds	0.08%	£40,000	0.08%	£40,000
Gilts	0.04%	£60,000	0.0275%	£40,000
Estimated total	**0.08%**	**£690,000**	**0.06%**	**£530,000**

Source: L&G (fee basis), Mercer (estimated fee based on an total L&G assets of £840m)
Note: Fee estimates have been rounded for illustration

- ✓ The new fee basis leads to a material reduction in on-going fees
- ✓ Estimated saving of £140,000 p.a. on the passive equity exposure
- ✓ Estimated saving of £20,000 p.a. on the passive gilt holdings (further discount from L&G)
- ✓ Total estimated saving of £160,000 p.a. (before implementing the pooled leveraged gilt strategy)

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SUMMARY & NEXT STEPS

Summary

- ✓ The gilt portfolio has now been restructured and is “LDI ready”.
- ✓ The revised L&G fee basis has led to an estimated reduction in investment manager fees of £160,000 per annum.
- ✓ The current bond portfolio provides a 6% interest rate hedge ratio and a 6% inflation hedge ratio (and the “shape” of this exposure now better matches the liabilities).

Next steps

The key next steps are to agree the detailed asset allocation for the LDI strategy and the associated yield trigger. Discussions with L&G are well underway and we will report back to the Board with our advice in due course.

I look forward to discussing the contents of this report with the Board.

Steve Turner
Mercer Limited

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APPENDIX

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INTRODUCTION TO SOME IMPORTANT TERMINOLOGY

Jargon	What it means	Change in market conditions	Impact on liabilities
Interest rates	Discount rate	↑	↓
		↓	↑
Inflation	Increase in pension payments	↑	↑
		↓	↓

IMPORTANT TERMINOLOGY

Nominal interest rates: the yield on fixed-interest gilts that represent the change in interest rates.

Real interest rates: the yield on index-linked gilts that represent the change in interest rates <u>and</u> inflation

Duration: a term used to describe how sensitive the present value of a liability, or an asset, is to changes in the interest rate

- Duration is expressed in years. The higher the duration the greater the sensitivity to changes in interest rates
- For example a duration of 20 years means that for every 1% p.a. change in interest rate, the value of the asset / liability will change by approximately 20%.

PV01: the value change in the assets or liabilities as a result of a 0.01% uniform change in long term interest rates

IE01: the value change in the assets or liabilities as a result of a 0.01% uniform change in inflation expectations

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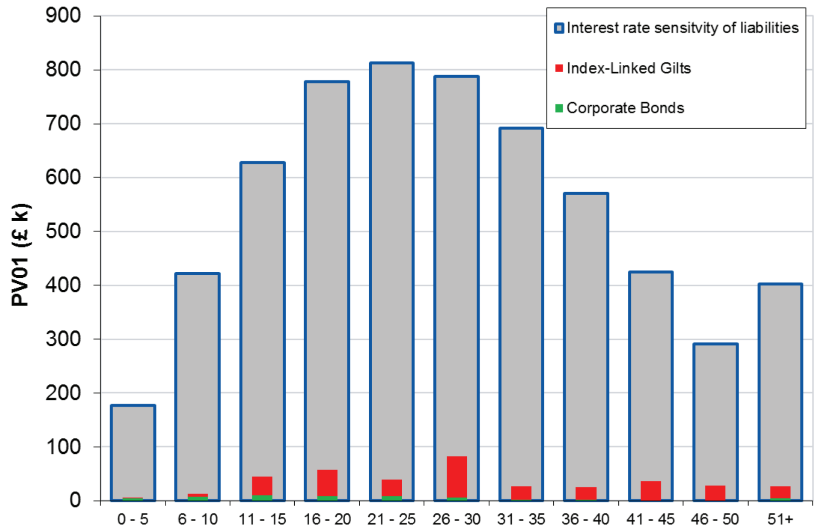
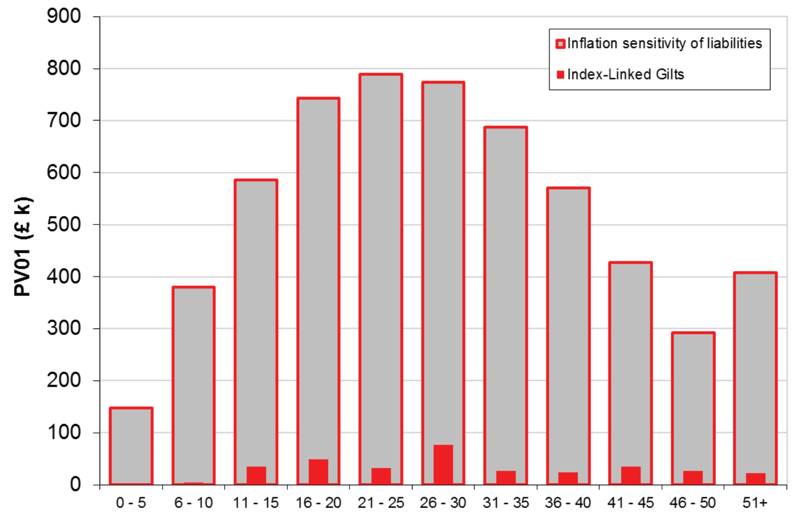
RESTRUCTURING THE BOND PORTFOLIO
UPDATED HEDGING POSITION





		Total Interest Rate	Total Inflation
Assets	PV01 (£'000) - **A**	386	331
Liabilities	PV01 (£'000) - **L**	5,984	5,805
Hedge ratio (of liabilities)	**A/L**	**6%**	**6%**

Note: The hedge ratio is expressed on an estimated value of the liabilities on the current funding basis.
The analysis above indicates that if interest rates were to fall/rise by 0.01% then the deficit would rise/fall by c.£5.6m
Similarly, the analysis shows that if inflation were to fall/rise by 0.01% then the deficit would also fall/rise by c.£5.5m.
The overall hedge ratio is estimated to be 6%.

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IMPORTANT NOTICES

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MERCER

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Surrey Pension Fund Board
13 February 2015

ACTION TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Board's action tracker.

INTRODUCTION:

An action tracker recording actions and recommendations from previous meetings is attached as **Annex A**, and the Board is asked to review progress on the items listed.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings (Annex A).

REPORT CONTACT: Cheryl Hardman, Regulatory Committee Manager
020 8541 9075
cherylh@surreycc.gov.uk

Sources/background papers: None

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Surrey Pension Fund Board – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A12/14	15 May 14	Pension Fund Business Plan 2013/14: Outturn Report and Final 2014/15 Plan	A training needs analysis to be conducted later in the year.	Strategic Manager, Pension Fund & Treasury	A training needs analysis was circulated by email on 14 August 2014. Progress was highlighted in the papers for the 14 November 2014 meeting. A number of questionnaires were outstanding. The results would be brought to the February 2015 meeting.
A21/14	15 May 14	Investment Strategy Review	The Board to receive training on synthetic equities.	Strategic Manager, Pension Fund & Treasury	To be scheduled for February 2015. Training on multi credit scheduled for February 2015.

COMPLETED ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A26/14	14 Nov 14	Manager Issues and Investment Performance	The 2016 dates for the Surrey Pension Fund Board to be circulated in due course.	Regulatory Committee Manager	Calendar invites have been circulated. The list of meeting dates are also included in the meeting papers for 13 February 2015.
A27/14	14 Nov 14	Manager Issues and Investment Performance	Officers to provide the Board with information on the profit achieved by Mirabaud on the investments made with them during the period of the contract.	Strategic Manager, Pension Fund & Treasury	Included within the Manager Issues report to the Board's February 2015 meeting.
A28/14	14 Nov 14	Manager Issues and Investment Performance	The Board to meet with two private equity managers – one which takes a Fund of Funds approach and one which makes direct investments.	Strategic Manager, Pension Fund & Treasury	Meetings arranged for 13 February 2015.

Surrey Pension Fund Board – ACTION TRACKING

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2015**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

6

SUBJECT: **MANAGER ISSUES AND INVESTMENT PERFORMANCE**

SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1. Note the report.
2. Give consideration to multi asset credit as a future strategy for the Fund.
3. Delay the purchase of ill health insurance from Legal and General until the full implications of the revised price and new scheme rules have been fully evaluated.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

6

DETAILS:

1) Manager Issues during the Quarter

Manager	Issue	Status/Action Required
L&G	Possible Rebalancing	The asset allocation is within the Fund's policy control limits. The asset allocations at 31 December 2014 and 29 January 2015 are shown in Annex 1.
Mirabaud and Majedie	UK Equities Portfolio	At its meeting on 19 September 2014, the Board agreed to terminate Mirabaud's contract with immediate effect and temporarily move the 4% allocation from Mirabaud to a UK Equities passive portfolio with Legal & General. Officers immediately contacted Mirabaud to let them know of the Board's decision and make arrangements with both managers for the transfer of the funds. An in specie transfer with a net valuation of £98,437,899 from Mirabaud as at 8 October 2014 valuation date was placed into LGIM's N – UK Equity Index Passive Fund on 9 October 2014. At the Board meeting on 14 November 2014, Members agreed to transfer the allocation in its entirety to Majedie Asset Management. At the time of writing, this process is underway with a 9 February 2015 target transfer date. The ultimate gross of fees investment performance figures for the Mirabaud portfolio are shown below: *From Inception: p.a* Portfolio:9.62% vs Benchmark: 8.21% (+1.41%) *5 Years p.a* Portfolio 9.49% vs Benchmark 9.74% (-0.25%)
Capital Dynamics	Sale of Assets	The whole Capital Dynamic's US Solar Fund was sold to TerraForma Power Inc in December. The upfront cash sale was perceived to be a better value for investors than the expected return over the partnership lifetime. The fund received a distribution of $20.6m (equivalent to £13.2m) on 23 December 2014.
CBRE	Contract change	The Pension Fund Board resolved at the 19 September 2014 meeting to amend the wording in the CBRE contract to allow investment in global property. CBRE are currently working on this change, specifically the benchmark requirements for such a mandate. Officers will report to the 13 February 2015 meeting.
Franklin Templeton, Western, Baillie Gifford CBRE	Client meeting	Update of minutes of external fund manager meetings held on 11 February 2015 to be tabled at the meeting.

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2) Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

Date	Organisation	Request	Response
15/11/2014	Move your Money	A complete list of Pension Fund Investments with a breakdown of assets per council within the fund.	Full investment list as at 30 September 2014 and the valuation of each Council's assets as at the 2013 triennial Valuation
18/11/2014	Pitchbook	Private Equity Investment Data	Valuations and returns provided for each fund partnership as at the most recent valuation date.

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3) Future Pension Fund Board Meetings/Pension Fund AGM

The schedule of meetings for 2015 and 2016 is as follows:

- 13 February 2015: Board meeting hosted at County Hall.
- 15 May 2015: Board meeting hosted at County Hall.
- 11 September 2015: Board meeting hosted at County Hall.
- 13 November 2015: Board meeting hosted at County Hall.
- 20 November 2015: AGM hosted at County Hall
- 12 February 2016: Board meeting hosted at County Hall.
- 13 May 2016: Board meeting hosted at County Hall.
- 9 September 2016: Board meeting hosted at County Hall.
- 11 November 2016: Board meeting hosted at County Hall.
- 18 November 2016: AGM hosted at County Hall

4) Stock Lending

In the quarter to 31 December 2014, stock lending earned a net income for the Fund of £59k with an average value on loan equal to £95.8m

5) Ill Health Insurance

At the board meeting on 14 February 2014, it was agreed that an ill health insurance policy with Legal & General would be taken out in order to insure the fund and scheme employers against the potential cost of ill health retirement benefits.

The Council consulted with Procurement and Legal colleagues and, on 3 September 2014, published a voluntary ex ante transparency (VEAT) notice, advising the intention of the administering authority to enter into a contract with Legal & General.

Given the delay as a result of a protracted and delayed procurement process, it was necessary to resubmit fund data to Legal & General for a revised quotation. Legal & General have produced a quotation dated 28 January 2015, based on the same sum assured, but taking into account revised data and conditions in the ill health insurance market. The new quotation has an increase in premium from 0.63% to 0.88%.

This premium is based on a whole of fund basis. If scheme employers instead took insurance on an individual basis, the premium would further increased to 1.41%.

The impact of this revised premium is detailed in the following table:

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Financial Year Ending	Total Payroll	Annual Premium @ 0.88%	Difference in quotation provided to the Board 15/11/2013	Total Tier 1 and 2 strain	Strain and Premium Difference	Equivalent premium rate of Tier 1 and Tier 2 strain
31/03/2013	£489m	£4.30m	+ £1.22 m	£2.30 m	- £2.00 m	0.47%
31/03/2012	£465m	£4.09m	+ £1.16 m	£3.79 m	- £0.30 m	0.82%
31/03/2011	£460m	£4.04m	+ £1.06 m	£2.98 m	- £1.06 m	0.65%
31/03/2010	£495m	£4.36m	+ £1.24 m	£1.38 m	- £2.98 m	0.28%
31/03/2009	£468m	£4.12m	+ £1.17 m	£1.72 m	- £2.40 m	0.37%
Total	£2,377m	£20.91m	+ £5.85 m	£12.17 m	- £8.74 m	0.51%

The justification for this increase in premium is that it fully takes in to account the changes in accrual rate from 1/60th to 1/49th applicable from 1 April 2014 and the increase in state pension age, both of which have increased the costs of ill health retirements in the LGPS. Annual data from the pension service will be available from the pension service after the scheme year end of 31 March 2015, which indicates the material impact of the new scheme rules on the costs of ill health retirement.

Due to the increase in the premium quoted by Legal & General, it is recommended that the Pension Fund Board does not approve the purchase of ill health retirement insurance until such time that it has been possible to assess the impact of the new scheme rules on the costs of ill health retirement to the pension fund and the associated value for money of the Legal & General offer.

6) Private Equity

The following table shows the estimated value of all cash distributions and drawdowns for the existing private equity partnerships, and the impact that the estimated level of cash flows would have upon the asset allocation to private equity using current market values.

	Year 1 **2015/16** **£m**	**Years 1 – 3** **2015/18** **£m**
Estimated Distributions	-16.6	-76.8
Estimated Drawdowns	15.5	57.5
Net Distribution	**-1.1**	**-19.3**
Revised Private Equity Allocation £m	131.2	113.0
Revised Private Equity Allocation %	4.4%	3.8%

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7) Internally Managed Cash

The internally managed cash balance of the Pension Fund was £12.4m as at 31 December 2014.

8) Liability Driven Investment Framework

The Board meeting of 19 September 2014 recommended the setting up of a framework for a liability driven investment (LDI) strategy with the establishment of a leveraged gilt portfolio to be run by Legal & General Investment Management. This will be funded by the existing passive and index-linked gilts held with Legal & General, amounting to a maximum of £90m.

The contracts that have been signed only relate to the restructuring of the physical gilts. It should be noted that no investment will be taking place yet in the leveraged gilt structure. The switch into the leveraged gilt structure will take place based on yield triggers, set at 0%, at the Board meeting of 14 November 2014. The Liability Driven Investment framework by means of the Fund's existing assets of £90m was set up on 3 November 2014.

Mercer have since published advice relating to the implementation of the leveraged fund and this is included as Annex 2. The working assumption is that leveraging will be based on a yield trigger, when the yield on the 2035 Index-Linked Gilt reaches 0%. This will be subject to regular reviews, given that there is no guarantee that this will happen in the short/medium term.

With regard to the current position regarding gilt yields and the record lows that the market has produced since the last meeting, AXA Investment Managers produced the paper shown as Annex 3 in December 2014 about the supply and demand dynamics for index-linked gilts (ILGs) and the impact this has on real yields. Mercer has previously talked about the massive supply and demand imbalance for ILGs. The annex is attached in order to help the Board understand why a very large and sustained increase in real yields is unlikely, and this will help with the trigger discussion at future meetings.

9) Internal Audit Report: Investment Function

The Internal Audit Team recently completed a report on the investment function. The completed report is shown as Annex 4 for discussion.

10) Multi Asset Credit

It is proposed that Mercer hold a training session within the meeting on multi-asset credit from an investment strategy perspective: the case for multi asset credit, expected benefits, potential risks and how to implement. Papers on this training session will be sent out prior to the meeting.

It is recommended that members give consideration to the asset class as a future strategy for the Fund.

11) Governance Strategies and Policies

A report is included on the 13 February agenda reference the revised voting policy following the Financial Reporting Council's (FRC's) review of changes to the UK Corporate Governance Code.

12) Marathon Asset Management: Emerging Markets

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For some time, Marathon has been urging fund officers to open custodian accounts with regard to exposures in India, Chile, Egypt and United Arab Emirates. The Fund has existing exposure to most countries around the globe, but some (including the list above) are highly bureaucratic, requiring much paperwork, as well as the mandatory appointment of tax advisors and other consultants within the country in question.

As an alternative means of gaining exposure to these markets, the Board is invited to consider the Marathon Emerging Markets Fund. This is offered by Marathon, specifically for clients that cannot access the emerging markets directly, or are not in a position to cope with the level of bureaucracy imposed by particular countries. It will be far easier to invest via this pooled fund than to open and manage the various accounts on behalf of the Surrey Fund itself. The fund is daily dealing to facilitate investment from Marathon's segregated clients. There is no additional fee for the Surrey Fund and, by accessing the Fund, it will gain exposure to the full suite of emerging markets.

With regard to the implementation of the switch into the Emerging Markets Equity Fund, as would be expected, the majority of the current emerging markets holdings would be transferred in specie into the Fund. For these markets there would be no transaction costs incurred. However, a number of markets are non-transferrable and would have to be sold and repurchased (Brazil, Korea, Malaysia, Philippines and Taiwan), and for these countries there would be some trading costs.

India is the only country that exists in the pooled fund, but not in the existing Surrey portfolio and currently makes up around 6% of the total Fund allocation. There would be some transaction costs associated with the purchase of these assets.

	Transaction Costs ($USD)
Non-Transferrable Markets	89,067
New Markets	7,340
Total	**96,407**

It is worth noting that the costs associated with the investment in new markets would be incurred regardless of the investment into the pooled fund. The costs associated with the non-transferrable markets are additional costs that would not otherwise be incurred. The expected transaction costs are minimal in terms of the total portfolio (around 0.02%). Mercer is supportive of an investment into the Marathon Emerging Markets Equity Fund, within Surrey's segregated portfolio.

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13) Members' Knowledge Assessment

This will be tabled at the 13 February 2015 meeting in order to allow sufficient time for Members to complete the necessary outstanding paperwork and assessments and for officers to collate the results.

14) Fund Manager Meetings of 11 February 2015

Notes of the fund manager meetings of 11 February 2015 will be tabled at the Board meeting on 13 February.

Report of the Strategic Finance Manager

Financial and Performance Report

1. Funding Level

Past Service Position	**31 December 2014 £m**
Past Service Liabilities	4,095
Market Value of Assets	2,992
Deficit	(1,103)
Funding Level	73.1%

The funding level at the latest formal valuation at 31 March 2013 was 72.3%. As at 30 December 2014 the funding level stands at 73.1%, a slight improvement from March 2013, but a decline from highs of 79.8% as at 30 June 2014. This is despite investment performance outperforming the actuarial assumptions over recent years.

The following table shows the impact of differing factors upon the Fund deficit

	£m
Deficit at 31 March 2013	**-980**
Interest on deficit	-88
Excess return on assets	166
Change in actuarial assumptions	-271
Contributions less benefits accruing	70
Deficit at 31 December 2014	**-1,103**

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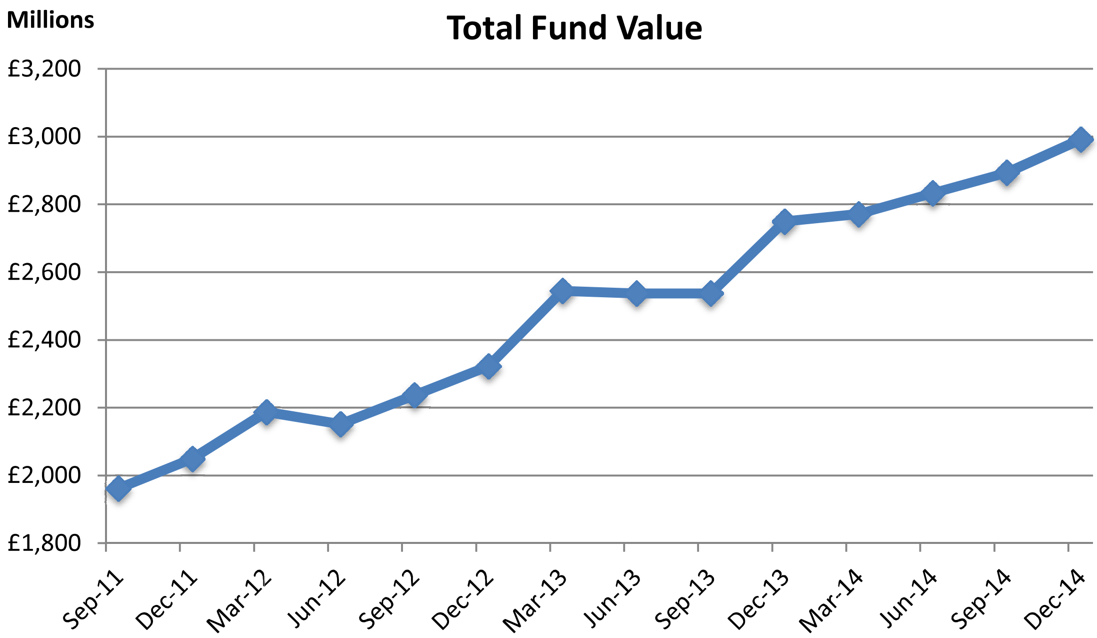
2. Market Value

The value of the Fund was £2,991.7m at 31 December 2014 compared with £2,893.8m at 30 September 2014. Investment performance for the period was +2.9%.

The increase is attributed as follows:

	£m
Market Value at 30/09/2014	**2,893.8**
Contributions less benefits and net transfer values	20.3
Investment income received	11.2
Investment expenses paid	-5.3
Market movements	71.7
Market Value at 31/12/2014	**2,991.7**
Market Value at 29/01/2015	**3,058.9**



3. Fund Performance

Summary of Quarterly Results (gross of investment fees)

Overall, the total fund returned +2.9% in Q3 2014/15, in comparison with the Fund's customised benchmark of +2.4%.

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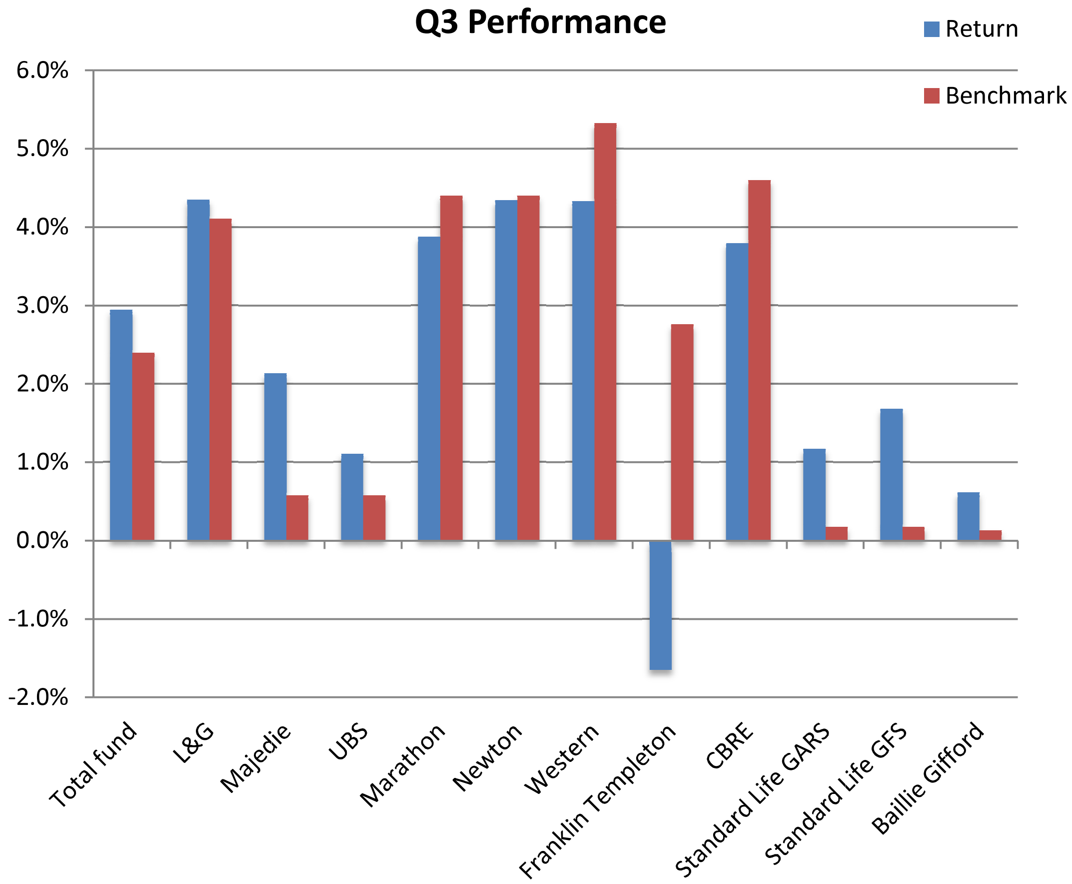

Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

Overseas Equity had another strong quarter with a benchmark return of +4.4%, with Newton reporting +4.3% and Marathon slightly below with +3.9%. Both UK equity managers outperformed a fairly flat benchmark performance for the quarter, with Majedie outperforming by +1.5%.

Continued downward pressure on bond yields had a positive impact upon the bond portfolio with western reporting +4.3%; an underperformance of 1.0% versus benchmark.

The table below shows manager performance for 2014/15 Q3 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

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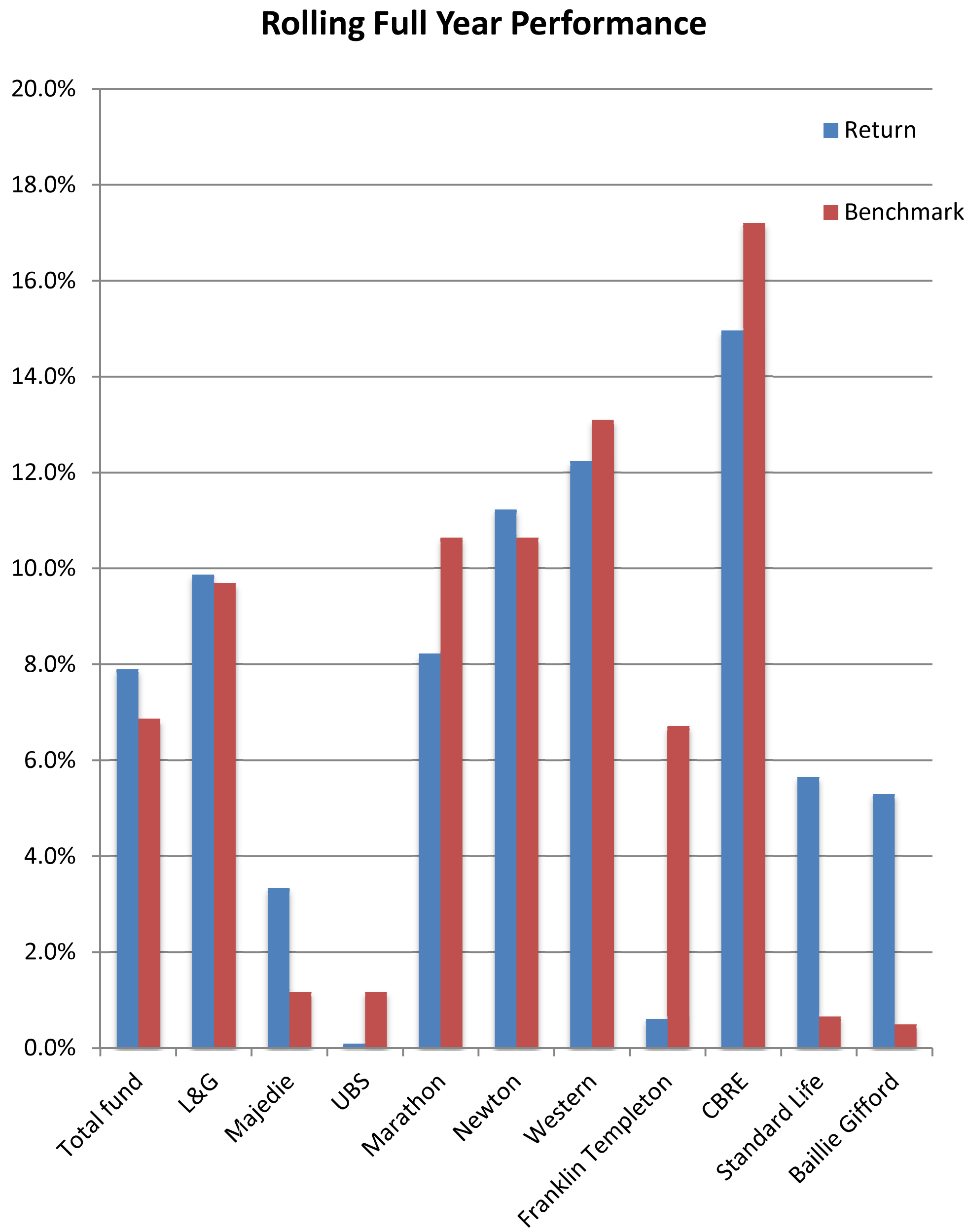
Manager	Performance %	Benchmark %	Relative %
Total fund	2.9	2.4	0.5
L&G	4.3	4.1	0.2
Majedie	2.1	0.6	1.5
UBS	1.1	0.6	0.5
Marathon	3.9	4.4	-0.5
Newton	4.3	4.4	-0.1
Western	4.3	5.3	-1.0
Franklin Templeton	-1.7	2.8	-4.5
CBRE	3.8	4.6	-0.8
Standard Life GARS	1.2	0.2	1.0
Standard Life GFS	1.7	0.2	1.5
Baillie Gifford	0.6	0.1	0.5

Franklin Templeton is measured against a US Dollar denominated benchmark which is then converted back to Sterling. This can cause a disparity between performance and benchmark in the event of large currency movements.

Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

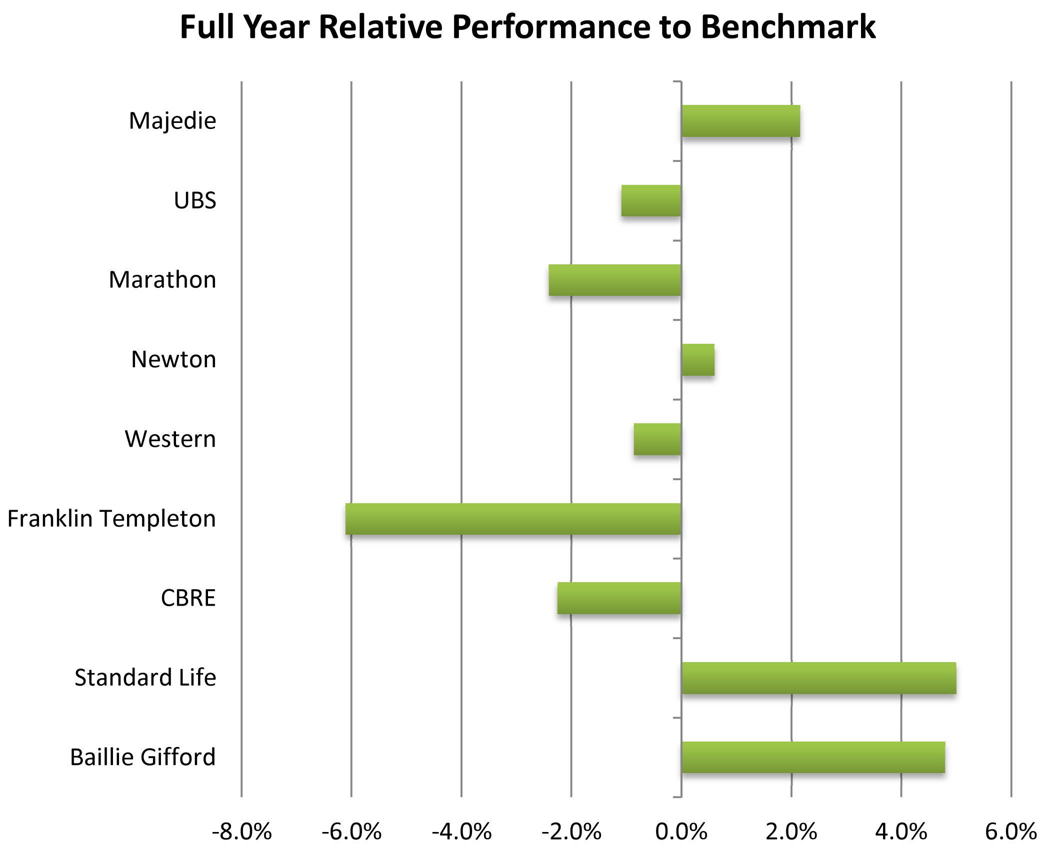
Summary of Full Year Results (gross of investment fees)

During the course of the previous 12 months to 30 December 2014, the Fund returned +7.9% overall, an outperformance of 1.0% against the customised benchmark of +6.9%.



Property has again provided by far and away the largest absolute return for the fund over the preceding 12 months with CBRE reporting +15.0% but below the benchmark of +17.2%.

Active bond manager Western reported a double digit return of +12.2% against a benchmark of +13.1%. The return attributable to currency hedging as part of the total fund return for the previous year is -0.2%.



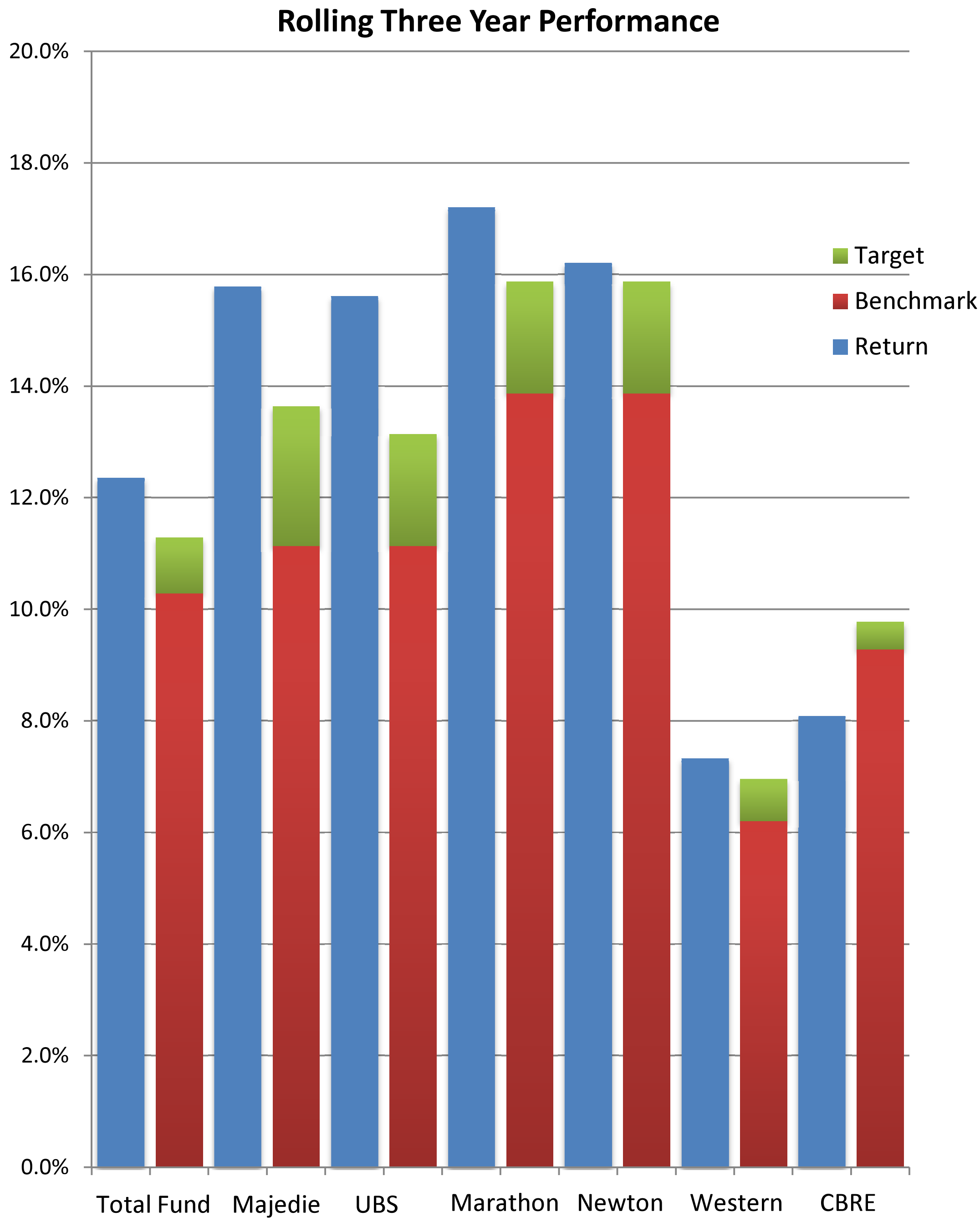
The table below shows manager performance for the year to 30 December 2014 against manager specific benchmarks using custodian data.

Manager	Performance %	Benchmark %	Relative %
Total fund	7.9	6.9	1.0
L&G	9.9	9.7	0.2
Majedie	3.3	1.2	2.1
UBS	0.1	1.2	-1.1
Marathon	8.2	10.6	-2.4
Newton	11.2	10.6	0.6
Western	12.2	13.1	-0.9
Franklin Templeton	0.6	6.7	-6.1
CBRE	15.0	17.2	-2.2
Standard Life GARS	5.7	0.7	5.0
Baillie Gifford	5.3	0.5	4.8

Franklin Templeton is measured against a US Dollar denominated benchmark which is then converted back to Sterling. This can cause a disparity between performance and benchmark given large currency movements.

Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

Summary of Rolling Three Year Performance (gross of investment fees)



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The below table shows the annualised performance by manager for the previous three years.

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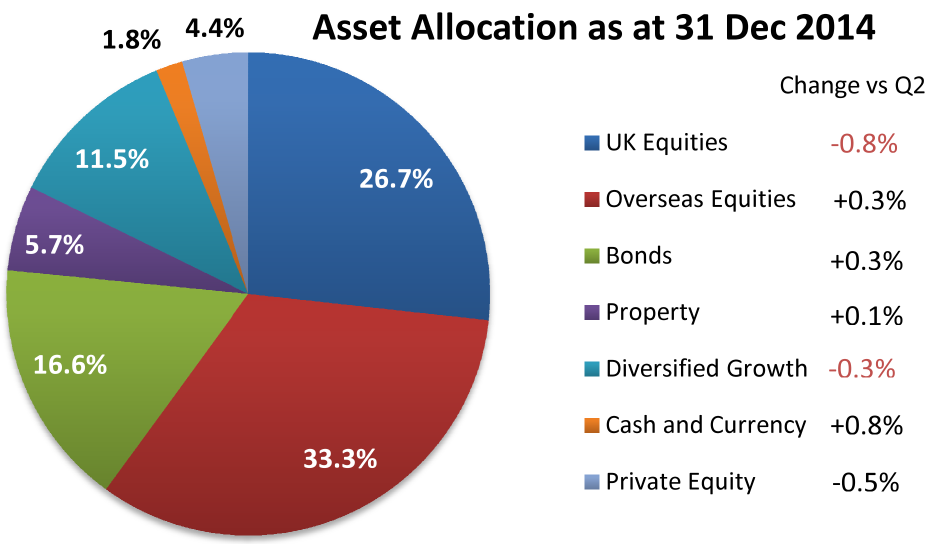
Manager	Performance %	Benchmark %	Target %	Relative %
Total fund	12.4	10.3	11.3	1.1
L&G	11.8	11.8	11.8	0.0
Majedie	15.8	11.1	13.6	2.2
UBS	15.6	11.1	13.1	2.5
Marathon	17.2	13.9	15.9	1.3
Newton	16.2	13.9	15.9	0.3
Western	7.3	6.2	7.0	0.3
CBRE	8.1	9.3	9.8	-1.7

4. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at the 31 December 2014.

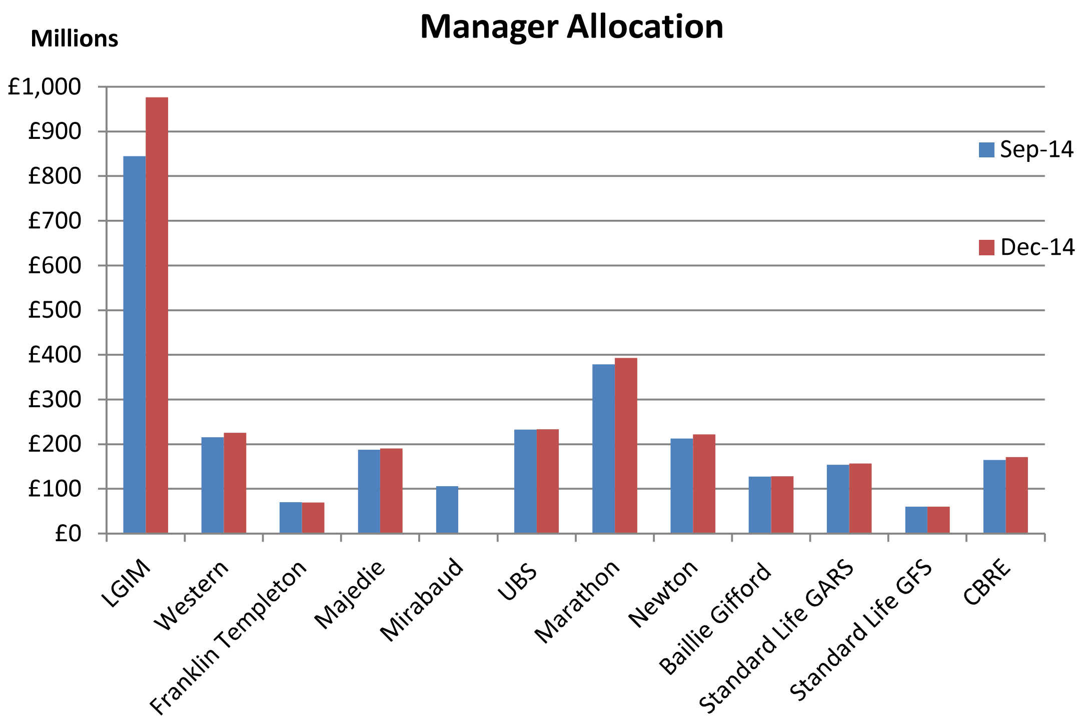


The table below compares the actual asset allocation as at 31 December 2014 against target asset weightings.

	TOTAL FUND	Actual	Target	Last Quarter	
	£m	%	%	£m	%
Fixed Interest					
UK Government	67.4	2.3	2.6	108.7	3.8
UK Non-Government	130.7	4.4	7.1	125.2	4.3
Overseas	72.5	2.4	0.0	62.6	2.2
Total Return	69.3	2.3	2.4	70.4	2.4
Index Linked	155.5	5.2	5.5	104.1	3.6
Equities					
UK	800.0	26.7	27.5	795.6	27.5
Overseas	995.3	33.3	32.3	953.1	32.9
Property Unit Trusts	170.6	5.7	6.2	162.9	5.6
Diversified growth	345.0	11.5	11.4	341.4	11.8
Cash	55.9	1.9	0.0	33.4	1.2
Currency hedge	-2.7	-0.1	0.0	-5.0	-0.2
Private Equity	132.3	4.4	5.0	141.4	4.9
TOTAL	**2,991.7**	**100.0**	**100.0**	**2,893.8**	**100.0**

5. Manager Allocation

The graph below shows the current manager allocation.



The table below includes the actual and target manager allocation weightings for those investments managed through the custodian Northern Trust as at 31 December 2014. This excludes internal cash and private equity portfolio.

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Investment Manager	Asset Class	Market Value £m	Actual Allocation %	Target Allocation %
L&G	Multi-Asset	976.5	34.6	34.7
Western	Bonds	225.4	8.0	8.3
Franklin Templeton	Bonds	69.3	2.5	2.6
Majedie	UK Equity	190.1	6.6	7.0
UBS	UK Equity	233.4	8.3	8.0
Marathon	Global Equity	393.1	13.9	12.0
Newton	Global Equity	222.1	7.9	8.0
Baillie Gifford	Diversified Growth	128.2	4.5	4.0
Standard Life GARS	Diversified Growth	156.5	5.5	8.0
Standard Life GFS	Diversified Growth	60.3	2.1	
CBRE	Property	170.9	6.0	6.5
TOTAL		**2,825.8**	**100.0**	**100.0**

6. Fees

The following table shows a breakdown of fees paid during Q3 2014/15

Manager	Market Value 31/12/2014 £m	Manager Fee Q3 £	Annualised Average Fee
L&G	976.5	175,657	0.07%
Western	225.4	120,918	0.21%
Franklin Templeton*	69.3	121,454	0.70%
Majedie**	190.1	1,511,191	3.18%
UBS**	233.4	1,430,926	2.45%
Marathon	393.1	426,921	0.43%
Newton	222.1	142,677	0.26%
Baillie Gifford*	128.2	203,171	0.63%
Standard Life GARS	156.5	257,865	0.66%
Standard Life GFS	60.3	150,777	1.00%
CBRE	170.9	172,314	0.40%
Manager Fees Total		**£4,713,872**	**0.67%**
Mirabaud transfer expense		238,062	
Tax witheld		143,263	
Other investment expenses		106,455	
Total Investment Expenses		**£5,251,652**	

*Estimated
** Includes performance fee and UBS performance claw back fee

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CONSULTATION:

7 The Chairman of the Pension Fund Board has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

8 Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9 Financial and value for money implications are discussed within the report.

DIRECTOR OF FINANCE COMMENTARY

10 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

11 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

12 The approval of the various options will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14 The following next steps are planned:

- Implementation of the various recommendation approvals.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
1. Asset Allocation Policy and Actual as at 31 December 2014 and 30 January 2015
2. Mercer: LDI Paper
3. AXA Discussion Paper: Gilt Yields
4. Internal Audit Report: Investment Function

Sources/background papers:
None

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Annex 1

Asset Allocation Update

The table shows the actual managed asset allocation as at 31 December 2014 against the target allocation. The allocation for 29 January 2015 is shown overleaf.

	Category	Allocation Policy %	Allocation at 31/12/2014	Variance %
Equities		**63.0**	**64.1**	**+1.1**
UK				
Legal and General	*Passive*	*14.0*	*12.9*	*-1.1*
Majedie	*Concentrated Active*	*7.0*	*6.7*	*-0.3*
UBS	*Core Active*	*8.0*	*8.3*	*+0.3*
Overseas				
Legal and General	*Passive*	*14.0*	*14.4*	*+0.4*
Marathon	*Concentrated Active*	*12.0*	*13.9*	*+1.9*
Newton	*Core Active*	*8.0*	*7.9*	*-0.1*
Property		**6.5**	**6.0**	**-0.5**
CBRE	*Core Active*	*6.5*	*6.0*	*-0.5*
Alternatives		**12.0**	**12.2**	**+0.2**
Standard Life	*Diversified growth*	*8.0*	*7.7*	*-0.3*
Baillie Gifford	*Diversified growth*	*4.0*	*4.5*	*+0.5*
Bonds		**18.5**	**17.7**	**-0.8**
Fixed interest gilts				
Western	*Core Active*	*2.75*	*2.4*	*-0.4*
Index linked gilts				
Legal and General	*Passive*	*5.8*	*5.5*	*-0.3*
Western	*Core Active*	*0.0*	*0.0*	*+0.0*
Corporate bonds				
Legal and General	*Passive*	*1.9*	*1.8*	*-0.1*
Western	*Core Active*	*5.5*	*5.5*	*-0.0*
Total Return				
Franklin Templeton	*Unconstrained*	*2.55*	*2.5*	*+0.0*
Total		**100.0**	**100.0**	

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Asset Allocation Update

The table shows the actual managed asset allocation as at 29 January 2015 against the policy.

	Category	Allocation Policy %	Allocation at 29/01/2015	Variance %
Equities		**63.0**	**64.4**	**+1.4**
UK				
Legal and General	*Passive*	*14.0*	*13.1*	*-0.9*
Majedie	*Concentrated Active*	*7.0*	*6.8*	*-0.2*
UBS	*Core Active*	*8.0*	*8.2*	*+0.2*
Overseas				
Legal and General	*Passive*	*14.0*	*14.5*	*+0.5*
Marathon	*Concentrated Active*	*12.0*	*13.9*	*+1.9*
Newton	*Core Active*	*8.0*	*7.9*	*-0.1*
Property		**6.5**	**6.0**	**-0.5**
CBRE	*Core Active*	*6.5*	*6.0*	*-0.5*
Alternatives		**12.0**	**11.8**	**-0.2**
Standard Life	*Diversified growth*	*8.0*	*7.4*	*-0.6*
Baillie Gifford	*Diversified growth*	*4.0*	*4.4*	*+0.4*
Bonds		**18.5**	**17.8**	**-0.7**
Fixed interest gilts				
Western	*Core Active*	*2.75*	*3.0*	*+0.3*
Index linked gilts				
Legal and General	*Passive*	*5.8*	*5.5*	*-0.3*
Western	*Core Active*	*0.0*	*0.2*	*+0.2*
Corporate bonds				
Legal and General	*Passive*	*1.9*	*1.8*	*-0.1*
Western	*Core Active*	*5.5*	*4.9*	*-0.6*
Total Return				
Franklin Templeton	*Unconstrained*	*2.55*	*2.4*	*-0.2*
Total		**100.0**	**100.0**	

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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SURREY COUNTY COUNCIL
AUDIT REPORT

Pension Fund Investment

2014/15

Prepared for: Sheila Little, Director of Finance
Phil Triggs, Strategic Manager, Pensions and Treasury

Prepared by: Tasneem Ali, Lead Auditor

Sue Lewry-Jones
Chief Internal Auditor
Surrey County Council
County Hall
Kingston upon Thames
Surrey
KT1 2EA

January 2015

Additional circulation list:

External Audit	Grant Thornton LLP UK
Service Finance Manager	Susan Smyth
Strategic Director	Julie Fisher
Risk and Governance Manager	Cath Edwards
Audit and Governance Committee	All
Cabinet Member & Chairman of the Surrey Pension Fund Board	Denise Le Gal

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Glossary:
LGPS –Local Government Pension Scheme

Audit opinions:

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Significant Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Pension Fund Investment - 2014/15

1. INTRODUCTION

1.1 The Local Government Pension Scheme (LGPS) is a funded scheme, which operates distinctly from the non-funded public sector schemes and has its own regulatory framework. The funds received through employer and employee contributions are invested and administered at individual pension fund authority level with the agreement of elected members who are accountable to the local council taxpayers. In Surrey, the Surrey Pension Fund (SPF) is the channel through which the pension contributions are invested and administered by external investment managers on behalf of its members. At 31st March 2014 the Surrey Pension Fund had net assets valued at £2,808m with 32,530 employees, 21,598 pensioners and 30,639 deferred pensioners. A Surrey Pensions Board was established in April 2013 and meets quarterly to ensure the proper governance of the fund. The Board includes SCC Councillors, representation from admitted bodies and an employer and employee union representative.

1.2 A review of the Pension Fund Investment was included as part of the 2014/15 Annual Audit Plan and was undertaken following agreement of the Terms of Reference included at Annex A. This report sets out the findings and recommendations of the review. The completed Management Action Plan accompanies this report as Annex B.

2. WORK UNDERTAKEN

2.1 The purpose of the audit was to ascertain whether adequate controls are in place to ensure that:

- purchases and sales of stocks and shares are properly accounted for;
- all income due to the fund is received and properly recorded;
- fund managers are properly appointed and governed by appropriate arrangements with regard to the custody of assets;
- investment strategy is approved by the Pension Fund Board and is monitored effectively and independently;
- governance arrangements are appropriate;
- adequate separation of duties exists;

Discussions were held with key personnel in the Council to document any changes to relevant systems and processes, which have taken place since the last audit review in 2012/13. The accounts of Fund Managers and Northern Trust were reviewed as well as the reconciliations to Council records and SAP reports. Testing was performed to confirm that signed contractual agreements were in place and that independent monitoring of performance of investment managers was regularly undertaken.

3. OVERALL AUDIT OPINION AND RECOMMENDATIONS SUMMARY

3.1 The overall audit opinion following this audit is Some Improvement Needed. A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

3.2 **Recommendations analysis:**

Rating	Definition	No.	Para. Ref.
High	Major control weakness requiring immediate implementation of recommendation	1	5.1.6
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources		

6

Pension Fund Investment - 2014/15

Low	Recommendation represents good practice but its implementation is not fundamental to internal control	7	5.2.5 5.3.6 5.3.7 5.4.4 5.5.4 5.6.4
	Total number of audit recommendations	8	

4. MANAGEMENT SUMMARY

4.1 The Surrey Pension Fund has an established investment strategy in place which is reviewed and managed by members of the Surrey Pension Fund Board who are responsible for the stewardship of the Fund. The Auditor concluded that the Surrey Pension Fund Board had an effective process in place to monitor the investment strategy. This is evident from review of the minutes which demonstrate the quality of membership of the Board and the quality of the level of scrutiny provided.

4.2 Whilst performing the audit, the Auditor obtained the Independent Service Auditors report for the Global Custodian which confirmed that the control objectives of the Custody and Fund Services system were suitably designed to provide reasonable assurance that the control objectives were achieved and operating effectively.

4.3 There are adequate measures in place to collect pension contributions and a Business Plan and Governance Compliance statement have been approved which enables compliance with statutory regulations and scheme rules.

4.4 During the period under review the Auditor also examined the processes in place for the:

- appointment of new fund managers;
- termination of fund managers; and the
- closure of employer bodies.

The auditor established that there was adequate consideration given by the Board, Senior managers and the independent advisers to ensure appropriate outcomes.

4.5 At the time of this audit, it was also identified that the reconciliation of the Global Custodian bank account to SAP had not been completed. This will be evaluated further in our findings below.

4.6 The Auditor also carried out substantive sample testing, which has resulted in one high level and 7 low level recommendations.

4.7 In view of the above findings, set out in more detail in section 5 below, the overall audit opinion is **Some Improvement needed.**

5. FINDINGS AND RECOMENDATIONS

5.1 **Reconciliation of Northern Trust to SAP**

<u>Finding</u>

5.1.1 During audit testing of fund manager and private equity drawdown requests it was found that quarterly reconciliations to the Northern Trust (NT) account had not been completed. This process is identified as a key control which accounts for movements on NT to be incorporated into SAP through a journal entry. These movements included income, purchases, sales, funding, tax, contributions between accounts and related transactions.

5.1.2 In order to identify whether any compensating controls were in place the Auditor enquired whether any other procedures were being performed to identify or account for movements on the NT account.

5.1.3 From enquiry with the senior accountant and review of the second quarter report it was ascertained that although a reconciliation to SAP had not been completed, the movements on the Northern Trust account, such as income from investments, purchases, sales, funding, contributions between accounts, and fees paid to fund managers which were pertinent to the reporting requirements of the board had been incorporated into the fund manager valuation report, and were completed monthly and presented to the Board.

5.1.4 Review of minutes and meeting notes presented to the Board, also confirmed that the Pensions team together with Board members met regularly with fund managers which further demonstrated that there was adequate review of movements on the NT account. The auditor does not however have assurance that the transactions for the year have been correctly accounted for in SAP which represents the main financial reporting framework.

Risk

5.1.5 Failure to complete reconciliations on time could potentially result in omission of pertinent data for financial reporting purposes.

Recommendation

5.1.6 Quarterly reconciliations to the Northern Trust account should be completed in a timely manner to ensure that SAP accurately reflects the true financial position of the Pension Fund and enables any reports presented to the Board to be a reflection of data available on SAP.

5.2 **Drawdown requests**

Finding

5.2.1 For the period April to September 2014 total drawdown requests amounted to £10,750m. The auditor performed a walkthrough of the drawdown process. The highest value drawdown request was selected for testing and it was found that the actual amount paid to the fund manager exceeded the amount requested by £3m. The error was a result of the misinterpretation of the amount in the drawdown request by both officers responsible for the transaction. Although the investment fund manager notified the Pension Fund Senior Accountant of the overpayment, and the funds were subsequently withdrawn within two days, the potential exists for similar errors to occur.

5.2.2 Further analysis of the error confirmed that the payment made in error to the global custodian did not represent a financial risk to the funds, as in essence it was a movement between the funds bank accounts. At no point did the Pension Fund lose custody of the funds that were deposited in error into the global custodian account as it functions as an intermediate account. The potential consequence of this error would be that the fund manager's return on investment would have been distorted by the additional funds invested or the Fund would have lost out on the interest potential of the £3m.

5.2.3 As a result of the above error the auditor tested the remaining £8,750m drawdown requests and verified that for each request made, the amount paid agreed to the drawdown request and was within commitment levels.

Risk

5.2.4 The Pension Fund could incur financial loss through the loss of interest income on the excess amount paid or alternatively the performance results of the investment could be distorted based on the difference between the value of funds actually invested compared to the value of funds requested for the investment.

Recommendation

5.2.5 Fund drawdown requests should be accurately actioned.

6

5.3 **Conflict of interest**

Finding

5.3.1 From a review of attendee names the Auditor identified that an independent adviser to the Pension Fund, had recently been appointed as a Director of a Global Investment company. Although this in itself does not pose a conflict of interest, it does present a perceived conflict of interest.

5.3.2 Enquiry with the Pensions Manager, confirmed that advice on fund manager matters is provided by Mercer, a firm of investment advisers who are FCA registered, and another independent adviser acting in his own capacity, who is not FCA registered. The role of the latter is to challenge the information provided by Mercer and advise the Pension Fund Board to ensure that the best investment decisions are made. The adviser is not responsible for making any decisions.

5.3.3 As a result, the letter of engagement of the independent adviser is being redrafted to reflect this and if in the future the Global investment company was used as fund manager, the adviser will be excluded from any discussions.

5.3.4 Further review of the Financial Conduct Authority (FCA) compliance requirements for independent advisers, effective January 2013, identified that the independent adviser could potentially be in breach of the Retail Distribution Review (RDR) rules. These rules state that 'to offer financial advice an individual must represent or be an appointed representative of a firm registered with the FCA'. Where this is not the case the financial adviser should obtain an annual Statement of Professional Standing, which confirms that they are suitably qualified and they subscribe to a code of ethics and that they have kept their knowledge up-to-date through continuing professional development.

Risk

5.3.5 There could be a risk that the investment advisers may provide conflicting advice to the Pension Fund Board. It could also result in the appointment of an investment adviser who does not comply with FCA guidance, therefore risking the value of the Pension Fund investments

Recommendation

5.3.6 The Pension Fund Board should ensure that any potential conflict of interest is managed appropriately in relation to the use of independent advisers. An independent adviser must also be perceived to be free of any potential interest in relation to decisions taken by the Pension Fund Board.

5.3.7 The Pension Fund Board should also ensure that independent advisers comply with FCA guidance, in particular the RDR rules.

5.4 **Risk register**

Finding

5.4.1 Review of the minutes identified that the risk register was evaluated and reviewed at each Pension Fund Board meeting. The risk register reflects the current risks that the Pension Fund is exposed to, the impact of these risks and the mitigating actions in place to overcome these risks.

5.4.2 Detailed review of the risk register established that the following risks could also be considered by the Pension Fund Board: -

- loss of funds through fraud or misappropriation;

- failure to hold personal data securely;
- failure to keep pensions data up to date;
- failure to collect and account for contributions from employers and employees on time;
- insufficient funds to meet liabilities as they fall due;
- lack of expertise on Pension Fund Board;
- failure of global custodian;
- over reliance on key officers; and
- incorrect funds sent to fund managers.

Risk

5.4.3 The Pension Fund Board should consider all the relevant risks that it could be exposed to.

Recommendation

5.4.4 The Pension Fund Board could consider the Pension Funds exposure to the additional risks highlighted above in order to present a comprehensive assessment of potential risks.

5.5 **Fund manager payments**

Finding

5.5.1 The auditor identified 22 fund manager fee payments for the period under review. A sample of 5 fund manager fee payments was tested to determine whether fund manager payments had been accounted for in the correct financial period. Of the 5 payments tested, the Auditor identified that 3 payments totalling £743,281 related to the 2014/15 year. One payment valued at £84,642 related to the 2013/14 year which was correctly accrued for in 2013/14, and one payment valued at £887,643 which was a recalculation/clawback for previous years, related to the 2011/12, 2012/13 and 2013/14 years collectively. Further scrutiny of the invoice confirmed that the invoice was received in November 2013 and had not been accrued for in the 2013/14 year.

5.5.2 Fund managers often use incentives in order to retain investments. The Pensions team should address the accounting treatment of incentives in order to more accurately match investment returns with fund manager fees.

Risk

5.5.3 Inaccurate matching of fund manager fees annually with investment returns could result in inaccurate financial data being presented for management purposes and for monitoring of the Pension Fund Investment strategy.

Recommendation

5.5.4 Fund manager payments should be accounted for in the correct financial period in order to appropriately match expenditure with returns on investment. The Pensions Team should also provide for clawbacks in their accounting treatment where this arrangement has been negotiated. This would enable better matching of income with expenditure.

5.6 **Fund Manager assurance statements**

Finding

5.6.1 The Surrey Pension Fund utilises the services of 10 fund managers to invest their funds. Results of testing indicate that Surrey Pension Fund have obtained independent controls assurance for eight fund managers which represents 88.5 percent of its investment. Therefore no assurance has been obtained for the remaining two fund managers who represent 11.5 percent of the funds invested. Controls assurance statements provide reasonable assurance on the adequacy of the control environment of the fund manager thus fulfilling the Pension Fund Boards responsibility for safeguarding the funds.

5.6.2 Whilst assurance reports provide the Board with a degree of comfort, Board members should also take time to consider the scope of the independent reviews and investigate whether any limitations have been identified by the reporting accountant in their report, including any action taken by the fund manager to rectify material control failures.

<u>Risk</u>

5.6.3 This may have an impact on the ability of the fund manager to safeguard the investments of the Pension Fund and could potentially result in losses to the Pension Fund.

<u>Recommendation</u>

5.6.4 The Pension Fund Board should review all controls assurance statements received from fund managers in order to consider any limitations identified in the report. This should be presented to the Pension Fund Board annually.

6. ACKNOWLEDGEMENT

6.1 The assistance and co-operation of all the staff involved was greatly appreciated.

TERMS OF REFERENCE

Pension Fund Investment 2014/15

BACKGROUND

The Local Government Pension Scheme (LGPS) is a funded scheme, which operates distinctively from the non-funded public sector schemes and has its own regulatory framework. The funds received through employer and employee contributions are invested and administered at individual pension fund authority level with the agreement of elected members who are accountable to the local council taxpayers. In Surrey, the Surrey Pension Fund is the channel through which the pension contributions are invested and administered by external investment managers on behalf of its members. A Surrey Pensions Board was established in April 2013 and meets quarterly to ensure the proper governance of the fund. The Board includes SCC Councillors, representation from admitted bodies and an employer and employee union representative.

PURPOSE OF THE AUDIT

The Surrey Pension Fund (SPF) covers around 80 scheduled bodies, which include, in the main, employees of the County Council (excluding teachers and fire fighters who have their own pension schemes), District and Borough Councils and admitted bodies which were previously closely associated with local government. This equates to a combined membership in excess of 80,000 individuals. Northern Trust continues to be the Global Custodian of the funds since its appointment in January 2004.

The latest triennial actuarial valuation of the fund as at 31 March 2013 reported assets of £2,559m against liabilities of £3,538m resulting in a deficit of £980m.

The auditor has discussed the key risks associated with the SPF with the relevant officers and examined the programme risk register. These discussions identified the following specific risks as areas where the provision of additional assurance over the effectiveness of controls would be useful to the Service.
- Investment Managers fail to achieve performance targets.
- Inadequate monitoring and review of the long term investment strategy;
- employer bodies transferring out of the pension fund or deterioration in the financial health of an employer body.

Internal Audit's work is focused on assessing the effectiveness of controls in place to manage risks that are operating throughout the year. The Pensions Fund is subject to a separate annual external audit which examined the financial performance of the fund and other matters. External Audit's activity may take account of the findings of this work.

WORK TO BE UNDERTAKEN

The purpose of the audit is to ascertain whether adequate controls are in place to ensure that:

- purchases and sales of stocks and shares are properly accounted for;
- all income due to the fund is received and properly recorded;
- fund managers are properly appointed and governed by appropriate arrangements with regard to the custody of assets;
- investment strategy is approved by the Pension Fund Board and is monitored effectively and independently;

- governance arrangements are appropriate;
- adequate separation of duties exists;

Discussions will be held with key personnel in the Council to document any changes to relevant systems and processes, which have taken place since the last audit review in 2012/13. The accounts of Fund Managers and Northern Trust will be reviewed as well as the reconciliations to Council records and SAP reports. Testing will seek to confirm that signed contractual agreements are in place and that independent monitoring of performance of investment managers is regularly undertaken.

6

OUTCOMES

The findings of this review will form a report to Surrey County Council management, with an overall audit opinion on the effectiveness of arrangements in place and recommendations for improvement if required. Subject to the availability of resources, and the agreement of the auditee, the audit will also seek to obtain an overview of arrangements in place for:

- Data quality and security;
- Equality and diversity;
- Value for Money, and
- Business continuity.

The outcome of any work undertaken will be used to inform our future audit planning processes and also contribute to an overall opinion on the adequacy of arrangements across the Council in these areas.

REPORT ARRANGEMENTS

Auditor:	Tasneem Ali
Supervisor:	Simon White
Reporting to:	Phil Triggs
Audit Ref:	KF 21/ 2014/15

MANAGEMENT ACTION PLAN

Directorate:	Business Services
Audit report:	Pension Fund Investment
Dated:	

PRIORITY RATINGS

Priority High (H) - major control weakness requiring immediate implementation of recommendation

Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources

Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control

I agree to the actions below and accept overall accountability for their timely completion. I will inform Internal Audit if timescales are likely to be missed.

The auditor agrees that the actions set out below are satisfactory.

Lead Responsible Officer (HOS): Phil Triggs, Strategic Manager Pensions and Treasury

Date 02 December 2014

Auditor Tasneem Ali

Date 02 December 2014

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.1.6	Quarterly reconciliations to the Northern Trust account should be completed in a timely manner to ensure that SAP accurately reflects the true financial position of the Pension Fund and enables any reports presented to the Board to be a reflection of data available on SAP.	High	Reconciliations for the year are currently up to date. Financial portfolio and investment performance information provided to the Pension Fund Board was not affected. The team will ensure that quarterly custodian and fund manager report reconciliations are completed within one month of the requisite custodial and fund manager reports becoming available.	Ongoing	Phil Triggs	Yes

ANNEX B

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.2.5	Fund drawdown requests should be accurately actioned	Low	The manager is satisified as to the presence of internal controls specific to checking and authorisation of transactions. Officers have been advised as to future scrutiny required in future processing of transactions.	Ongoing	Phil Triggs	Yes
5.3.6	The Pension Fund Board should ensure that any potential conflict of interest is managed appropriately in relation to the use of independent advisers. An independent adviser must also be perceived to be free of any potential interest in relation to decisions taken by the Pension Fund Board.	Low	The letter of engagement with the independent advisor has been redrafted to address and manage this potential conflict of interest and ensure that the independent advisor will not be involved in decisions where there is a possible conflict of interest with regard to external interests. The redraft is currently with Legal for approval.	February 2015	Phil Triggs	Yes
5.3.7	The Pension Fund Board should ensure that independent advisers comply with FCA guidance, in particular the RDR rules.	Low	The Fund's independent investment advisor is not required to be FCA registered as the advice offered does not fall within the scope of the 'regulated activity, advising on investments' under The Financial Services & Markets Act 2000, as per Section 2.7.15, 2.7.16 and 10.4 of the FCA Perimeter Guidance Manual.	n/a	Phil Triggs	No- Review of PERG 2.7.15/16, PERG 10.4, PERG 8.2 implies that limitations would need to be included in engagement letter. Pension Fund Board would need to be clear

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
						on limitation of advice.
5.4.4	The Pension Fund Board could also consider the Pension Funds exposure to the additional risks highlighted in paragraph 5.4.2 in order to present a comprehensive assessment of potential risks.	Low	The Pension Fund risk register includes all but two of the suggested additional risks. The two were removed following a specific recommendation made by the Pension Fund Board to streamline/reduce the number of entries within the risk register and focus upon only the most significant risks. The number of risk entries was reduced from 36 to 26 as a result.	February 2015	Phil Triggs	Yes –Updated Risk register presented at Nov 14 Pension Fund Board Meeting.
5.5.4	Fund manager payments should be accounted for in the correct financial period in order to appropriately match expenditure with returns on investment.	Low	The additional invoice in question was received by e-mail but was not transacted in the final accounts process. Systems have been improved to prevent reoccurrence.	April 2015	Alex Moylan	Yes
5.5.4	The Pensions Team should provide for clawbacks in their accounting treatment of returns on investment. This would enable better matching of income with expenditure.	Low	The provision for recovered investment fee discounts will be assessed at year end with a view to potentially including within the statement of accounts.	April 2015	Phil Triggs	Yes
5.6.4	The Pension Fund Board should review all controls assurance statements received from fund managers in order to consider any limitations identified in the report. This should be presented to the	Low	A summary report will be taken to the Pension Fund Board on an annual basis to coincide with statement of accounts.	September 2015	Phil Triggs	Yes

ANNEX B

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
	Pension Fund Board annually.					

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2015**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND BUSINESS PLAN 2015/16**

SUMMARY OF ISSUE:

The 2001 Myners Report recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board adopt the attached Business Plan shown in Annex 1 in respect of the 2015/16 financial year.

REASON FOR RECOMMENDATIONS:

A business plan is required by best practice in order to set relevant targets and monitor progress.

DETAILS:

Background

1 At the Board meeting of 14 February 2014, the Pension Fund Board approved a business plan for 2014/15, identifying the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives.

2 At the next Board meeting on 15 May 2015, an outturn report will be presented, detailing the progress and achievements made against the 2014/15 business plan.

Business Plan 2014/15

3 In preparation for the next financial year, Annex 1 sets out a draft recommended business plan for 2015/16. The plan lists the investment and pension administration tasks scheduled to be carried out during 2015/16, the target date when these should be achieved, and the responsible officer.

7

CONSULTATION:

4 The Chairman of the Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

5 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

6 The costs of the proposed actions will be funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

7 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the business plan and that the document will provide the Board and officers with a useful framework to aid the setting of objectives, implementation and monitoring of progress.

LEGAL IMPLICATIONS – MONITORING OFFICER

8 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

9 The creation of a business plan will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

11 The following next steps are planned:

- Commencement of the year's work programme in line with the business plan.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
- Outturn report of the 2015/16 financial year to be presented at the first meeting of the Pension Fund Board in 2016/17.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Business Plan 2015/16

Sources/background papers:
None 7

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Surrey Pension Fund
Business Plan and Actions for 2015/16

Administration			
Objective(s) - to ensure scheme is run in accordance with the rules; in accordance with agreed service standards; and compliance with Regulations - to deal with and rectify any errors and complaints in a timely way			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Director of Finance and Pension Fund Board to receive key performance indicators report on a quarterly basis	Ongoing with reports due at each Board meeting	Phil Triggs/Neil Mason
2	Pension Fund Board to receive the Pension Fund Annual Report	By 30 September 2015	Phil Triggs
3	Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner	Ongoing	Jason Bailey/ Neil Mason
4	Review the content of the pension fund website to ensure it is relevant and kept up to date.	Ongoing	Phil Triggs/Jason Bailey/Neil Mason
5	Final aspects of new LGPS 2014 Scheme implementation which took effect on 1 April 2014	Progress report to Pension Fund Board	Jason Bailey/Neil Mason
6	Review the current pension administration strategy	Ongoing 2015/16	Phil Triggs/Jason Bailey/Neil Mason

Communication

Objective(s)

- to convey the security of the Scheme
- to ensure members understand and appreciate the value of their benefits

Action	Description	Timescale	Primary Responsibility
1	Production of a newsletter to pensioners in April each year	April 2015	Jason Bailey/Neil Mason
2	Timely production of benefit statements	Active members by 31 Aug 2015 Preserved members by 30 June 2015 Councillors by 31 Aug 2015	Jason Bailey
3	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme Ensure communication material is amended to comply with the requirements of the new LGPS 2014	Ongoing	Jason Bailey/Neil Mason
4	Communication on a timely basis of material scheme changes to Pension Fund Board, employer bodies and members	Ongoing	Phil Triggs/ Jason Bailey/Neil Mason
5	Prepare Pension Fund Annual Meeting (Nov) and receive feedback from employers	20 November 2015	Phil Triggs/ Jason Bailey/Neil Mason

Actuarial/Funding

Objective(s)

- to monitor the funding level of the Scheme including formal valuation every 3 years
- to monitor and reconcile contribution payments to the Scheme by the employers and scheme members
- to understand legislative changes which will impact on funding

Action	Description	Timescale	Primary Responsibility
1	Commence preparation for 2016 actuarial valuation	31 March 2015	Phil Triggs/ Jason Bailey/Neil Mason
2	Receive satisfaction survey feedback from employers (scheduled and admitted bodies)	30 April 2015	Phil Triggs/Neil Mason
3	Provide employers with IAS19/FRS17 funding statements when requested	Scheduled and admitted bodies: Mar 2015 Colleges: July 2015 Academies: August 2015	Phil Triggs
4	Monitor and reconcile contributions schedule for the County Council and scheme employers	Ongoing	Phil Triggs
5	Member training covering funding issues	Ongoing	Phil Triggs

Surrey Pension Fund Board Members

Objective(s)

- to train and develop all members to enable them to perform duties effectively
- to meet quarterly and to include investment advisor and independent advisors as required
- to run meetings efficiently and to ensure decisions are made clearly and effectively

Action	Description	Timescale	Primary Responsibility
1	Review decision making process to ensure decisions are made effectively	Ongoing with new Pension Fund Board	Board Members
2	Review Pension Fund Board member training requirements and implement training plan as appropriate	Ongoing	Phil Triggs
3	Agree annual plan for Pension Fund Board member training	15 May 2015	Phil Triggs
4	Ensure that meeting papers are issued at least seven days prior to meeting	Ongoing	Phil Triggs
5	Ensure that governance remains in line with revised Myners/CIPFA principles to ensure 100% compliance	Ongoing 2015/16	Phil Triggs

Financial & Risk Management			
Objective(s) - To properly record financial transactions to and from the Scheme and produce annual report and accounts within six months of year end - Manage advisers fees against budgets - Assess the risk associated with the management of the Scheme			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile	Ongoing 2015/16	Phil Triggs
2	Produce Annual Statement of Accounts	22 May 2015	Phil Triggs
3	Produce Pension Fund Annual Report	30 September 2015	Phil Triggs
4	Ensure ongoing risk assessments of the management of the fund for 2015/16	Ongoing and reported to every Board meeting	Phil Triggs
5	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2015/16	Phil Triggs/ Jason Bailey/Neil Mason
6	To review the current employer covenant	Ongoing 2015/16	Phil Triggs/Neil Mason

Investment			
Objective(s) - Periodically review investment strategy and benchmarks - Monitor performance against benchmarks - Meet with investment managers to discuss performance			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Ongoing consideration of CIPFA/Myners principles	Ongoing 2015/16	Phil Triggs
2	Review of investment manager arrangements	31 March 2016	Phil Triggs
3	Review asset allocation with consultant and independent advisor	31 March 2016	Phil Triggs
4	Discuss/meet with all investment managers and report to Pension Fund Board	Quarterly 2015/16	Phil Triggs
5	Review SIP	31 March 2016	Phil Triggs
6	Pension Fund Board to receive quarterly monitoring reports	Quarterly 2015/16	Phil Triggs
7	Respond to national initiatives on pension fund merger/collaboration/mandatory passive investment and report to the Pension Fund Board as necessary	Ongoing 2015/16	Phil Triggs

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2015**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **REVISED STATEMENT OF INVESTMENT PRINCIPLES**

SUMMARY OF ISSUE:

With adjustments to asset allocation within the Pension Fund, it is necessary to approve a revised Statement of Investment Principles (SIP).

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 Approve the revised Statement of Investment Principles shown in Annex 1.

2 Approve the revised Core Belief Statement shown in Annex 2.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must approve all working documents produced for the Pension Fund.

DETAILS:

Background

1 In accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as an administering authority, the Council must prepare and maintain a written statement of the principles governing its decisions on the investment of the pension fund. It also has to review the policy from time to time and revise it if considered necessary following such a review, as is recommended here in the light of changes made to the Fund's portfolio.

2 Such changes consist of the addition to Majedie's UK Equities portfolio as a result of the termination of Mirabaud.

Revised Statement

3 The revised Statement of Investment Principles (SIP) is shown as Annex 1.

Core Belief Statement

4 At its previous meeting on 14 November 2014, the Board approved a Core Belief Statement regarding the investment of the Pension Fund, subject to some slight changes.

5 The revised Core Belief Statement is shown as Annex 2.

Monitoring and Review

6 The SIP and Core Belief Statement are kept under constant review and will be submitted for approval to future Board meetings when any revision is required.

CONSULTATION:

7 The Chairman of the Pension Fund has been consulted on the revised draft and has offered full support for the proposals.

8

RISK MANAGEMENT AND IMPLICATIONS:

8 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

10 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed SIP offers a clear structure, reflecting the current investment strategies approved by the Pension Fund Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

11 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

12 The approval of the SIP will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14 The following next steps are planned:

- Adoption of the revised SIP and Coe Belief Statement
- Documents to be kept under review

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Annex 1: Revised Statement of Investment Principles

Sources/background papers:
None

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Statement of Investment Principles 2014/15

Statement of Investment Principles

1. Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension 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. The content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which can be found at Annex 2. 8

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement.

A copy of the Surrey Pension Fund's current governance policy statement can be found on the County Council's website. **www.surreypensionfund.org**

Investment policy and associated monitoring and review are delegated to the Surrey Pension Fund Board, which is made up of:

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

The Pension Fund Board is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Chief Finance Officer and the Strategic Finance Manager (Pension Fund and Treasury).

The Pension Fund Board meets on a quarterly basis.

2. Investment Objectives

The Pension Fund Board seeks to ensure that the Pension Fund has sufficient assets to be able to meets its long term obligations to pay pensions to the Fund's members, i.e., over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

i) To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon; the Board recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a steady course through changing market environments.

ii) 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 Fund's liabilities.

iii) To appoint managers that the Board believes can consistently achieve the performance objectives set and to give each appointed manager a clearly defined
8 benchmark and performance objective against which they can be judged.

iv) To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Board will have regard to best practice in managing risk.

v) To have sufficient liquid resources available to meet the Fund's ongoing obligations.

vi) To achieve an overall Fund return 1% per annum in excess of the overall benchmark over rolling three-year periods.

3. Investment Style and Management

The Board has delegated day-to-day management of various parts of the Fund to external fund managers each of which has been given an explicit benchmark and performance objective. The Board retains responsibility for ensuring the mix of managers and by implication the overall asset allocation is suitable for the long-term objectives defined above.

The Board has appointed two different types of manager: 'Index Relative' who seek to achieve a return relative to a market index within a specified asset type and 'Absolute Return' who seek to achieve a desired return outcome by moving between different asset types.

Index Relative managers

The managers in this category have been set differing performance targets and will take accordingly differing levels of risk relative to the benchmark index they are given.

Passive mandates seek to replicate the market index as closely as possible and are expected to take very little relative risk. Typically, such portfolios will have the largest number of individual holdings each of which will be close to the index weighting. The expected performance should be within 0.5% of the index return in any year.

Core active mandates seek to achieve a performance between 0.75% per annum and 2% per annum ahead of the relevant market index. Typically, core active mandates have diversified portfolios and take medium levels of relative risk. Most managers will only be appointed to manage a single asset class (for example, global equities, bonds or property).

Concentrated active mandates seek to outperform their relevant index by 3% per annum or more and take larger relative risks by owning a smaller number of individual holdings. The Pension Fund Board usually confines such mandates to specialist managers in regional equities.

Absolute Return managers

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The managers in this category are all expected to achieve returns well ahead of cash or inflation in the long-term.

Diversified Growth managers use a very broad range of asset classes and actively vary allocations between asset types depending on investment market conditions. They will also use derivatives from time to time to limit the scope for large falls in value. The expected returns from such mandates will be close to the long term return from equity markets but with much less volatility.

Absolute return managers also seek to achieve good long term returns with dampened down volatility, but typically they are focused on a particular investment area. The desired outcome is similar to Diversified Growth mandates but with possibly greater variability across mandate types and usually with a much smaller amount invested in each capability.

Fees

The level of fees paid to managers varies greatly according to the complexity of the mandate and the geographic area involved. Fees are usually expressed as a proportion of assets under management. There may also be additional performance related fee charges.

Fees for passive mandates tend to be very low, particularly in developed markets where information is readily available. Fees are higher for mandates that require greater manager skill. Typically a concentrated active mandate will have a higher fee rate than a core active manager and a small absolute return mandate will have a higher fee rate than a larger diversified growth mandate.

Current Manager Structure

The table below shows the current asset allocation and manager structure of the Fund.

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	Category	Allocation Policy %	Fund %	Control Range% +/-
Equities			**63.0**	**+/-3.0**
UK			29.0	
Legal and General	*Passive*	*10.0*		
Majedie	*Concentrated Active*	*11.0*		
UBS	*Core Active*	*8.0*		
Overseas			34.0	
Legal and General	*Passive*	*14.0*		
Marathon	*Concentrated Active*	*12.0*		
Newton	*Core Active*	*8.0*		
Property			**6.5**	**+/-3.0**
CBRE	*Core Active*	6.5		
Alternatives			***12.0***	**+/-3.0**
Standard Life	*Diversified growth*	*8.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**18.5**	**+/-3.0**
Fixed interest gilts			2.75	
Western	*Core Active*	*2.75*		
Index linked gilts			5.8	
Legal and General	*Passive*	*5.8*		
Corporate bonds			7.4	
Legal and General	*Passive*	*1.9*		
Western	*Core Active*	*5.5*		
Total Return			*2.55*	
Franklin Templeton	*Unconstrained*	*2.55*		
Total			**100.0**	

The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Pension Fund Board reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund.

Fees paid to managers vary due to the levels of risk taken and the geographic areas in which the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers. The following table shows the Fund's private equity investments as at 31 March 2013.

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Name	Currency	Inception	Commitment
UK Funds			**£/€/$m**
HG Capital MUST 3	£	2001	2.0
HG Capital MUST 4	£	2002	3.0
HG Capital 5	£	2006	10.0
HG Capital 6	£	2009	10.0
HG Capital 7	£	2013	15.0
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
ISIS Growth Fund	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF I	$	2013	20.0
Standard Life SOF II	$	2014	20.0
US Fund of Funds			
Blackrock Div PEP I	$	2001	5.0
Blackrock Div PEP II	$	2003	5.0
Blackrock Div EP III	$	2005	17.5
GSAM PEP 2000	$	2000	10.0
GSAM PEP 2004	$	2004	10.0
GSAM PEP 2005	$	2006	17.0
GSAM PEP X	$	2008	18.0
GSAM PEP XI	$	2011	18.0
GSAM Vintage Fund VI	$	2013	20.0
US Funds			
Capital Dynamics US Solar Fund	$	2011	25.0
Capital Dynamics Energy/Infra	$	2013	25.0

4. Policy on Kinds of Investment

The Pension Fund Board, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The following table shows the strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund:

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	Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds	%	
Gilts	2.75	2.6
Corporate Bonds	7.4	7.1
Index-Linked gilts	5.8	5.5
Unconstrained	2.55	2.4
Property	6.5	6.2
Total Bonds/Property	25.0	23.8
UK Equity	29.0	27.5
Overseas Equity	34.0	32.3
Global	30.0	28.5
Emerging markets	4.0	3.8
Total Equity	63.0	59.8
Diversified Growth	12.0	11.4
Private Equity	n/a	5.0
TOTAL	100.0	100.0

Acceptable asset classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- UK Property through pooled funds
- Overseas Equities, major classes being:
  - North America
  - Europe
  - Pacific Rim including Japan
  - Emerging Markets
- Global Bonds
- Overseas Index Linked Stocks
- Unquoted Equities via Pooled Funds
- Emerging Market Equities via Pooled Funds, unless specifically authorised
- Direct investment in private equity funds or fund of funds

The use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging. Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria.

Stock lending is permitted. The Pension Fund Board approved Northern Trust's appointment to operate the Pension Fund's lending programme in order to generate an additional income stream for the Pension Fund within approved risk parameters.

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There are statutory limits on the proportion of the Fund that can be invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013.

5. Investment Performance Targets and Benchmarks

Manager	**Portfolio**	**Benchmark Index**	**Performance Target**
UBS	UK Equities	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Marathon	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Newton	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Western	Fixed Income	70.0%: Markit i Boxx £ Non-Gilts ex-BBB All Stocks 30.0%: FTSE A UK Gilts – All Stocks	+0.75% p.a. (gross of fees) over rolling 3-year periods
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds N - UK Equity Index RX - World (ex UK) Dev Equity Index HN – World Emerging Markets Equity Index CN - AAA-AA-A Bonds - All Stocks Index Index-Linked Gilts	 FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging Markit iBoxx GBP Non Gilts ex BBB All stock Portfolio of single stock funds structured	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

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		by reference to Fund liabilities	
CBRE	Property	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5% p.a. (net of fees) over rolling 3-year periods
Standard Life	Diversified Growth GARS Split 70:30 GARS:GFS	6 month LIBOR	+5.0% p.a. (gross of fees) over rolling 3-year periods
Standard Life	Diversified Growth GFS Split 70:30 GARS:GFS	6 month LIBOR	+7.5% p.a. (gross of fees) over rolling 3-year periods
Internal	Private Equity	MSCI World Index	+5% p.a. (net of fees) over the life of the contract
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate

The overriding aim is to run the Pension Fund in accordance within the relevant legislation and subject to the following performance target: "to outperform the Surrey benchmark by 1% per annum over rolling 3-year periods, with a maximum underperformance of -2% in any one year."

The overall Surrey benchmark is shown below in detail.

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Core Active	Medium	0.75% - 2.0%
Concentrated Active	High	2.0 - 2.5%
Diversified growth	Medium	3.5% - 5%
Unconstrained	Medium	4% - 7%
Total	Medium	1%

The performance target for the private equity Funds is to outperform returns on quoted UK Equities (FTSE All Share Index) by 2% per annum.

6 Risk Measurement and Management

There are a number of risks to which any investment is exposed. The Pension Fund Board recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an appropriate overall level of investment risk, the Pension Fund Board seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Board aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The following risks are recognised and considered by the Pension Fund Board:

Mismatch risk: the primary risk upon which the Pension Fund Board focuses is the arising of a mismatch between the Fund's assets and its liabilities.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Pension Fund Board and is reviewed on a regular basis.

8

Diversification risk: the Pension Fund Board recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Pension Fund Board aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Pension Fund Board is also aware of concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

Liquidity risk: the Pension Fund Board recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Pension Fund Board believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Pension Fund Board will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place: 50% of its exposure to the US dollar, Euro and Yen.

The documents governing the appointment of each investment manager include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Managers are prevented from investing in asset classes outside their mandate without the Pension Fund Board's prior consent.

Arrangements are in place to monitor the Fund's investments to help the Pension Fund Board check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Pension Fund Board meets with the Investment Managers from time to time, and receives regular reviews from the Investment Managers and its investment advisors.

8 The safe custody of the Fund's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Fund's circumstances, the Pension Fund Board will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk exposure remains appropriate.

7 Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund Managers are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant, against their strategy, and to seek approval for variations to their strategies.

8 Policy on Realisation of Investments

Fund Managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

9 Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the Fund Actuary as the average expected future working lifetime of the scheme membership (20 years).

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The SIP will also be reviewed annually. A review of investment management arrangements is carried out at least every three years.

Investment management performance is reviewed annually upon receipt of the third party performance information. The individual manager's current activity and transactions are presented quarterly in discussion with the Pension Fund Board.

An Annual Meeting is held in November each year and is open to all Fund employers.

10 Stewardship and Responsible Investment

The Council wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial “extra-financial” 8
considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection.

The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Share voting is undertaken in-house, after consultation with fund managers, and consultation with the Pension Fund Board on potentially contentious issues. A quarterly report will be posted to the Fund website.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

11 Custody

Managers are required to hold cash and stocks in an account managed by Northern Trust, the Fund’s independent global custodian, or by agreement otherwise as appropriate. The Pension Fund aims to hold only a minimum working cash balance. A separate bank account is in place to hold any excess funds held by the administering authority for the purpose of day-to-day cash management of the pension fund.

12 Administration

Funds officers prepare a quarterly report to the Pension Fund Board, preparing the audited annual report and financial statements in line with statutory deadlines, and maintain an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly and resources are available to meet the benefit outflow as it arises.

Annex 1

Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

8

✓ **Full compliance**

The Pension Fund Board is supported in its decision making role by the Chief Finance Officer and the Pension Fund and Treasury Manager.

Members of the Pension Fund Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

✓ **Full compliance**

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

✓ **Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund. 8

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

✓ **Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to Pension Fund Board on a quarterly basis. Fund managers present to the officers or the Pension Fund Board on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Pension Fund Board, although options other than measuring meeting attendance and the success of the Board's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

✓ **Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

8

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

✓ **Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Pension Fund Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to all Fund members.

Core Belief Statement

This is the Core Belief Statement of the Surrey Pension Fund, which is administered by Surrey County Council (“the Administering Authority”).

The objective of the Statement is to set out the Fund’s key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund, strategic asset allocation and the selection of investment managers.

1 Investment Governance

1.1 The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund’s assets, such as private equity and cash. 8

1.2 Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist Pension Fund Board decisions.

1.3 The Fund is continuously improving its governance structure through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.

1.4 There can be a first mover advantage in asset allocation and category selection, but it is difficult to identify and exploit such opportunities, and may require the Fund to be willing to take on unconventional risk, thus requiring Board members to have a full understanding of the risk.

2 Long Term Approach

2.1 The strength of the employers’ covenant and the cash flow positive nature of the Fund allow a long term deficit recovery period and enable the Fund to take a longer term view of investment strategy than most investors.

2.2 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers.

2.3 Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

2.4 Participation in economic growth is a major source of long term equity return.

2.5 Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

2.6 Well governed companies that manage their business in a responsible manner will produce higher returns over the long term.

3 Appropriate Investments

3.1 Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private equity and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).

3.2 Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.

3.3 In general, allocations to bonds are made to achieve additional diversification. When the Fund approaches full funding level, it may also use bond based strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

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4 Management Strategies

4.1 Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

4.2 Active managers can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value.

4.3 The Fund believes that the long term case for value investing is compelling, but that it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.

4.4 Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.

4.5 Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

4.6 Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2013**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY**

SUMMARY OF ISSUE:

Shareholders have a clear interest in promoting the long term success of the companies in which they invest. As the ultimate owners of those companies, there is a clear incentive to vote the shares in a constructive way with the companies' long-term sustainability the ultimate objective. This paper will recommend that the Pension Fund take responsibility for the voting of its shares according to its own Responsible Investment and Stewardship Policy, a draft of which is attached to the paper. 9

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board approve and adopt the voting templates and the revised Responsible Investment and Stewardship Policy, shown in Annexes 1 and 2.

REASON FOR RECOMMENDATIONS:

It is regarded as best practice and in the interests of the pension fund for the Pension Fund Board to assume full responsibility for responsible investment practices and work to a sound responsible investment and stewardship policy.

DETAILS:

Background

1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholder owners and an implicit fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function.

2 Such a responsibility requires the adoption of an approved policy and the advice of a consultant skilled in this particular field.

Company Engagement

3 Despite the considerable efforts made by many UK pension funds, the perception remain that funds are failing in overseeing the activities of their investment managers and other agents to whom most delegate the responsibility for company engagement and share voting.

4 Effective engagement with companies on issues ranging from strategy and performance to risk and corporate governance can:

- protect funds against reputational risk;
- play a key role in controlling investment risk;
- help safeguard the fund against potential destruction in shareholder value.

5 The Surrey Pension Fund has long been a member of the Local Authority Pension Fund Forum (LAPFF), a membership group that represents 66 out of the 99 LGPS funds in the UK. The LAPFF has campaigned on many corporate governance issues and is recognised as an effective group in achieving its aims with regard to proper corporate standards within the companies it owns as a group. The Chairman of the Surrey Pension Fund Board was voted onto the LAPFF Executive in elections held on 21 January 2015.

9

6 Whilst this has gone a long way to achieving effective corporate standards in UK companies, there is a lot more that can be done by individual LGPS funds with regard to the individual companies that their portfolios hold.

Stewardship Code

7 The Stewardship Code is a set of principles or guidelines released in 2010 by the Financial Reporting Council (FRC), directed at institutional investors who own shares in UK listed companies ("quoted companies"). Its principal aim is to encourage institutional investors, who manage other people's money, to be active owners and engage with their investee companies so as to encourage them to act in the interests of their beneficiaries. The Pension Fund Board adopted The Stewardship Code and approved the Fund's commitment to the Code on 20 September 2013.

Share Voting

8 The Pension Fund adopting the Stewardship Code has fulfilled its role as an active shareholder through its active voting of the shares it owns. Share voting and company engagement has required officers to keep on top of a number of issues, such as:

- establishing governance preferences as owners of companies in which the fund is invested;
- tracking when corporate meetings are to take place;
- identifying contentious issues with companies in the portfolio;
- liaising with Board members on contentious issues;
- ensuring that voting preferences are expressed at the meeting;

9 Such complexity has been assisted with the services of an external consultant to advise on both share voting and the whole spectrum of company corporate governance. Manifest was appointed in 2013 and has demonstrated expertise in this specialised area.

Responsible and Stewardship Policy

10 In order to vote the Fund's shares efficiently, the Board approved a Responsible Investment and Stewardship Policy on 31 May 2013. The Financial Reporting Council (FRC) has recently completed its two-yearly review of changes to the UK Corporate Governance Code. This review followed earlier consultations on directors' remuneration, risk management, internal control and the going concern basis of accounting.

11 The Fund's corporate governance consultant, Manifest, has drafted revised voting templates. These are shown as Annex 1. As a result of the revised Code, a revised share voting policy needs to be considered and approved by the Board. The revised Policy is shown as Annex 2.

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12 The Pension Fund Board is invited to review the revised policy shown in Annex 2 and suggest any changes as appropriate.

CONSULTATION:

13 The Chairman elect of the Pension Fund Board has been consulted on the revised policy and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

14 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

15 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

16 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed revised voting policy offers an effective framework for the sound stewardship of the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

17 The legal context is set out in paragraph 1 of the report.

EQUALITIES AND DIVERSITY

18 The approval of a Responsible Investment and Stewardship Policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

20 The following next steps are planned:

- Approval of the revised Policy.
- Continuation of the quarterly reports to the Board on share voting.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

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Annexes:
Responsible Investment and Stewardship Policy

Sources/background papers:
None

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manifest
the proxy voting agency

Voting Template Updates 2015

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Effective Date:
Meetings Analysed on or after 2 March 2015

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The Manifest Voting Guidelines - Updates for 2015

In comparison to the significant number of regulatory changes introduced during 2013 which impacted corporate disclosures during the 2014 proxy season the 2014 corporate regulatory development scene has been relatively quiet. We have taken this opportunity to expand the coverage of certain Policy Questions and Resolution Guidelines as described in the document and introduce new Policy Questions centred on emerging best practice and regulatory developments.

A NAPF pre-set Voting Template has been set up allowing clients to adopt the 2015 NAPF Voting Policy in the UK market if desired. In order to cater for this amendments to the Manifest Template have been made to ensure all substantive issues raised by the NAPF Voting Policy are captured.

The first part of the document details the new Policy Questions and Resolution Guidelines that have been added to the Manifest Template. The following section details all changes made to the template, including the new Policy Questions and any alterations to existing Policy Questions, providing guidance on how and why the changes have been made. Lastly we identify the revisions to corporate governance codes that have been published during the year.

Changes to the Manifest Voting Guidelines will become effective for meetings analysis commenced by the Manifest team for companies with 31st December year-ends or later. In practice, the new guidelines will therefore be used for meetings held approximately on or after 20 March 2015. 9

1 New Resolution Guidelines

From 2 March 2015 the following new Resolution Guidelines will be available for the first time. Following the introduction of the Statutory Audit Services for Large Companies Market Investigation Order 2014 UK-listed companies will start putting forward the Audit Committee Report for a shareholder advisory vote, although not required until by 2016 there may be early adopters during this season. As Risk management comes up more and more on the corporate agenda Manifest has introduced Resolution Guidelines for the elections of Risk Committee members based on the recommendations of the Walker Review on Risk Committee composition.

1.1 Other Management Proposals

RESOLUTION CATEGORY	SUB-CATEGORY	RESOLUTION GUIDELINE	NOTES
Audit & Reporting	Report & Accounts	Audit Committee Report	UK – where an advisory vote of the audit committee report is put forward
Board	Directors - Elect	Director Election – Chairs Risk Com	UK – where a Company has a risk committee the guidelines are applied to the (re-)election of risk committee members.
Board	Directors - Elect	Director Election – Sits Risk Com	

2 New Policy Questions

The following new Policy Questions have been created, which can be applied to various Resolution Guidelines as described further below.

2.1 Audit & Reporting

ISSUE TYPE	NUMERIC IDENTIFIER	POLICY QUESTION	NOTES
Financial Reporting	1331	The directors have not confirmed the Company's long-term viability.	UK – new UK Code recommends the Board confirms the longer-term viability in addition to the going concern statement.
Auditor	1334	The tenure of the auditor has not been disclosed.	Reflects recent regulatory developments in the EU.
Auditor	1335	The auditor entity had changed and there is no explicit reassurance on changes to auditor liability disclosed.	UK – picks up on an overlooked contentious issue.
Auditor	1349	The auditors report includes an adequate explanation of how key audit matters were addressed in the audit including why the matter was considered to be significant, how the matter was addressed and a reference to the related disclosure.	IASB guidance on Audit Report report content
Disclosure	1332	The Company has a controlling shareholder and no relationship agreement has been disclosed.	Follows best practice and picks up on a concern identified in the NAPF voting policy.
Disclosure	1333	The Company has not complied with current FRC guidance regarding the Audit Committee Report Criteria (Source FRC 2012): 1. the issues that informed the boards' assessment of whether the company was a going concern 2. how these issues were addressed 3. how any matters communicated by the auditors to the audit committee were addressed.	For use in the UK on advisory votes on the Audit Committee Report.

2.2 Board

ISSUE TYPE	NUMERIC IDENTIFIER	POLICY QUESTION	NOTES
Board Operation	1329	No performance evaluation process in place for the Board, individual directors and the executive board and there is no resolution to approve the report and accounts.	Allows for a more focused approach on Company disclosures.
Corporate Social Responsibility	1330	The Company has not included a section on environmental issues in the annual report or on the Company website and there is no resolution to approve the report and accounts.	
Board Operation	1325	Since the last AGM, the Board have unilaterally amended the governing documents without shareholder approval.	For use with United States incorporated companies.
Board Operation	1327	The Board have amended the governing documents since the last AGM in circumstances where shareholder rights have been diminished.	
Board Operation	1328	The Board have excluded a shareholder proposal without formal regulatory consent.	Follows recent controversies in the US.
Risk Committee	1346	The Chairman of the Audit Committee is Chairman of the Risk Committee.	Follows emerging best practice on risk committees.
Risk Committee	1348	Nominee is a non-independent member of the Risk Committee and the percentage of the Risk Committee considered to be independent is less than [VALUE]	
Risk Committee	1347	The Company has not identified at least one director on the Risk Committee as being a financial expert	

2.3 Remuneration

ISSUE TYPE	NUMERIC IDENTIFIER	POLICY QUESTION	NOTES
Remuneration - Policy	1336	The proposal seeks shareholder approval of an award outside the remuneration policy.	Follows recent controversies in the UK and best practice.
Remuneration - Extraordinary	1337	The Company has offered termination/severance payments in excess of a 'normal' award under the existing incentive arrangements.	Reflects emerging best practice on severance payments.
Disclosure	1339	Internal board appointment has been made and remuneration is not disclosed.	Follows recent controversies in the UK and GC100 Guidance on remuneration disclosure.
Salary	1340	There is no justification from the Company for above employee salary increases.	UK, US, Canada, IRE - In addition to the existing question on above inflation salary increase this focuses on demonstrating sensitivity of executive pay to pay elsewhere.
Disclosure	1341	The Company have reported pay against comparator group not based on employees generally and have not provided an explanation.	This follows emerging regulatory concern .
Bonus Performance	1342	The Company disclosures provides evidence of malus/forfeiture measures and no clawback in respect of the annual incentive.	New version of existing question with a clearer approach separating malus and clawback provisions.
LTIP Performance	1343	The Company disclosures provides evidence of malus/forfeiture measures and no clawback in respect of the Long-term incentives.	
Bonus Performance	1344	Concerns have been identified with the suitability of the Annual Bonus performance benchmark.	To cater for the continued use of the Manifest Remuneration Assessment and NAPF identified concerns.
LTIP Performance	1345	Concerns have been identified with the suitability of the LTIP performance benchmark.	
LTIP Performance	1338	The Company has utilised over frequent re-benchmarking.	
NED Remuneration	1319	The aggregate fees paid to the NEDs increased from the prior year by more than [VALUE]	For resolutions to approve the fees to be paid to the directors for the current/coming year.
NED Remuneration	1318	The additional fee and/or meeting attendance fee rates for the coming year will increase by more than [VALUE]	
NED Remuneration	1317	The fee rate for the coming year will increase by more than [VALUE]	

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2.4 Investment Decisions

ISSUE TYPE	NUMERIC IDENTIFIER	POLICY QUESTION	NOTES
Dividends	1316	The dividend has fallen by more than <VALUE>	For use in with companies listed on United Kingdom – Official List and Ireland.
Share Capital & Reserves	1320	The proposed authority exceeds <VALUE>	For use with Netherlands incorporated companies.
Share Capital & Reserves	1321	The proposed authority (for use in mergers & acquisitions) exceeds <VALUE>	

2.5 Other Changes to Policy Questions

There have been some minor changes to the text of various Policy Questions mainly for clarification or to improve consistency across all Policy Questions.

3 Changes to Voting Template

This section includes all changes to the Voting Template implemented since the publication of the last Template Update document in March 2014 to provide an opportunity for clients to review all recent changes.

3.1 Audit & Reporting

RESOLUTION CATEGORY	Audit & Reporting	
RESOLUTION SUB-CATEGORY	Reports & Accounts	
RESOLUTION GUIDELINE	ACR	Audit Committee Report

The Competition Commission (now the Competition & Markets Authority) published its report into competition for the audit of large listed companies in October 2013. One of the proposals was that the Audit Committee report should be subject to annual shareholder approval. The proposal was that the vote should be advisory. It is likely that companies will start to put the Audit Committee report to the vote in greater numbers ahead of the FRC addressing this issue in its planned 2016 review of the UK Corporate Governance Code.

Following the publication of "*Guidance on Audit Committees*" by the Financial Reporting Council in 2012 the quality of the disclosure of Audit Committee reports will be assessed considering whether the report is in line with the guidance by omitting any of the following a) the issues that informed the boards' assessment of whether the company was a going concern b) how these issues were addressed c) how any matters communicated by the auditors to the audit committee were addressed.

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Further Reading:
https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Audit-Committees-September-2012.aspx

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Disclosure	1333	The Company has not complied with current FRC guidance regarding the Audit Committee Report Criteria (Source FRC 2012): 1. the issues that informed the boards' assessment of whether the company was a going concern 2. how these issues were addressed 3. how any matters communicated by the auditors to the audit committee were addressed.	02/03/2015
Meeting Resolutions	890	The Board does not recommend a vote For the proposal.	02/03/2015
Meeting Resolutions	891	The Board does not provide a recommendation on this proposal.	02/03/2015
Other contentious items	844	Some other contentious issue has been identified which is not otherwise captured by the guidelines.	02/03/2015

RESOLUTION CATEGORY	Audit & Reporting	
RESOLUTION SUB-CATEGORY	Auditor - Election	
RESOLUTION GUIDELINE	ADT	Auditor - Appointment

Following client request Policy Question 1178 has been expanded for universal coverage, whereas before the Policy Question was only applied in the United Kingdom and Ireland.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Auditor	1178	The auditor has been in place for more than seven years and there is no evidence that a recent tender (last 3 years) has been undertaken or is planned.	02/03/2015

The International Auditing and Assurance Standards Board released its revised auditor reporting standards that are designed to significantly enhance auditors' reports. The audit report is now required to include "key audit matters" which the auditor considers to be most significant with an explanation of how they were addressed in the audit. The new standards will be effective for audits of periods ending 15th December 2016 or later.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Auditor	1349	The auditors report includes an adequate explanation of how key audit matters were addressed in the audit including why the matter was considered to be significant, how the matter was addressed and a reference to the related disclosure.	02/03/2015

The Policy Question below focuses on a UK specific issue and allows clients to consider whether it regards LLP status as an appropriate device to limit auditor liability. All UK audit firms now have this status however there have recently been a series of article changes requiring shareholder approval which sanction a change from plc to LLP, essentially a change of legal entity. The liability issue here is not straightforward. The two entities have the same access to the assets of the audit group going forwards however it is possible that the change to the new LLP status puts a ceiling on claims against the old entity which will no longer bring in new cash because it will cease to conduct audit engagements. This matters if shareholders are involved in legal action against any company where plc was the auditor and where the action may extend to the auditor. The Policy Question flags those companies which made this change during the year but failed to provide an explicit reassurance of the possible impact on liability and described the transition as a purely administrative matter. The Policy Question is available on the UK - Official List, AIM, and Investment Trust templates.

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ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Auditor	1335	The auditor entity had changed and there is no explicit reassurance on changes to auditor liability disclosed.	02/03/2015

RESOLUTION CATEGORY	Audit & reporting	
RESOLUTION SUB-CATEGORY	Report & Accounts	
RESOLUTION GUIDELINE	FIN	Financial Statements

Directors of listed companies incorporated in the UK are required by Listing Rule 9.8.6R(3) to include in their annual financial report a statement that the business is a going concern, together with supporting assumptions or qualifications as necessary. The revised UK Corporate Governance Code now requires companies with an accounting period starting 1st October 2014 or later to include a statement in their reporting on whether it is considered appropriate to adopt the going concern basis of accounting. In addition companies should now also state whether they believe they will be able to continue in operation and meet their liabilities taking account of their current position and principal risks. In particular companies are asked to specify the period covered by this viability statement and provide a reason why the chosen period is appropriate. The inclusion of the directors' opinion on appropriate accounting and viability statement is in response to the conclusions of the 2012 Sharman Inquiry into Going Concern and Liquidity risk. Policy Question 1331 has been introduced in order to cover the new required viability statement.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Financial Reporting	1331	The directors have not confirmed the Company's long-term viability	02/03/2015

Policy Questions 1126, 1160 and 1161 have been added to the financial statements guideline allowing clients to consider diversity disclosures on the approval of the report and accounts in line with the NAPF Voting Policy.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Board Diversity	1126	The Company has not disclosed a policy on Board diversity	02/03/2015
Board Diversity	1161	The Company has not disclosed the proportion of women on the board, women in senior executive positions and female employees in the whole organisation.	02/03/2015
Board Diversity	1160	The Company, being a large/mid cap constituent, has not disclosed a gender diversity target	02/03/2015

The following two Policy Questions have had their coverage expanded. Prior to expansion 996 was only applied to investment trusts, the Policy Question can now be applied to the UK - Official List. Policy Question 77 can now be applied to AIM listed companies.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Board Composition	996	The number of non-executive directors that have served in excess of nine years exceeds [VALUE]	02/03/2015
Meeting Resolutions	77	The Board does not propose a resolution to approve the company's remuneration report or policy.	02/03/2015

The FCA published Listing Rules (Listing Regime Enhancements) Instrument 2014 (FCA 2014/33) in May 2014 which applies to Premium Listed companies with a 'controlling shareholder' (defined as holding individually or through a concert party 30% of the voting rights). The revised rules states that the parties will have to enter into a relationship agreement and the annual report will include a statement by the directors that it has entered into the relationship agreement and that it has complied with the independence provisions of the agreement. In addition, the election of independent non-executive directors will need to be approved both by the shareholders as a whole and by the independent shareholders under a new dual voting structure. The below Policy Question has been introduced and has been applied to the universal template and all market templates.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Financial Reporting	1332	The Company has a controlling shareholder and no relationship agreement has been disclosed.	02/03/2015

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3.2 Board

RESOLUTION CATEGORY	Board	
RESOLUTION SUB-CATEGORY	Directors - Elect	
RESOLUTION GUIDELINE	CHN	Director Election - Chairman

Policy Questions 1329 and 1330 follow a more focused approach that is now generally taken by clients – rather than voting against both the report and accounts and the chairman on these policy issues, clients have preferred to consider the issue when voting on the approval of the report and accounts and on the chairman (re-)election resolution when there is no report and accounts resolution put forward. In order for the new Policy Questions to apply a client would need to turn off CHN.73 and CHN.546 and switch on the two new Policy Questions.

Policy Questions 1325 and 1327 focus on cases where the Board in the US have made amendments to the Company's governing documents without shareholder approval, a potentially contentious issue particularly when the amendments diminish shareholder rights.

Policy Question 1328 captures the issue whereby a Board have sought to exclude a shareholder proposal without the granting formal regulatory consent, the issue around proxy access and SEC no-action relief letters in the United States is representative of this emerging issue[1].

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Board Operation	1330	No performance evaluation process in place for the Board, individual directors and the executive board and there is no resolution to approve the report and accounts.	02/03/2015
Sustainability	1329	The Company has not included a section on sustainability issues in the annual report or on the Company website and there is no resolution to approve the report and accounts.	02/03/2015
Board Operation	1325	Since the last AGM, the Board have unilaterally amended the governing documents without shareholder approval.	02/03/2015
Board Operation	1327	The Board have amended the governing documents since the last AGM in circumstances where shareholder rights have been diminished.	02/03/2015
Board Operation	1328	The Board has excluded a shareholder proposal without formal regulatory consent.	02/03/2015

RESOLUTION CATEGORY	Board	
RESOLUTION SUB-CATEGORY	Directors - Elect	
RESOLUTION GUIDELINE	NED	Director Election – Non-executive/Sup Board

Policy Question 1001 has been expanded to cover the United Kingdom in relation to the new Listing Rules on controlling shareholders as above and universal templates.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Board Composition	1001	There is a controlling shareholder and the (non-executive) candidate is not independent and the number of independent directors on the Board comprises less than [VALUE]	02/03/2015

[1] http://blog.manifest.co.uk/2015/01/6658.html#sthash.oztbfa1X.dpbs

RESOLUTION CATEGORY	Board	
RESOLUTION SUB-CATEGORY	Directors - Elect	
RESOLUTION GUIDELINE	OFF	Director Election - All Directors [Single]

As Director Election – Chairman, above. This is intended to capture the policy issues on all director elections, this would be relevant in cases where the chairman is not standing for election, in the United States and other counties companies do not necessarily hold annual director elections.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Board Operation	1325	Since the last AGM, the Board have unilaterally amended the governing documents without shareholder approval.	01/02/2015
Board Operation	1327	The Board have amended the governing documents since the last AGM in circumstances where shareholder rights have been diminished.	01/02/2015
Board Operation	1328	The Board have excluded a shareholder proposal without formal regulatory consent.	02/03/2015

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3.3 Committees

RESOLUTION CATEGORY	Board	
RESOLUTION SUB-CATEGORY	Directors - Elect	
RESOLUTION GUIDELINE	CAC	Director Election – Audit Committee Chairman

Following the introduction of the EU Audit Directive which entered into force on 16 June 2014 and new EU regulation on specific requirements regarding audit of public interest entities, companies are required to put their audit to tender after a maximum period of ten years. As a result a new Policy Question has been introduced to flag up when a Company does not disclosure the tenure of the auditor, the question has been added to the universal template and will therefore also capture this issue on companies incorporated outside of the EU.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Auditor	1178	The auditor has been in place for more than seven years and there is no evidence that a recent tender (last 3 years) has been undertaken or is planned.	02/03/2015
Auditor	1334	The tenure of the auditor has not been disclosed.	02/03/2015
Auditor	1335	The auditor entity had changed and there is no explicit reassurance on changes to auditor liability disclosed.	02/03/2015

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RESOLUTION CATEGORY	Board	
RESOLUTION SUB-CATEGORY	Directors - Elect	
RESOLUTION GUIDELINE	CRR	Director Election – Risk Committee Chairman

The new and broader view of risk and the need for improved risk management following the global financial crisis has lead to boards increasingly considering the need for a Risk Committee. These new policy questions are informed by the new joint guidance which The Federation of Risk Management Associations and the European Confederation of Institutes of Internal Audit have produced that includes recommendations regarding Risk Committee composition.

Further reading: http://fr.slideshare.net/FermaForum/ferma-eciia-joint-guidance-audit

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Risk Committee	1346	The Chairman of the Audit Committee is Chairman of the Risk Committee.	02/03/2015
Risk Committee	1348	Nominee is a non-independent member of the Risk Committee and the percentage of the Risk Committee considered to be independent is less than [VALUE]	02/03/2015
Risk Committee	1347	The Company has not identified at least one director on the Risk Committee as being a financial expert	02/03/2015

RESOLUTION CATEGORY	Board	
RESOLUTION SUB-CATEGORY	Directors - Elect	
RESOLUTION GUIDELINE	SRR	Director Election – Risk Committee Member

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Risk Committee	1348	Nominee is a non-independent member of the Risk Committee and the percentage of the Risk Committee considered to be independent is less than [VALUE]	02/03/2015

3.4 Remuneration

RESOLUTION CATEGORY	Remuneration
RESOLUTION SUB-CATEGORY	Remuneration - Policy (Overall)
RESOLUTION GUIDELINE	RPO Remuneration Policy

Following the introduction of this new Resolution Guideline in 2014 the guideline has had its coverage expanded to the German market where remuneration policy votes are a regular item of meeting business, as well as on the universal template. The Policy Questions chosen have been primarily those which are forward-looking in nature. All Policy Questions in the table below are existing Policy Questions.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Remuneration - Performance Linkage	157	There is no disclosed policy whereby directors must build or maintain a minimum shareholding level	02/03/2015
Pension	294	Incentive pay is pensionable	02/03/2015
Bonus Structure	296	The upper bonus cap for any of the executive directors/CEO, where set and disclosed, as a percentage of salary exceeds [VALUE]	02/03/2015
Disclosure	680	The Company has not provided sufficient background data in respect of this resolution to enable an informed voting decision to be made.	02/03/2015
Bonus Structure	711	No upper individual limit been set and or where an upper limit has not disclosed for the annual bonus scheme	02/03/2015
Corporate Social Responsibility	717	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration	02/03/2015
LTIP Participation	740	Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan	02/03/2015
Bonus Performance	757	The nature of the targets utilised under the bonus scheme are not disclosed	02/03/2015
LTIP Performance	803	The performance conditions are not disclosed	02/03/2015
Service Contracts - Notice	819	The number of months the maximum notice period, other than for new appointees, exceeds [VALUE]	02/03/2015
Bonus Performance	841	The Company disclosures do not provide any evidence of clawback or malus/forfeiture measures in place in respect of the short-term incentives.	02/03/2015
LTIP Performance	842	The Company disclosures do not provide any evidence of clawback or malus/forfeiture measures in place in respect of the long-term incentives.	02/03/2015
Other contentious items	844	Some other contentious issue has been identified which is not otherwise captured by the guidelines.	02/03/2015
Remuneration - Performance Linkage	845	There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators	02/03/2015
NED Remuneration	851	Certain non-executive directors receive remuneration other than director fees and expenses.	02/03/2015
Service Contracts - Severance	917	The number of months' salary the maximum potential severance payment in the event of early termination of any of the directors' employment exceeds[VALUE]	02/03/2015
Remuneration - Policy	978	The aggregate maximum potential incentive pay as a percentage of salary for the CEO in respect of the year exceeds [VALUE]	02/03/2015
Remuneration - Policy	1040	The Manifest Executive Remuneration Assessment grade received is equal to or below [VALUE]	02/03/2015
Salary	1121	The percentage change in salary for the lead executive is set to increase by more than [VALUE]	02/03/2015
Remuneration - Total	1123	The projected percentage change in total remuneration for the lead executive is calculated to exceed [VALUE]	02/03/2015
Salary	1169	Concerns have been identified in relation to the choice of the salary peer group.	02/03/2015
LTIP Performance	1177	There may be concerns as to whether the LTIP targets as disclosed are sufficiently challenging.	02/03/2015

Remuneration - Policy	1247	The proposals will have a negative impact on the remuneration grade	02/03/2015
LTIP Performance	1248	The percentage of LTIP awards subject to performance conditions is less than [VALUE]	02/03/2015
LTIP Performance	1249	The minimum time between grant and the first release of the award is less than [VALUE]	02/03/2015
LTIP Performance	1250	The minimum time between grant and the first performance test is less than [VALUE]	02/03/2015
LTIP Participation	1253	The number of operational LTIP plans exceed [VALUE]	02/03/2015
Remuneration - Policy	1254	A shareholding requirement is in place, but there may be concerns that this is not sufficiently material, it (as a percentage of salary) is less than [VALUE]	02/03/2015
LTIP Performance	1255	The disclosures provided do not include full detail of the performance conditions to apply for the LTIP plan in the coming year.	02/03/2015
Remuneration Committee	1256	Concerns have been identified in relation to the composition of the Remuneration Committee	02/03/2015
Corporate Social Responsibility	1258	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration and the Company operates in an environmentally sensitive sector	02/03/2015
Remuneration - Policy	1302	The remuneration policy provides for the use of blanket discretion	02/03/2015
Voting Results History	883	For this resolution last time, what was dissent%? (0 if not discl/no previous)	02/03/2015

9

The following new Policy Questions have been added as part of the ongoing developments of remuneration assessment.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Bonus Performance	1342	The Company disclosures provides evidence of malus/forfeiture measures and no clawback in respect of the annual incentive.	02/03/2015
LTIP Performance	1343	The Company disclosures provides evidence of malus/forfeiture measures and no clawback in respect of the Long-term incentives.	02/03/2015
Bonus Performance	1344	Concerns have been identified with the suitability of the annual incentive performance benchmark	02/03/2015
LTIP Performance	1345	Concerns have been identified with the suitability of the LTIP performance benchmark	02/03/2015

Following a client request the below four Policy Questions have been added to the United Kingdom – Official List remuneration policy guideline whereas before they applied to the remuneration report guideline.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Service Contracts - Severance	897	'Accelerated vesting of LTIP awards on termination is permitted for any of the executive directors (i.e. vesting of awards not pro-rated down on termination following a change of control)	08/01/2015
Pension	1146	Of the executive directors serving during the year, the largest pension contribution rate (as a percentage of salary) exceeds [VALUE]	08/01/2015
Pension	309	Executive pensions accrue at a preferential rate compared to ordinary employees	08/01/2015

RESOLUTION CATEGORY	Remuneration	
RESOLUTION SUB-CATEGORY	Remuneration – Non-executive	
RESOLUTION GUIDELINE	FPY	NED Remuneration - Fees proposed for year

The following three Policy Questions allow clients to consider increases in NED remuneration on resolutions seeking to approve the fees to be paid to the directors for the current or the coming year.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
NED Remuneration	1319	The aggregate fees paid to the NEDs increased from the prior year by more than [VALUE]	21/3/2014
NED Remuneration	1318	The additional fee and/or meeting attendance fee rates for the coming year will increase by more than [VALUE]	21/3/2014
NED Remuneration	1317	The fee rate for the coming year will increase by more than [VALUE]	21/3/2014

RESOLUTION CATEGORY	Remuneration	
RESOLUTION SUB-CATEGORY	Remuneration - Report	
RESOLUTION GUIDELINE	REP	Remuneration Report

The following new remuneration Policy Questions have been introduced for the 2015 season.

Policy Question 1337 allows clients to consider termination payments that go beyond normal incentive arrangements. The template already offers a similar Policy Question in relation to recruitment awards.

NAPF suggest a possible against vote on the remuneration report when a company utilises over frequent re-benchmarking of awards, in order to cover this issue a new Policy Question has been introduced.

Policy Question 1339 is intended to capture cases where a Board makes an internal appointment to the Board from within the Company and do not disclose his or her remuneration, while a Company does not have to technically disclose such information as the new appointment was not a member of the board prior to appointment it is considered best practice to do so, this issue becomes more of a substantive issue if the Company has paid retention or promotion awards to the appointee. GC100 Guidance on remuneration disclosures recommends that a Company should disclose the same remuneration details for internal appointments as for external hires.

The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 requires companies to compare pay increases for executives with the wider workforce. However from our experience companies may utilise an employee comparator group that contravenes the spirit of the regulations. Policy Question 1341 flags those companies that have used employee comparator groups that comprise less than 40% of company employees. Staying on the issue of demonstrating sensitivity to employee pay, Policy Question 1340 raises concern with those companies that have granted a greater percentage rate of director salary increase than rate of all employee salary increase without a meaningful explanation. 9

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Remuneration - Extraordinary	1337	The Company has offered termination/severance payments in excess of a 'normal' award under the existing incentive arrangements	02/03/2015
Disclosure	1339	Internal Board appointment has been made and remuneration not disclosed.	02/03/2015
LTIP Performance	1338	The Company has utilised over frequent re-benchmarking	02/03/2015
Salary	1340	There is no justification from the Company for above employee salary increases	02/03/2015
Disclosure	1341	The Company have reported pay against comparator group not based on employees generally and have not provided an explanation.	02/03/2015

RESOLUTION CATEGORY	Remuneration	
RESOLUTION SUB-CATEGORY	Remuneration – Amount (Total, Individual)	
RESOLUTION GUIDELINE	LTI	Long-term Incentive Plans

Policy Question 1336 is intended to flag resolutions that specifically seek shareholder approval to grant an incentive award that is outside of the scope of the shareholder approved remuneration policy. It is intended as a flag for client review of such proposals.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Remuneration - Policy	1336	The proposal seeks shareholder approval of an award outside the remuneration policy.	02/03/2015

3.5 Sustainability

RESOLUTION CATEGORY	Sustainability	
RESOLUTION SUB-CATEGORY	Political Activity	
RESOLUTION GUIDELINE	PDA	Authorise Political Donations & Expenditure

Following a client request the political donations and expenditure guideline has been expanded beyond just the UK Company Law and Other Incorporated templates to the Universal template. This allows for voting guidance to be provided regardless of listing and/or incorporation, covering Companies listed in the UK but incorporated elsewhere, e.g. Guernsey, Jersey etc as well as any other markets/incorporations.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Donations	316	The number of months for which the authority is sought exceeds [VALUE]	25/11/2014
Donations	462	The Company has failed to give an assurance that no donations to political parties will be made.	25/11/2014
Donations	463	The amount of the proposed authority exceeds GBP[VALUE]	25/11/2014
Donations	824	Direct contributions (rather than political expenditure) have been made to political parties during the last reported period	25/11/2014
Meeting Resolutions	890	The Board does not recommend a vote For the proposal.	25/11/2014
Meeting Resolutions	891	The Board does not provide a recommendation on this proposal.	25/11/2014
Other contentious items	844	Some other contentious issue has been identified which is not otherwise captured by the guidelines.	25/11/2014

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3.6 Investment Decisions

RESOLUTION CATEGORY	Capital	
RESOLUTION SUB-CATEGORY	Dividends	
RESOLUTION GUIDELINE	ORD	Dividends - Ordinary

Policy Question 1316 was introduced following a client request. It is applied to Companies in the UK and Ireland where the dividend has fallen relative to the prior year on the resolution to approve the ordinary dividends.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
NED Remuneration	1316	The dividend has fallen by more than <VALUE>	11/3/2014

RESOLUTION CATEGORY	Capital	
RESOLUTION SUB-CATEGORY	Issue of Shares & Pre-emption Rights	
RESOLUTION GUIDELINE	ISO	Auth Board to Issue Shares
RESOLUTION GUIDELINE	DPR	Auth Board to Issue Shares w/o Pre-emption

Following new requirements in the Netherlands on capital authorities Policy Questions 1320 and 1321 have been introduced.

ISSUE TYPE	ID	POLICY QUESTION	DATE EFFECTIVE
Share Capital & Reserves	1320	The proposed authority exceeds <VALUE>	03/4/2014
Share Capital & Reserves	1321	The proposed authority (for use in mergers & acquisitions) exceeds <VALUE>	03/4/2014

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3.7 Ceased Resolution Guideline and Policy Questions

The GES analysis guideline has been ceased in the Manifest template a long with associated Policy Questions.

RESOLUTION CATEGORY	Audit & Reporting	
RESOLUTION SUB-CATEGORY	Report & Accounts	
RESOLUTION GUIDELINE	GES	Financial Statements - GES Analysis

ISSUE TYPE	ID	POLICY QUESTION	DATE CEASED
GES	985	Where the Company has been subject to <variable> GES Alerts or Extended Alerts in the past 24 months	14/10/2014
GES	986	The Company is not compliant with GES Global Ethical Standard analysis against UN Global Compact Principles 1 and 2 and OECD Guideline 2 on human rights and progress of the human rights case is equivalent to or less than [VALUE]	14/10/2014
GES	987	The Company is not compliant with GES Global Ethical Standard analysis against UN Global Compact Principle 3 on labour standards and OECD Guideline 4 on employment and progress of the labour standards/employment case is equivalent to or less than[VALUE]	14/10/2014
GES	988	The Company is not compliant with GES Global Ethical Standard analysis against UN Global Compact Principles 7-9 and OECD Guideline 5 on environment and progress of the environment case is equivalent to or less than[VALUE]	14/10/2014
GES	989	The Company is not compliant with GES Global Ethical Standard analysis against UN Global Compact Principle 10 and OECD Guideline 6 on corruption and progress of the corruption case is equivalent to or less than [VALUE]	14/10/2014
GES	990	The GES Risk Rating score for Environment is less than [VALUE]	14/10/2014
GES	991	The GES Risk Rating score for Human Rights is less than [VALUE]	14/10/2014
GES	992	The GES Risk Rating score for Governance is less than [VALUE]	14/10/2014

4 Corporate Governance Code Updates

While compared to the last few years this year has seen a relatively smaller number of regulatory developments there have been a number of corporate governance code updates during the year. The table below details the codes revised during the year and the codes currently under consultation.

MARKET	TITLE	PUBLISHED
EUROPE		
Denmark	Recommendations on Corporate Governance	November 2014
Germany	Germany Corporate Governance Code	June 2014
Italy	Codice di Autodisciplina	July 2014
Norway	The Norwegian Code of Practice for Corporate Governance	October 2014
Portugal	Codigo de Governo das sociedades	January 2014
Russia	Russian Code of Corporate Governance	April 2014
United Kingdom	The UK Corporate Governance Code	September 2014
INTERNATIONAL		
Global	ICGN Global Governance Principles	August 2014
Global	OECD Principles of Corporate Governance	November 2014
REST OF THE WORLD		
Australia	Corporate Governance Principles and Recommendations	April 2014
Kenya	Draft Code of Corporate Governance Practices for Public Listed Companies in Kenya	May 2014
Malta	Corporate Governance Manual for Directors of Investment Companies and Collective Investment Schemes	September 2014
New Zealand	Corporate Governance in New Zealand – Principles and Guidelines	January 2015
Pakistan	Corporate Governance Code	January 2014
Philippines	Code of Corporate Governance	June 2014
UNDER CONSULTATION		
Japan		
Netherlands		
Romania		
Sweden		

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Annex 2

Responsible Investment and Stewardship Policy

1 Introduction

1.1 Surrey Pension Fund (the Fund) aims to be an informed and responsible long term shareholder of the companies in which it invests. 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 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.

1.2 The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.

1.3 The fund complies with the Myners Principles of investment management and the UK Stewardship Code, the seven principles of which are shown below at section 5.

1.4 The Fund will review its Responsible Investment and Stewardship Policy annually. The Fund's officers will carry out this review and propose any changes to the Pension Fund Board for consideration. 9

2 Scope

2.1 The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, we will focus our attention on the quality of our major asset holdings, i.e., UK, EU, US, Far East and emerging markets assets.

2.2 The Fund supports the 'comply or explain' principles of The United Kingdom Corporate Governance Code (the Code), and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.

2.3 Corporate governance principles and standards vary from market to market, and so the Fund's voting policy allows for some flexibility and discretion with due consideration to local circumstances.

3 General Principles

3.1 In general, the Fund aims to support corporate management in their stewardship role. This document sets out the Fund's high level voting principles and the circumstances where the Fund may override support for company management proposals. In general, where the Fund cannot support management, it will positively abstain or withhold a vote but, in certain cases, reserves the right to vote against company management.

3.2 In ordinary circumstances, the Fund delegates individual corporate engagement activity to its investment managers. The Fund will, however, consider engaging on a collective basis with other investors on issues of mutual interest.

4 Voting Policy

4.1 Audit & Accountability

The audit and financial reporting process affords investors significant protections by ensuring that management has effective internal controls and financial reporting systems.

Auditor independence may be compromised if the same firm has audited the company for a long time, or where the firm earns significant fees from non audit services. In order to help maintain auditor objectivity, we would expect companies to consider submitting the audit function to periodic tender, and to disclose their policy on tendering, including when the audit was last put to tender and when the incumbent audit firm was appointed.

- **Approval of Financial Statements**

Where there is a qualified audit statement; where there is uncertainty about the future viability of the business; where there is a restatement of annual results made in the previous year (apart from where adapting to new regulations); or where there are concerns of fundamental significance, the Fund will consider approval on a case by case basis.

9

- **Removal of Auditors**

Surrey Pension Fund will normally vote with management on proposals for the removal of auditors, unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case by case basis.

- **Extra Financial Reporting**

Companies should have regard to the environmental and societal risks and impacts of their operations as these can have a material impact on shareholder returns over a variety of time horizons. We believe that it is good management practice to assess and report on material “Extra Financial” risks associated with the governance of environmental and sustainability issues. Where we consider that disclosure on these risks is inadequate, the Fund will withhold its vote on the annual report or a suitable alternative resolution, where available, such as the sustainability report.

4.2 The Board & Committees

- **Nomination & Succession Planning**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should have plans in place for orderly succession and the policies relating to this should be disclosed in the Company’s annual report.

- **Committee Independence**

Audit, Remuneration and Nomination committees are key components of effective governance for companies. These committees should be composed entirely of independent non-executive directors; the Fund may therefore abstain from a director’s election if they are an executive or non-independent director on the Remuneration Committee.

Committees should be composed of individuals with adequate professional understanding of the matters to be resolved. This is particularly the case for the audit and risk committee. The fund may choose to abstain where there is insufficient evidence of appropriate competencies.

- **Separation of Chairman & Chief Executive Officer (CEO)**

The Fund believes the roles of Chairman and CEO should be separate. There may be individual circumstances where it is necessary to combine the roles for a specified purpose or over a period of time, in which case we will take account of the explanations provided. In all other circumstances, the Fund will abstain on the election of the Chairman.

- **Board Balance and Diversity**

Companies should seek to ensure that their boards are balanced for appropriate skills, competence and experience. Diversity of gender and experience are equally important and we expect to see clear disclosure from companies about their efforts to address gender imbalance and, in particular, how they aim to reach at least 30% female representation. 9

- **Notice Periods**

Evidence of reward for failure has lead to shareholder concerns over the length of notice periods for directors which have been used in the past to inform severance pay levels. Where the terms of executive pay policy allow overly generous severance pay on early termination of an executive contract, the fund may choose to register concern via an abstention vote.

Director notice periods are significantly important. Where an executive director's notice period exceeds twelve months or where severance pay exceeds an equivalent of twelve months, the Fund may abstain from voting.

- **Removal of Directors**

Where there is a proposal to remove a director, the Fund will vote against it unless the proposal has Board support and it is uncontested by the individual concerned. Where the proposal is contested by the individual concerned, the Fund will consider its position on a case by case basis.

4.3 Executive Remuneration

Executive remuneration should be determined by a formal procedure which is independent of the executives in question. The remuneration committee, in addition to demonstrating independent membership, should have written terms of reference and receive independent advice which is wholly separate from other corporate activities, for example, audit or HR.

There should be comprehensive, transparent and comprehensible disclosure of directors pay and policy. Policy in particular should fully explain the aims and objectives of reward strategies in the context of corporate objectives.

- **Approval of Long Term Incentive Schemes**

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long term shareholder value, avoiding reward for results over the short term. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions, and to introduce objective performance conditions related to the company's long-term strategy. Discretionary share options and other long term incentive plans can, subject to appropriate safeguards, be acceptable elements of a director's remuneration.

The Fund will vote in favour of executive reward plans when:

- The company has a remuneration structure that encourages participation across the workforce.
- There is a capital commitment on the part of executive participants at the inception of the scheme.
- Where the exercise of options or the vesting of shares for executive participants is based on performance targets which reflect outstanding and sustainable performance and which are insulated from a particular treatment in the accounts or general market factors.
- Where disclosure is adequate to enable the assessment of rewards under the scheme and the cost to the company.
- Where the performance period for any long term scheme is five years or more.
- Where the participants are not eligible for multiple share-based incentives.
- Where the scheme does not have the potential to involve the issuing of shares which will unduly dilute existing holdings or involve a change in control of the company.

9

The Fund will abstain from supporting an all employee share scheme where non-executives are also permitted to participate.

4.4 Shareholders' Rights and Capital Structures

Surrey will consider resolutions relating to shareholder rights on a case by case basis. The following outlines the principles that we expect our companies to adhere to:

- **Pre-emption right for issues of new capital**

The Fund does not support resolutions that are inconsistent with rules of the Pre-emption Group.

- **"One Share One Vote"**

The Fund does not support issues of shares with restricted or differential voting rights, nor any action which effectively restricts the voting rights of shares held by it.

- **Share Repurchases**

The Fund will normally vote in favour of an authority for share repurchases, provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources. Companies should adopt equitable financial treatment for all shareholders. The Fund therefore supports measures that limit the company's ability to buy back shares from a particular shareholder at higher than market prices.

- **Controlling Shareholder**

Where a controlling shareholder is present on the share register, it is important that minority investors understand fully the nature of the rights held by that shareholder. Minority investors expect a formal relationship agreement to be in place and for this agreement to be fully disclosed to all shareholders.

4.5 Mergers and Acquisitions (M&A)

Support will be given to mergers and acquisitions that enhance shareholder returns in the longer term and encourage companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual Board members.

Due to the investment implications of M&A activity, the fund will liaise with its portfolio managers prior to making a final voting decision in support of takeovers.

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the Board. This includes anti-takeover measures.

4.6 Article Changes

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights, or do not reflect generally accepted good governance practices.

4.7 Political & Charitable Donations

The fund recognises that some legitimate business related expenditure, such as marketing or sponsorship, may be construed as political under the terms of current legislation in some markets. Where authority for political expenditure fails to distinguish the amounts involved, or the period covered, or the amounts or period are considered excessive, the fund will not support the authority.

9

In addition the Fund considers that making of donations to political parties is not an appropriate use of shareholders' fund and so will vote against any authority to make such donations.

Charitable donations are acceptable if they are reasonable and further the company's wider corporate social responsibilities. The Fund encourages the issue of a policy statement by companies relating to such donations and full disclosure of the amounts given to the main beneficiaries.

4.8 Shareholder Resolutions

All such proposals will be reviewed on a case by case basis. We will generally support requests for improved corporate disclosure, notably relating to sustainability reporting. In other circumstances the fund will generally vote against shareholder resolutions not supported by management.

4.9 Other Business

Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider issues on a case by case basis. Schemes of arrangement, significant transactions and bundled resolutions are also considered on a case by case basis.

Where a resolution is proposed to allow for any other business to be conducted at the meeting without prior shareholder notification, the Fund will not support such resolutions.

5 The Principles of the UK Stewardship Code

In order to conform with the principles of the UK Stewardship Code, institutional investors, such as the Surrey County Council Pension Fund, should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.

5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

The Board will provide an annual report on how the Surrey Pension Fund satisfies its UK Stewardship Code obligations requirements.

9

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2015**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **CORPORATE GOVERNANCE SHARE VOTING**

SUMMARY OF ISSUE:

This report provides a summary of the Fund's share voting process in Q2 and Q3 2014/15.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must approve all pension fund working documents.

DETAILS:

Background

1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process requires the adherence to an approved share voting policy and the advice of a consultant skilled in this particular field.

2 The Surrey Pension Fund appointed Manifest in 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Manifest has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Fund's share voting policy and the Statement of Investment Principles (SIP).

Responsible Investment and Stewardship Policy

3 The Financial Reporting Council (FRC) is currently consulting on its two-yearly review of changes to the UK Corporate Governance Code. This review follows earlier consultations on directors' remuneration, risk management, internal control and the going concern basis of accounting. The proposed changes to the UK Corporate Governance Code are due to be published at the start of October 2014.

4 A report with the new Code and revised share voting policy will be presented to the 14 November 2014 Board meeting. A schedule of the abbreviations used in the report is shown as Annex 1. The proposed share voting policy is included within the Responsible Investment and Stewardship report in this meeting's agenda.

Meetings Voted: Q2 and Q3 2014/15

5 Table 1: Meetings Voted below shows that 86 meetings were voted in total, comprising 63 AGMs and 23 other meetings.

Table 1: Meetings Voted

Region	Meeting Type					Total
	AGM	EGM	GM	SGM	Class	
UK & Ireland	39	1	10	-	-	50
Japan	1	-	-	-	-	1
Europe – Developed	2	2	-	-	-	4
Asia & Oceania – Developed	21	4	-	-	-	25
Asia & Oceania – Emerging	-	1	-	-	-	1
South & Central America	-	4	-	-	-	4
North America	-	-	-	-	-	-
Europe – Emerging	-	1	-	-	-	1
Africa	-	-	-	-	-	-
Total	63	13	10	-	-	86

Resolutions

6 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. This clearly shows the high volume of voting decisions that AGMs bring compared with other meetings. In Table 1, even though AGMs comprise less than 75% of the meetings Table 2 shows AGMs account for over 90% of the resolutions. During Quarter 1,072 resolutions were voted, with the bulk of these in the UK & Ireland (816) and Asia & Oceania (Developed) incorporating the Australian AGM season (169).

Table 2: Resolutions Voted

Region	Meeting Type					Total
	AGM	GM	EGM	Class	SGM	
UK & Ireland	796	19	1	-	-	816
Europe – Developed	35	-	13	-	-	48
Japan	11	-	-	-	-	11
Asia & Oceania – Developed	163	-	6	-	-	169
Asia & Oceania – Emerging	-	-	6	-	-	6
Europe – Emerging	-	-	1	-	-	1
North America	-	-	-	-	-	-
South & Central America	-	-	21	-	-	21
Africa	-	-	-	-	-	-
Total	1,005	19	48	-	1	1,072

7 Month by month during Q2 and Q3, the volume falls away from the tail end of peak annual voting activity in July with an uptick in November reflecting the Australian AGM season. Whilst the number of AGMs declines over this period the number of EGM and GMs increase although the numbers are relatively small.

Table 3: Resolutions Voted per Month (July to December)

Event	Jul	Aug	Sep	Oct	Nov	Dec	Total
AGM	458	51	172	82	156	86	1,005
EGM	1	6	12	8	2	19	48
GM	0	0	1	5	2	11	19
OGM	0	0	0	0	0	0	0
Total	459	57	185	95	160	116	1,072

Voting Patterns

8 This section examines some patterns of voting by resolution category and voting policy. Table 4 shows some important perspective on the type of voting decisions being made. As part of the research analysis, Manifest categorises each resolution according to the governance considerations to which they relate. Surrey voted against just over 12% of all resolutions for which votes were cast during Q2 and Q3. Although director election resolutions comprise the largest category of resolutions to be voted on (around 45%), they represent just 4% of resolutions which were voted against. Conversely a high proportion of sustainability resolutions and shareholder rights resolutions were voted against.

10

9 Sustainability is broadly defined and includes authorities to allow political donations. Political donation authorities account for all of the 20 sustainability resolutions which were voted against. All of the 36 Shareholder Rights resolutions voted against were resolutions seeking to approve 14-day notice periods for ordinary general meetings (other than AGMs). The resolution category where Surrey CC has voted against management most frequently (other than shareholder rights and sustainability) is remuneration, where 39 of the 162 votes have been cast against management. Of the 39 remuneration resolutions voted against 32 were remuneration report votes.

10 The new UK pay regulations force companies to put forward separate votes on forward looking remuneration policy and backward looking remuneration paid for the year under review. Surrey is raising concerns with regard to remuneration via the backward looking vote, which is advisory only, rather than the future policy vote which is binding on companies.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	477	6	44.5%
Capital	193	36	18.0%
Audit & Reporting	139	0	13.0%
Remuneration	162	39	15.1%
Shareholder Rights	50	36	4.7%
Corporate Actions	28	0	2.6%
Sustainability	23	20	2.1%
Total	1,072	137	100.0%

Shareholder Proposed Resolutions

11 Just three of the resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions often attract relatively high levels of votes against management, especially where the matter at hand is one on which investors have strong views. The tabling of a shareholder proposal is one way in which shareholders can put pressure on a company, by highlighting an issue and potentially garnering public support for their cause. The flipside danger is of course the possibility of a very public rejection of the question by other shareholders. This was the case with the resolutions proposed during Q2 and Q3 all of which received less than 1% support.

10

Table 5: Shareholder Proposed Resolutions

Resolution Sub-category	Shareholder Proposals	Voted Against Management	% Against Management
Directors – Elect	2	0	0.9%
Constitution	1	0	0.9%
Total	3	0	

Remuneration

12 The specific aspects of Surrey's policy against which UK companies are most frequently coming up short on Remuneration Report votes are:

- where the upper limit on bonus is too high (25 UK companies, including the following companies at which the upper limit on bonus was the sole concern with regard to the remuneration report vote: BT Group PLC, United Utilities Group PLC; Betfair Group PLC; DS Smith PLC; Diageo PLC; IG Group Holdings PLC; Barratt Developments PLC).

- where performance targets are not measured against a peer group or other benchmark (nine UK companies including the following companies at which this was the sole concern with regard to the remuneration report vote: AVEVA Group PLC; Mothercare PLC; WS Atkins PLC).

- where the percentage of remuneration committee members (excluding the board chairman) considered to be independent is less than the threshold established by Surrey's voting template (nine UK companies); however, this issue arose alongside other issues at each of the companies concerned and was never the sole concern.

13 Ryanair Holdings is notable as the company with the greatest number of distinct concerns with regard to remuneration. These comprised of performance targets not measured against a peer group, remuneration committee independence threshold, poor disclosure of bonus scheme targets, no evidence of clawback arrangements in respect of annual bonus or long term schemes and payments to non-executives other than directors fees and expenses.

Table 6: Remuneration

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration Report	57	32	56.1%
Remuneration Policy	40	0	0.0%
Policy (Long-term Incentives)	26	1	3.8%
Non-executive Remuneration	13	6	46.2%
Amount (Total, Collective)	13	0	0.0%
Policy (Short-term Incentives)	5	0	0.0%
Policy (Other Component)	1	0	0.0%
Other	7	0	0.0%
Total	162	39	24.1%

10

Monitoring and Review

14 The share voting policy is kept under constant review and will be submitted for approval to a future Board meeting when the current proposed revisions to the Corporate Governance Code have been published in October 2014.

CONSULTATION:

15 The Chairman of the Pension Fund has been consulted on the current position and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

16 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

17 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

18 The Director of Finance is satisfied that the share voting policy offers an effective framework for the sound share voting of the pension fund, subject to the proposed revision to be presented to the Board when possible.

LEGAL IMPLICATIONS – MONITORING OFFICER

19 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

20 The approval of a share voting policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

22 The following next steps are planned:

- Adoption and implementation of the share voting policy
- Policy is kept under review

10

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:

Annex 1: List of abbreviations

Sources/background papers:
None

AGM

An Annual General Meeting of shareholders, normally required by law.

EGM

An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extraordinary nature. Such business may require a special quorum or approval level.

GM

A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the issuer in question.

OGM

An Ordinary General Meeting of shareholders, which is a meeting at which ordinary business is to be conducted (i.e. business which does not require a special quorum or approval level).

Court

A meeting of shareholders which is convened by a Court as opposed to by management. This is often used in the UK in order to effect a scheme of arrangement during a corporate transaction.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **LOCAL GOVERNMENT PENSION SCHEME: GOVERNANCE REGULATIONS**

SUMMARY OF ISSUE:

The report explains the planned changes to the governance of the Local Government Pension Scheme (LGPS) as a result of the Public Service Pensions Act 2013 and Regulations issued on 28 January 2015. The key requirement is for a proposed new Local Pension Board to assist the Administering Authority in the running of the Pension Fund and to monitor compliance with rules and standards.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must be aware of all governance Regulations for the administration of the Pension Fund.

DETAILS:

Background

1 The changes introduced by the Public Service Pensions Act 2013 Act are aimed at achieving a more coherent and consistent system to provide assurance that benefits are paid, contributions are received and the Code of Practice is followed in accordance within the law and subject to good practice. The new arrangements are due to be in place by 1 April 2015.

2 The recently published Regulations are shown as Annex 1.

Final Regulations Published by the Department

3 On 28 January 2015, the Department of Communities and Local Government (DCLG) issued final LGPS Governance Regulations. These Regulations set out the requirements to establish a Local Pension Board and include how this body will be established and a framework for membership and role.

4 In these final Regulations, there are further changes to the initial drafts first circulated.

- Joint Pension Boards: New Regulation 106(3) provides for the establishment of a joint local pension board where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities. Approval for such a Board would have to be obtained from the Secretary of State.

- Voting rights: New Regulation 106(7) provides that voting rights only apply to members of a Board who are either an employer or a member representative. In effect this means that 'other members' of a Board do not have voting rights.

- Removal of the requirement for 'relevant experience' for those individuals to be appointed to a local pension board as a member or employer representative: There is now no requirement in regulations (either regulation 107(2)(a) or 107(2)(b)) for a person who is appointed to a Board to have relevant experience. The requirement for capacity is retained.

- Clarification that only officers or elected members of the administering authority relating to the local pension board are precluded from being members of that local pension board: Regulations now confirm that officers or elected members of one Administering Authority could be members of the Local Pension Board of a second Administering Authority.

- Inclusion of new regulation 107(3)(b): Regulations now state that any elected member of the Administering Authority may only be appointed to the Board as either an employer or member representative. This additional regulation dovetails with the new regulation 106(7) which restricts voting rights to employer and member representatives.

- Inclusion of new regulation 107(4): This regulation provides further clarification on the constitution of a combined board and committee as provided for through regulation 106(2).

11

5 A report recommending the new constitutional arrangements regarding the Local Pension Fund Board, which need to be in place by 1 April 2015, will be taken to full Council on 17 March 2015. This will include proposals on membership of the Local Pension Board, terms of reference, delegations, frequency of meetings and decision-making powers. The Pension Fund Board will be kept appraised of progress.

6 A separate report will also be presented reference the Fire Fighters' Pension Scheme.

CONSULTATION:

7 The Chairman of the Pension Fund Board has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

8 Risk related issues are contained within the report, most notably the very short timescale between enacted Regulations and required date of implementation and official guidance.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9 The costs of running the new Local Pension Board will be borne by the administration cost centre of the Pension Fund, as prescribed by the Regulations.

DIRECTOR OF FINANCE COMMENTARY

10 The Director of Finance will ensure that all material, financial and business issues and possibility of risks will be considered when the report is presented to full Council.

LEGAL IMPLICATIONS – MONITORING OFFICER

11 Legal implications or legislative requirements associated with this initiative will be addressed in the full Council report.

EQUALITIES AND DIVERSITY

12 Equalities and diversity implications associated with this initiative will be addressed in the full Council report.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14 The following next steps are planned:

- A report recommending the formation of a new Local Pension Board to go to full Council.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Annex 1: Final LGPS Governance Regulations

Sources/background papers:
None

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STATUTORY INSTRUMENTS

2015 No. 57

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015

Made - - - -	*26th January 2015*
Laid before Parliament	*28th January 2015*
Coming into force in accordance with regulation 1(3)	

These Regulations are made in exercise of the powers conferred by sections 1, 3, 5(7), 7(2), 12(6) and 12(7) of, and Schedule 3 to, the Public Service Pensions Act 2013(**a**).

11

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, interpretation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**b**).

(3) These Regulations come into force as follows—

(a) on 20th February 2015, this regulation and regulations 2, 8 and 9—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraphs (2) to (4) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) into the Principal Regulations

(**a**) 2013 c. 25. Sections 5, 7 and 12 of that Act come into force in relation to regulations relating to local government workers on 1 April 2015 – see S.I. 2015/4.
(**b**) S.I. 2013/2356.

for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st April 2015—

(i) this regulation and regulations 2, 8 and 9 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations are amended in accordance with regulations 3 to 9.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In regulation 55(1)(d) for "regulation 53(4) (Scheme managers)" substitute "regulation 106 (local pension boards: establishment)".

5. Omit regulation 63 (aggregate Scheme costs).

6. Omit regulation 65 (aggregate Scheme costs: revised certificates).

7. In regulation 66 (supply of copies of valuations, certificates etc) for "regulations 62 (actuarial valuations of pension funds), 64 (special circumstances where revised actuarial valuations and certificates must be obtained) or 65 (aggregate Scheme costs: revised certificates)" substitute "regulations 62 (actuarial valuation of pension funds) or 64 (special circumstances where revised actuarial valuations and certificates must be obtained)".

11

8. In Schedule 1 (interpretation)—

(a) after the entry for "local government service" insert—

""Local Government Pension Scheme Advisory Board" means the board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"" and

(b) after the entry for "the Scheme" insert—

""Scheme actuary" means the actuary appointed under regulation 114 (Scheme actuary);"".

9. After regulation 104(**a**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any function under these Regulations.

(2) An administering authority may delegate any function under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(**a**) Regulation 104 was inserted by S.I. 2014/1146.

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme(**a**), and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.

(4) Approval under paragraphs (2) or (3) may be given subject to such conditions as the Secretary of State thinks fit.

(5) The Secretary of State may withdraw an approval if any conditions under paragraph (4) are not met or if in the opinion of the Secretary of State it is no longer appropriate for the approval to continue.

(6) Subject to paragraph (7), an administering authority may determine the procedures applicable to a local pension board, including as to the establishment of sub-committees, formation of joint committees and payment of expenses.

(7) Except where a local pension board is a committee approved under paragraph (2), no member of a local pension board shall have a right to vote on any question unless that member is an employer representative or a member representative(**b**). 11

(8) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

(9) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to this regulation each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) An administering authority must appoint to the local pension board an equal number, which is no less than 4 in total, of employer representatives and member representatives and for these purposes the administering authority must be satisfied that—

(a) a person to be appointed to the local pension board as an employer representative has the capacity to represent employers; and

(b) a person to be appointed to the local pension board as a member representative has the capacity to represent members.

(3) Except where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board)—

(**a**) See section 4(6) of the Public Service Pensions Act 2013 for the definition of connected scheme.
(**b**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.

(a) no officer or elected member of an administering authority who is responsible for the discharge of any function under these Regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of the local pension board of that authority; and

(b) any elected member of the administering authority who is a member of the local pension board must be appointed as either an employer representative or a member representative.

(4) Where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board) the administering authority must designate an equal number which is no less than 4 in total of the members of that committee as employer representatives and member representatives and for these purposes the administering authority must be satisfied that—

(a) a person to be designated as an employer representative has the capacity to represent employers; and

(b) a person to be designated as a member representative has the capacity to represent members.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**a**).

11

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The function of the Local Government Pension Scheme Advisory Board is to provide advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board also has the function of providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

(**a**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(5) The Local Government Pension Scheme Advisory Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board shall consist of a Chairman and at least 2, and no more than 12 members appointed by the Secretary of State.

(2) When deciding whether to make appointments under paragraph (1), the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint a maximum of 3 persons to be non-voting advisory members of the Board.

(5) An advisory member of the Local Government Pension Scheme Advisory Board is to hold and vacate that position in accordance with the terms of that member's appointment.

(6) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(7) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment. 11

Scheme advisory board: conflict of interest

112.—(1) Before appointing any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**a**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as shall be determined by the Board.

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(**a**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.

Scheme actuary

114.—(1) The Secretary of State must appoint an actuary as Scheme actuary to carry out valuations of the Scheme and any connected scheme in accordance with Treasury directions made under section 11 of the Public Service Pensions Act 2013(**a**) ("the Treasury directions").

(2) The person appointed as Scheme actuary under paragraph (1) must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme.

(3) The Secretary of State must secure that the Scheme actuary carries out actuarial valuations of the assets and liabilities of the Scheme on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds) and prepare valuation reports in accordance with the Treasury directions, within such period as enables the requirements in those directions to be met.

(4) An administering authority must provide the Scheme actuary with any data that the Scheme actuary reasonably requires, in accordance with the Treasury directions, in order to carry out a valuation and prepare a report on the valuation.

11

Employer cost cap

115.—(1) The employer cost cap for the Scheme is 14.6% of pensionable earnings of members of the Scheme.

(2) Where the cost of the Scheme, calculated following a valuation in accordance with Treasury directions under section 11 of the Public Service Pensions Act 2013 is more than the margins specified in regulations made under section 12(5) of the Public Service Pensions Act 2013(**b**) ("the Cost Cap Regulations") above or below the employer cost cap, the Secretary of State must follow the procedure specified in paragraph (3) for reaching agreement with administering authorities, employers and members (or representatives of employers and members) as to the steps required to achieve the target cost specified in the Cost Cap Regulations.

(3) The procedure specified for the purposes of section 12(6)(a) of the Public Service Pensions Act 2013 is consultation for such period as the Secretary of State considers appropriate with the Local Government Pension Scheme Advisory Board with a view to reaching an agreement endorsed by all members of that Board.

(4) If, following such consultation, agreement is not reached within 3 months of date on which the consultation period ends, the Secretary of State must take steps to adjust the rate at which benefits accrue under regulation 23(4) or (5) (active member's pension accounts) so that the target cost for the Scheme is achieved.

Scheme advisory board: additional functions

116.—(1) The Local Government Pension Scheme Advisory Board ("the Board") must obtain a Scheme cost assessment from the Scheme actuary detailing the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds).

(**a**) 2013 c. 25.
(**b**) 2013 c. 25; see regulation 3 of S.I. 2014/575.

(2) Subject to paragraphs (5) and (6), where the overall cost of the Scheme is above or below the target overall cost, the Board may make recommendations to the Secretary of State as to the steps to take to bring the overall cost of the Scheme back to the target overall cost.

(3) Where the proportion of the overall cost of the Scheme which is met by contributions by employers is above or below the target proportion, the Board may make recommendations to the Secretary of State as to the steps to take to bring the proportion of the overall cost of the Scheme which is met by contributions by employers and members back to the target proportion.

(4) The Board must, before obtaining a Scheme cost assessment under paragraph (1), prepare and publish a statement setting out its policy concerning recommendations to the Secretary of State about the steps to be taken to bring the overall cost of the Scheme back to the target overall cost and the proportions of that cost met by Scheme employers and members, back to the target proportion.

(5) The Board must not make recommendations under paragraph (2) if steps are required to be taken under regulation 115 (employer cost cap).

(6) Subject to paragraph (5) the Board must make recommendations under paragraph (2) if the overall cost of the Scheme is above or below the target overall cost by 2% or more of pensionable earnings of members.

(7) In this regulation—

"the overall cost of the Scheme" means the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment making use of the data provided under regulation 114(4) (Scheme actuary) according to such methodology and assumptions as are determined by the Board;

"the target overall cost" is 19.5% of the pensionable earnings of members of the Scheme;

"the target proportion" means Scheme employers meeting two-thirds and members meeting one-third of the overall cost of the Scheme.

(8) Each administering authority must provide the Scheme actuary with any data that the Scheme actuary requires in order to carry out any valuations and produce reports in accordance with directions from the Board for the purposes of this regulation.

(9) Unless the Board is prevented by paragraph (5) from making recommendations under this regulation, it must, within 23 months of the date on which a Scheme cost assessment is obtained under paragraph (1), publish a report setting out—

(a) the overall cost of the Scheme;

(b) the proportions of the overall costs of the Scheme met by employers and members;

(c) the assumptions and methodology used by the Scheme actuary; and

(d) any recommendations made to the Secretary of State under this regulation.

(10) The Board must send a copy of a report published under paragraph (9) to the Secretary of State and the Scheme actuary.

(11) The Secretary of State must publish a response to a report received under paragraph (10) within six months of the date on which that report is received.".

We consent to the making of these Regulations

Mark Lancaster
Gavin Barwell

23rd January 2015 — Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Kris Hopkins

11

26th January 2015

Parliamentary Under Secretary of State
Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 20th February 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 to 8 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 9 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pension board. Local pension boards must have equal representation of employer representatives and member representatives who must not be officers or councillors of the administering authority responsible for the discharge of local government pension functions.

11

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Regulation 114 requires the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme.

Regulation 115 sets the employer cost cap and requires the Secretary of State to seek agreement from those affected as to the changes to the design of the Scheme necessary to bring costs back to that level if valuation reports indicate that costs have varied by more than a margin specified in regulations made by the Treasury. If agreement can not be reached the Secretary of State must make amendments to the Scheme to vary the rate of accrual of benefits to bring the costs of the Scheme back to the employer cost cap level.

Regulation 116 confers additional functions on the Local Government Pension Scheme Advisory Board to monitor the overall costs of the Scheme and the proportion of those costs met by employers and members respectively and to make recommendations to the Secretary of State for changes to the Scheme where overall costs or respective proportions met by employer or member contributions vary from the initial costs.

No impact assessment has been prepared for this instrument as no impact on the costs of business or the voluntary sector is foreseen.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2015**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **KEY PERFORMANCE INDICATORS**

SUMMARY OF ISSUE:

In line with best practice, Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board note the KPI statement shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To comply with best practice.

DETAILS:

Requirement

1 In line with best practice, future Pension Fund Board meetings will be supplied with a schedule of Pension Fund key performance indicators (KPIs), covering investment and administration practices.

Key Performance Indicators

2 The KPIs cover the following areas:

- Funding level
- Death benefit administration
- Retirement administration
- Benefit statements
- New joiners
- Transfers in and out
- Material posted on website
- Employer and member satisfaction
- Investment performance
- Data quality
- Contributions monitoring
- Audit
- Overall administration cost

3 The KPI schedule to 31 December 2014 is shown as Annex 1.

4 Periods covered in the schedule range from one month, three months and twelve months.

5 Members are invited to discuss the performances set out in the schedule.

CONSULTATION:

6 The Chairman of the Pension Fund has been consulted and has offered full support regarding the content, structure and performances achieved set out in the schedule.

RISK MANAGEMENT AND IMPLICATIONS:

7 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

8 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

9 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

10 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

11 The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13 The following next steps are planned:

- Continued improvement in the indicators.
- Further refinement and additions of useful data.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman.

Annexes:
Annex 1: Schedule of Key Performance Indicators

Sources/background papers:
None

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KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS: To 31 December 2014 Annex 1

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
1	**FUNDING**							
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	**100%**	PT	**73.1%**	31/12/14	**76.6%**	30/09/14	-3.50%
2	**PENSION ADMINISTRATION**							
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	**95%**	JB	**100.0%**	3 months to 31 Dec 14	**100.0%**	3 months to 30 Sep 14	0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**	JB	**91.2%**	3 months to 31 Dec 14	**90.4%**	3 months to 30 Sep 14	0.81%
	Pay death grant within 5 days of receipt of relevant documentation	**90%**	JB	**92.6%**	3 months to 31 Dec 14	**100.0%**	3 months to 30 Sep 14	-7.41%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**	JB	**92.6%**	3 months to 31 Dec 14	**100.0%**	3 months to 30 Sep 14	-7.40%
	RETIREMENTS Retirement options to members within 10 days	**90%**	JB	**76.0%**	3 months to 31 Dec 14	**82.4%**	3 months to 30 Sep 14	-6.40%
	New retirement benefits processed for payment following receipt of election within 10 days	**95%**	JB	**97.0%**	3 months to 31 Dec 14	**98.1%**	3 months to 30 Sep 14	-1.09%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	**95%**	JB	**Issued Dec 2014**	3 months to 31 Dec 14	**Not achieved**	3 months to 30 Sep 14	
	DBS issued to 85% of eligible deferred members by 30th June	**95%**	JB	**100% issued by 30/06/14**	3 months to 31 Dec 14	**100% issued by 30/06/14**	3 months to 30 Sep 14	
	NEW JOINERS New starters processed within 20 days	**90%**	JB	**96.6%**	3 months to 31 Dec 14	**98.8%**	3 months to 30 Sep 14	-2.17%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	**90%**	JB	**96.7%**	3 months to 31 Dec 14	**97.2%**	3 months to 30 Sep 14	-0.50%
	Non LGPS transfers-in payments processed within 20 days	**90%**	JB	**100.0%**	3 months to 31 Dec 14	**100.0%**	3 months to 30 Sep 14	0.00%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	**90%**	JB	**96.6%**	3 months to 31 Dec 14	**97.0%**	3 months to 30 Sep 14	-0.40%
	Non LGPS transfers out payments processed within 20 days	**90%**	JB	**96.7%**	3 months to 31 Dec 14	**100.0%**	3 months to 30 Sep 14	-3.30%
	MATERIAL POSTED ON WEBSITE Relevant Communications Material will be posted onto website within one week of being signed off	**95%**	JB/NM	**100%**	3 months to 31 Dec 14	**100%**	3 months to 30 Sep 14	
3	**CUSTOMER SERVICE**							
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	**80%**	PT/JB/NM	**Not available - due May 15**	At Dec 14	**Not available**	At Sep 14	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	**80%**	JB	**83%**	3 months to 31 Dec 14	**85%**	3 months to 30 Sep 14	
4	**INVESTMENT PERFORMANCE**							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	**Benchmark**	PT	**BENCHMARK 6.9%**	12 months to 31 Dec 14	**BENCHMARK 8.2%**	12 months to 30 Sep 14	
				ACTUAL 7.9%	12 months to 31 Dec 14	**ACTUAL 9.4%**	12 months to 30 Sep 14	
5	**DATA**							
	DATA QUALITY Data quality within the Fund should be at least 90% accurate.	**90%**	JB	**99%**	12 months to 31 Mar 14	**99%**	12 months to 31 Mar 14	
6	**CONTRIBUTIONS**							
	CONTRIBUTIONS RECEIVED **Pension Fund** 98% (total value) of contributions to be received by 21st day of the ensuing period.	**98%**	PT	**98%**	Dec-14	**98%**	Sep-14	0.00%
7	**AUDIT**							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Clean Report**	PT/JB	**Achieved**	12 months to 31 Mar 14	**Achieved**	12 months to 31 Mar 13	
	Annual audit returns no significant findings	**No significant findings**	PT/JB	**Achieved**	12 months to 31 Mar 14	**Achieved**	12 months to 31 Mar 13	
8	**COST**							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/JB	**Achieved**	12 months to 31 Mar 14	**Achieved**	12 months to 31 Mar 13	

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **13 FEBRUARY 2015**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **PENSION FUND RISK REGISTER**

SUMMARY OF ISSUE:

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which needs monitoring on a quarterly basis.

RECOMMENDATIONS:

It is recommended that:

1. Members assess the revised Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

REASON FOR RECOMMENDATIONS:

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

DETAILS:

Background

1 A review of the current risk register for the Pension Fund will give the Pension Fund Board the opportunity to influence and drive the Pension Fund risk management process for 2014-2015.

Risk Management Process

2 The risk management policy of the Surrey Pension Fund is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to a manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.

3 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:

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- Investment
- Financial
- Funding
- Operational
- Governance

4 Each of the risk areas has been assessed in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Board and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.

5 Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description (between one and five) is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.

6 To comply with best practice, a scoring process has been implemented, which will reassess the risk scores after the mitigating action taken to control and reduce the risks. The risk register includes a revised impact score and net risk score as a result of those mitigating actions.

7 Within the residual red risks, cost ranges are provided on the implications where possible.

CONSULTATION:

8 The Chairman of the Pension Fund Board has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

9 The risk related issues are contained within the report's Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

10 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

DIRECTOR OF FINANCE COMMENTARY

11 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the risk register will provide officers with a suitable platform for the monitoring and control of pension fund risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

12 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

13 The creation of a risk register will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed. 13

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

15 The following next steps are planned:

- Monitoring by officers and reporting to the Board every quarter.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Annex 1: Pension Fund Risk Register

Sources/background papers:
None

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ANNEX 1

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Risk Group	Risk Ref.	Previous	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Funding	1	1	Bond yields fall leading to a increase in value of liabilities: a 0.1% reduction in the discount rate will increase the liability valuation by 2%	4	4	4	12	4	48	TREAT-1) IAS19 data is received annually and provides an early warning of any potential problems. 2) Early consultation with the actuary will take place with regard to the 2016 valuation. 3) Training on hedging this future cost provided to the Pension Fund Board. Current investment strategy review will address liability protection.	4	48
Funding	2	2	Pay & price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%	4	4	4	12	4	48	TREAT- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS17 and actuarial valuations) should be long term assumptions. 3) The fund holds investment in index linked bonds to mitigate some of the risk. 4) Training on hedging this future cost provided to the Pension Fund Board. Current investment strategy review will address liability protection.	4	48
Funding	3	3	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	45	TREAT- 1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer specific.	5	45
Funding	4	4	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	4	3	3	10	4	40	TREAT- 1) Active investment strategy and asset allocation monitoring from Board, officers and consultants. 2) 2014/15 Investment strategy review is underway. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specfic benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures.	3	30
Operational	5	5	Rise in ill health retirements impact employer organisations	1	4	1	6	4	24	TREAT- 1) Insuring against the cost and impact (approved at 14/02/14 meeting but not yet implemented).	4	24
Investment	6	7	Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target	4	4	4	12	3	36	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Board should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk	2	24
Financial	7	8	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	36	TOLERATE - 1) Policies & procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers have to provide SAS 70 or similar (statement of internal controls).	2	24
Operational	8	9	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	33	TREAT- 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager.	2	22
Funding	9	10	Impact of government policy on the employer workforce	3	3	1	7	4	28	TREAT- 1) Hymans Robertson use prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce	3	21
Investment	10	11	Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	30	TREAT- 1) Proportion of asset allocation made up of equities, bonds, property funds, diversified growth funds and private equity, limiting exposure to one asset category. 2) The investment strategy is continously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically every three years. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of 1.6% over gilts is regarded as achievable over the long term when	2	20
Funding	11	12	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	27	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where approprate with stabilisation and phasing in processes.	2	18
Governance	12	13	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	27	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/FSS/Governance statement and that appropriate advice is sought.	2	18
Funding	13	14	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies	4	3	1	8	3	24	TREAT- 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) The terms of admission agreements/bonds provide for regular review of bond adequacy. 5) The Fund considers seeking a guarantor for new admitted bodies.	2	16
Operational	14	15	Poor data quality results in poor information and decision making	2	2	4	8	3	24	TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrgate data to ensure accuracy.	2	16
Operational	15	16	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	20	TREAT-1) Review SIP in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published SIP. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions.	3	15
Governance	16	17	Implementation of proposed changes to the LGPS does not conform to plan or cannot be achieved within time scales	1	2	4	7	3	21	TREAT- 1) Officers consult and engage with DCLG, LGPS Advisory Board, consultants, peers, seeminars, conferences. 2) Officers engage in early planning for implemntation against agreed deadlines.	2	14
Operational	17	18	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	21	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Board will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14
Governance	18	6	Changes to LGPS regulations	3	2	1	6	3	18	TREAT-1) Fundamental change to LGPS regulations to be implemented from 1 April 2014. 2) Impact on contributions and cashflows will need to be considered during the 2013 valuation process. 3) Fund will respond to consultations.	2	12
Governance	19	19	Change in membership of Pension Fund Board leads to dilution of member knowledge and understanding	4	1	1	6	4	24	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Board members. 3) Pension Fund Board new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Board members to take the test.	2	12
Operational	20	20	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	18	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed.	2	12
Operational	21	21	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	18	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Review of Northern Trust took place in January 2009, ahead of decision on whether to retain (Jan 2009) - a fee reduction was secured in 2011). 3) Actuarial and investment consultancies are provided by two different providers.	2	12
Operational	22	22	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	18	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	12
Governance	23	23	Failure to comply with legislative requirements e.g. SIP, FSS, Governance Policy, Freedom of Information requests	4	1	4	9	2	18	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	9
Financial	24	24	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	12	TOLERATE - 1) A separate bank account exists for the pension fund 2) Lending limits with approved banks are set at prudent levels 3) The pension fund treasury management strategy is based on that of SCC.	1	6
Financial	25	25	Incorrect, failed or late employee/employer contributions payments received	1	4	1	6	2	12	TOLERATE- 1) Monthly monitoring of pensions contributions against expectation. 2) Reminders sent to employers when they fail to meet payment deadline. 3) Scope to report persistent late payment to OPRA.	1	6
Financial	26	26	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	2	1	1	4	2	8	TOLERATE- 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	4

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