

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 11.00 am on 22 May 2015 at Mess Conference Room, 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 Alan Young (Vice-Chairman)
- * Mr W D Barker OBE
- Mr Tim Evans
- * Mr Stuart Selleck
- Mrs Hazel Watson

Ex officio Members:

Mrs Sally Ann B Marks, Chairman of the County Council
Mr Nick Skellett CBE, Vice-Chairman of the County Council
Mr David Hodge, Leader of the Council
Mr Peter Martin, Deputy Leader and Cabinet Member for Economic Prosperity

Co-opted Members:

- * Mr Tony Elias, District Representative
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- Philip Walker, Employees

In attendance

Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Neil Mason, Senior Advisor (Pension Fund)
Barry McKay, Partner, Hymans Robertson
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)
Steve Turner, Partner, Mercer

15/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

The revised membership following the Annual General Meeting of the Council and listed on the revised agenda front sheet was noted.

Apologies were received from Tim Evans, Hazel Watson and Phil Walker.

16/15 MINUTES OF THE PREVIOUS MEETING: 13 FEBRUARY 2015 [Item 2]

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

17/15 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of interest.

18/15 QUESTIONS AND PETITIONS [Item 4]

There were no questions and petitions.

19/15 ACTION TRACKING [Item 5]

Declarations of interest:

None.

Key points raised during the discussion:

1. In relation to A21/14 (synthetic equities training), this training will be scheduled when timely.
2. In relation to A5/15 (Chairman meetings), these will be scheduled in the near future. New Board members will need to undertake a needs assessment.
3. In relation to A6/15 (deep dive), this will start following the meeting and will report back at the September Board meeting. Tim Evans and Stuart Selleck would be leading on behalf of the Board.

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.

20/15 FREEDOM AND CHOICE [Item 6]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the item. He explained that any potential effect on cash flow from the statutory changes to pension fund scheme rules would become apparent this year. Hymans Robertson had been

commissioned to undertake further analysis concerning the effect on the Surrey Pension Fund.

2. The Hymans Robertson representative presented the highlights of the analysis and informed the Board that he had concluded that there was unlikely to be a significant run on money.
3. In response to a question, the Senior Advisor (Pension Fund) confirmed that it is the responsibility of the administering authority to check that a member has received advice from a qualified and accredited advisor. However, it was important to note that members must evidence receipt of advice but not that they have followed that advice.
4. The Chairman explained that it was not necessary for the Fund to have a floating cash balance as it was always possible to borrow short term if necessary.
5. The Senior Advisor (Pension Fund) confirmed that there was a specific unit within central government providing information on the Local Government Pension Scheme. Also, the Fund has to provide information to all individuals reaching retirement and all Members of the Fund receive a regular newsletter.

Actions/Further information to be provided:

None.

Resolved:

That the report be NOTED.

Next steps:

Further updates on outcomes will be presented at future Board meetings.

21/15 EMPLOYER BODY ADMISSION/TERMINATION GUIDANCE [Item 7]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report, highlighting the key points.
2. Members queried who decides the risk ratings of employers and whether it is open to challenge. The Hymans Robertson representative explained that up to now the ratings had been quite subjective. The intention was to develop a more objective system of metrics so that the Fund can defend against any employer challenges.
3. Members asked whether the Fund is near the point at which some employers may default. The Hymans Robertson representative explained that there was a problem with willingness to pay by some but that it was not clear if this was because they were unable to pay. It was pointed out by a Board member that this issue was not on the risk register.

Actions/Further information to be provided:

None.

Resolved:

That the report be NOTED.

Next steps:

A further report presented at a future Board meeting.

22/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 8]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the item and highlighted the advice that the Board delay a decision to invest via the Marathon Emerging Markets Fund. The Board supported this delay.
2. It was suggested that, in relation to the Marathon Emerging Markets Fund, the Board should have a discussion on whether to increase exposure to emerging markets. The Mercer representative explained that the Board had not been looking to increase its exposure with emerging markets but that Marathon had asked its clients to move from segregated investments into a pooled fund.
3. A Member queried the adoption of stock lending, suggesting that it adds volatility to the market. The Chairman pointed out that stock lending was adopted two years ago by the Board. It was also suggested on the plus side that stock lending creates liquidity.
4. The Surrey Pension Fund Advisor introduced the notes of meetings with Fund Managers, attached as Annex 2 to the report. There was some concern about Franklin Templeton's exposure to the Ukraine. The Surrey Pension Fund Advisor assured the Board that, while Franklin Templeton was a large investor in the Ukraine on behalf of its clients, this exposure was not considered a risk to the company's viability. The pooled fund owned by the Surrey Pension Fund does have a holding in Ukraine bonds, but these represent a small allocation of the overall fund.
5. It was confirmed that, while the Surrey Pension Fund Advisor and Strategic Finance Manager (Pension Fund and Treasury) hold the meetings with Fund Managers, Board members were always invited to attend.
6. It was requested that figures in the report be provided net of fees. The Strategic Finance Manager (Pension Fund and Treasury) confirmed that the custodian could provide this, although the Mercer representative explained that where performance-related fees were concerned there would be some manual work and therefore some additional cost. The Chairman suggested that this be considered as part of the deep dive into all costings and fees (**Action Review ref A6/15**).
7. The Board noted that asset allocations were all comfortably within variances.

Actions/Further information to be provided:

The deep dive review of the Pension Fund to include a review of the information provided to the Board, eg the potential for receiving figures net of fees.

Resolved:

- i. That the report be NOTED.

- ii. That the allocation of the £34.5m cash position would be deferred to the end of the meeting.
- iii. That multi asset credit would be considered under item 17.
- iv. That the Surrey Pension Fund Board training policy be APPROVED.

Next steps:

None.

23/15 PENSION FUND BUSINESS PLAN 2014/15: OUTTURN REPORT [Item 9]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report and raised the issue of member training. The Chairman stated that a questionnaire will be sent to all members of the Board and the results would be brought to the September meeting **(Action Review ref: A8/15)**.

Actions/Further information to be provided:

Officers to send questionnaire to all members of the Board.

Resolved:

That the achievements and progress made with regard to the Business Plan objectives in respect of the 2014/15 financial year be NOTED.

Next steps:

- Progress reports will be discussed at future Board meetings if necessary.
- Outturn report of the 2015/16 financial year to be presented at the first meeting of the Surrey Pension Fund Board in 2016/17.

24/15 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 10]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report and highlighted the main change being to include the Local Pension Board.
2. It was suggested that the table heading on page 113 'control range' be changed to 'review range' as it currently implies more action than is anticipated. There was also a discussion regarding the categorisation of active managers with relatively unconstrained mandates. It was suggested that these points be picked up in the deep dive review of the Pension Fund **(Action review ref: A6/15)**.

Actions/Further information to be provided:

The deep dive review of the Pension Fund to consider the points raised under this item.

Resolved:

- i. That the revised Statement of Investment Principles be APPROVED.
- ii. That the Core Belief Statement be APPROVED.

Next steps:

None.

25/15 GOVERNANCE COMPLIANCE STATEMENT [Item 11]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the revised and refreshed Governance Compliance Statement.

Actions/Further information to be provided:

None.

Resolved:

- i. That the Surrey Pension Fund Board APPROVED the amendments to the Governance Policy Statement.
- ii. That the Surrey Pension Fund Board APPROVED the Compliance Statement to the Pension Regulator Code of Practice 14.

Next steps:

None.

26/15 LOCAL PENSION BOARD [Item 12]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report and confirmed that the Local Pension Board had been created at full Council on 17 March 2015.
2. The Strategic Finance Manager (Pension Fund and Treasury) explained that he would continue providing primary support to the Surrey Pension Fund Board while the Senior Advisor (Pension Fund) would provide primary support to the Local Pension Board.
3. It was clarified that appointments of the Borough/District representatives on Surrey Pension Fund Board would continue to be made through the Surrey Leaders' Group. For the Local Pension Board, all employer bodies would put nominations through to the Appointment Panel. All employer bodies had been sent notification of this process.

Actions/Further information to be provided:

None.

Resolved:

The report was NOTED.

Next steps:

None.

27/15 CORPORATE GOVERNANCE SHARE VOTING [Item 13]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report.

Actions/Further information to be provided:

None.

Resolved:

That the report was NOTED.

Next steps:

None.

28/15 KEY PERFORMANCE INDICATORS [Item 14]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report and highlighted the submission of a pilot set of key performance indicators to the Scheme Advisory Board.
2. In response to a query about the unavailability of an employer satisfaction score, the Senior Advisor (Pension Fund) explained that the survey is undertaken annually and the results were due soon.

Actions/Further information to be provided:

None.

Resolved:

- i. That the Surrey Pension Fund Board NOTED the KPI statement.
- ii. That the Surrey Pension Fund Board NOTED the Scheme Advisory Board pilot KPI statement.

Next steps:

None.

It was agreed to defer Item 15 Pension Fund Risk Register to later on the agenda as a revised Register was being printed.

29/15 EXCLUSION OF THE PUBLIC [Item 16]

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

30/15 MULTI ASSET CREDIT [Item 17]

Declarations of interest:

None.

Key points during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report. The committee asked a number of questions which were responded to by the officers present, before moving to the recommendation.

Actions/Further information to be provided:

Board to meet five or six multi asset credit managers in July 2015 (**Action review ref: A9/15**).

RESOLVED:

That the report be NOTED.

Committee next steps:

None.

The Board adjourned for lunch from 12.40pm to 1.15pm. Stuart Selleck gave his apologies for absence from the afternoon session.

31/15 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW [Item 18]

Declarations of interest:

None.

Key points during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report. The committee asked a number of questions which were responded to by the officers present, before moving to the recommendation.

Actions/Further information to be provided:

Officers to compare the cost-effectiveness of investing in a Fund of Funds with investment in other private equity opportunities (**Action review re: A10/15**).

RESOLVED:

- i. That the Board NOTED the current position on the Fund's Private Equity investment performance.

- ii. That the Fund CONTINUES to commit to draw downs of the existing private equity schemes, while the Surrey Pension Fund Board considers new opportunities presented to it.

Committee next steps:

None.

32/15 PORTFOLIO TRANSITION: LGIM TO MAJEDIE [Item 19]

Declarations of interest:

None.

Key points during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report.

Actions/Further information to be provided:

None.

RESOLVED:

That the Board NOTED the report.

Committee next steps:

None.

33/15 PUBLICITY FOR PART TWO ITEMS [Item 20]

RESOLVED: That items considered under Part 2 of the agenda should remain confidential and not be made available to the press and public

34/15 PENSION FUND RISK REGISTER [Item 15]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) tabled a revised Risk Register (attached as Annex 1 to the Minutes). The late addition was a risk associated with the possible withdrawal of the UK from the European Union. Members queried why the reputational impact of the risk to the Fund was rated as 3. The Strategic Finance Manager (Pension Fund and Treasury) explained that there was a reputational risk if the Fund was perceived as being not sufficiently appraised on the situation or if mitigating actions were not adequate. Members also suggested that the likelihood rating was too high. Following a discussion, the Strategic Finance Manager (Pension Fund and Treasury) agreed to reduce the ratings for reputational impact and likelihood to 2.

Actions/Further information to be provided:

None.

Resolved:

That the Board NOTED the revised Risk Register and made suggestions for amendments as detailed above.

Next steps:

None.

**35/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE (CONTINUED)
[Item]**

The Board continued with consideration of the cash position.

Key points raised during the discussion:

1. The Chairman highlighted that Tim Evans, who had sent apologies for the meeting, had previously urged any surplus cash to be invested to help balance our asset allocation benchmarks.
2. The Board went through the options available for investment of cash.

Actions/Further information to be provided:

None.

Resolved:

That £30m cash be invested in GARS/GFS according to the Fund's mandate ie in the ratio of 70:30 GARS and GFS respectively.

Next steps:

None.

36/15 DATE OF NEXT MEETING [Item 21]

The date of the next meeting was noted.

Meeting ended at: 1.50 pm

Chairman