MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 13 November 2015 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

- * Ms Denise Le Gal (Chairman)
- * Mr Alan Young (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Tim Evans
- * Mr Stuart Selleck
- Mrs Hazel Watson

Ex officio Members:

Mr David Munro
Mrs Sally Ann B Marks, 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, Borough/District Representative
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- * District Councillor Peter Stanyard, Borough/District representative
- Philip Walker, Employees

In attendance

Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Nick Harrison, Chairman – Local Pension Board
Sheila Little, Director of Finance (Section 151 Officer)
Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)
Steve Turner, Partner, Mercer

66/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies for absence were received from Phil Walker and Hazel Watson.

67/15 MINUTES OF THE PREVIOUS MEETING: 18 SEPTEMBER 2015 [Item 2]

The Surrey Pension Fund Advisor suggested that run-off of private equity would go on for 10-15 years rather than 20-30 years.

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

68/15 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of disclosable pecuniary interest.

69/15 QUESTIONS AND PETITIONS [Item 4]

A question was received from local resident, Steve McDonald. The question and response was tabled and is attached to the Minutes as **Annex 1**.

Mr McDonald asked a supplementary question related to his first question. He highlighted the contribution of burning fossil fuels on the earth's climate and the level of investment by the Local Government Pension Scheme in fossil fuels. He suggested that such investments did not fit with local government's social and environmental principles and asked that the Surrey Pension Fund Committee stop further investment in fossil fuels while starting disinvestment from fossil fuel companies.

The Chairman responded by highlighting the committee's annual review of its Responsible Investment and Stewardship Policy. She informed the meeting that the Surrey Pension Fund was a member of Local Authority Pension Fund Forum which gives local authority pension funds a collective voice and clout to negotiate and engage with companies. She noted that Shell had recently pulled out of drilling in the Arctic and suggested that this was partly due to the influence of the Forum. She asked, if the Surrey Pension Fund was to disinvest, where it should draw the line eg should transport and retail companies also be avoided. Also, if the Fund disinvests it no longer has the ability to influence or negotiate with those companies. Finally, the Chairman pointed out the Surrey Pension Fund Committee's fiduciary duty to the Fund's members.

70/15 ACTION TRACKING [Item 5]

Declarations of interest:
None

Key points raised during the discussion:

1. In relation to A5/15 (assessment one to ones), the Chairman reported that she had now met with the most recent members of the committee to discuss their assessment results.
2. In relation to A12/15 (pooling options), the Strategic Finance Manager (Pension Fund & Treasury) informed the committee that the consultation document had not yet been published but that a full report would be brought to committee in February 2016.

3. In relation to A14/15 (cash flow), the Strategic Finance Manager (Pension Fund & Treasury) stated that this was dealt with under item 6 Manager Issues and Investment Performance.
4. In relation to A15/15 (investment consultants), this would be arranged in the new year.

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.

71/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

Declarations of interest:
None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, tabling the notes from the external fund manager meetings on 9 November 2015 (attached as **Annex 2** to the minutes).
2. The Senior Advisor (Pension Fund) gave a verbal summary of the meeting of the Local Pension Board on 12 October 2015.
3. In response to a question about whether there is a limit to the amount of stock lending that is allowed, the Strategic Finance Manager (Pension Fund & Treasury) confirmed that there was a limit.
4. A member of the committee enquired whether the second paragraph on Internally Managed Cash (p19) would be accurate in the long term. The Strategic Finance Manager (Pension Fund & Treasury) confirmed that the Fund would be cash positive for the next few years as it generates more cash than it pays out in benefits.
5. The Surrey Pension Fund Advisor suggested that the real yield trigger be treated as commercially sensitive in future. It was agreed that officers would consider how to take this forward **(Action Review A16/15)**.
6. The committee discussed the impact of the second Markets in Financial Instruments Directive which will reclassify all local authorities as retail clients. The Chairman confirmed that the Shadow Advisor Board was against this reclassification. Members felt it important to convey to the Financial Conduct Authority the huge administrative burden and additional cost for financial services firms and local authority pension funds. The Chairman agreed that the cost should be addressed but did not feel that too much time should be spent calculating that cost at the present time.
7. Members queried why KPMG had been appointed to look at the separation of the Pension Fund from the Host Authority. The Surrey Pension Fund Advisor explained that KPMG had been getting involved in governance related activity. The Director of Finance also highlighted KPMG's experience in auditing.

8. The Strategic Finance Manager (Pension Fund & Treasury) gave an update on national asset pooling and Surrey's activities. He confirmed that positive progress had been made with Cumbria and East Riding. Talks were ongoing with six other local authorities and talks with three others were in the pipeline. While the Funds were geographically distant to Surrey, they have good governance records and good relationships could be developed. A full paper and draft proposal would be brought to the committee in February 2016. Members agreed that regular private updates would be welcomed **(Action Review A17/15)**. The Chairman asked the committee for its opinions on taking on a small poorly governed Fund to help it improve and pointed out that this would not have a huge impact on overall returns. This was generally approved of and it was felt that more than one small Fund could be supported in this way. There was concern that pooling could lead to big philosophical shifts for some Funds as different Funds take different investment approaches eg some manage investments predominantly inhouse while others outsource all investment management. There was also concern that democratic accountability will be diluted with pooling. It was felt that a more informed discussion was required. The Director of Finance confirmed that an engagement plan will be developed to keep Fund members informed.
9. The committee noted the £79m increase in liabilities and discussed the options for valuing liabilities in different ways. The Senior Advisor (Pension Fund) highlighted that there are a number of different actuarial methodologies favoured by different actuarial firms. The Surrey Pension Fund Advisor and Mercer representative supported a change to using CPI+3%. It was agreed that the committee should receive a report in February 2016 outlining the CPI model, economic model and gilts model and detailing the risks and opportunities involved **(Action Review A18/15)**.
10. The Vice-Chairman highlighted the performance of Franklin Templeton and UBS and asked for some further context. The Surrey Pension Fund Advisor summarised the main points from the notes of his meetings with external fund manages **(attached at Annex 2)**. In response to a question about whether the benchmark for Franklin Templeton should be changed, the Surrey Pension Fund Advisor agreed that it could be benchmarked in a different way given its approach and expected returns but that it is a pooled fund and so the benchmark for the pooled fund has been adopted. The Chairman queried whether Western Asset Management's performance should be of concern given the upcoming transfer of assets into a multi asset credit portfolio to be managed by Western. The Surrey Pension Fund Advisor stated that the Fund should not delay the transfer but keep performance under review.

Actions/further information to be provided:

i. Officers to consider how to present the real yield trigger at future meetings of the committee.
ii. Officers to provide regular private updates to the committee on national asset pooling.
iii. Director of Finance and Strategic Finance Manager (Pension Fund & Treasury) to bring a report in February 2016 outlining the CPI model, economic model and gilts model and detailing the risk s and opportunities involved.

Resolved:
That the report was **NOTED**.

72/15 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE [Item 7]

Declarations of interest:
None

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report and highlighted deterioration across a number of administration areas. Discussions were being held with the team to check progress with actions planned to address the problems and timescales. The Service Level Agreement with Orbis was also being reviewed. The Chairman requested that someone from Pensions Administration attend committee meetings in future.

Actions/further information to be provided:
None.

Resolved:
That the report was **NOTED**.

73/15 SCHEME ADVISORY BOARD BENCHMARKING EXERCISE [Item 8]

Declarations of interest:
None

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report and suggested that the KPIs were a useful tool to assess Funds across the Local Government Pension Scheme.

Actions/further information to be provided:
None.

Resolved:
That the report was **NOTED**.

74/15 PENSION FUND RISK REGISTER [Item 9]

Declarations of interest:
None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) tabled an updated Risk Register (attached as **Annex 3** to the Minutes). He highlighted a new entry at number 18 ‘Failure to hold personal data securely’. This had been added following a recent Audit report of Pensions Administration which suggested this be treated as a separate risk.

Actions/further information to be provided:
None.

Resolved:
That the report was **NOTED**.

75/15 DATE OF NEXT MEETING [Item 10]

The date of the next meetings was NOTED and the Chairman reminded members of the committee of the AGM on 21 November 2016.

Meeting ended at: 11.35 am

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Chairman

SURREY PENSION FUND BOARD

FRIDAY 13 NOVEMBER 2015

ITEM 4 QUESTIONS AND PETITIONS

PUBLIC QUESTIONS

(1) MR STEVE MCDONALD TO ASK:

Would the committee please confirm the current level of Surrey Pension Funds directly or indirectly made in Oil, Coal and Gas - commonly known as fossil fuels?

Reply:

The market value of directly held investments within oil, gas and coal sectors as determined by the S&P Global Industry Classification Standard as at the 30 September was £99.4m.

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Notes from Meetings with Fund Managers: 9 November 2015

Hosted by Baillie Gifford

Manager	Attending
Marathon	Graeme Neuff Simon Todd
Franklin Templeton	Chris Orr Stuart Lingard
UBS	Digby Armstrong Steve Magill Guy Walker
Baillie Gifford	Anthony Dickson David McIntyre

Marathon

Performance	Return	Benchmark	Relative
	%	%	%
Quarter	-3.2	-6.0	2.8
1 year	3.5	-0.1	3.6
3 years*	12.3	9.3	3.0
5 years*	9.8	7.3	2.5
10 years*	9.4	6.1	3.3
Since inception*	10.8	7.5	3.3

**Annualised*

1. Met with Graeme Neuff and Simon Todd.

2. Some reservations expressed about the emerging market ‘speed bumps’ and the interpretations that can be generated.

3. Marathon’s long standing scepticism about China was helpful as investor concerns about the pace of slowdown took hold over the summer. Also, the China infrastructure boom funded by long term debt.

4. The portfolio has a large overweight to safe consumer staples and is very underweight in mining, energy, construction and industrials. This benefitted both security selection and market allocation, with low exposure to emerging markets.

5. Valuation swings have been prominent, so there are increasing opportunities in emerging markets, albeit selectively. An example is the Chinese snacks business Want Want that has fallen from a Price Earnings ratio of 30x to around 17x.

6. Marathon thinks it is still too early to make a decisive move into industrials. Valuations, while lower, are not in ‘revulsion’ territory and there is scope for further disappointment on China. Once a low point is reached, there is an opportunity for a bounce back. Chinese subsidiaries of western consumer businesses are reporting flat or subject to falling demand, which is not consistent with the consensus view that economic growth is still around 6%. Despite this negative stance, Marathon thinks there are still good businesses in China.

7. Marathon is concerned about US companies using debt to finance share buy backs. Capex in US is low at around 6% of sales and debt levels are high. While corporate cash balances are high, this is largely focused on a small number of large companies, for example, Apple and Coca Cola.

8. Marathon managers are wary of companies with high debt because they are vulnerable to any loss of confidence in central bankers. Having said this, the consumer staples holdings are now much more expensive – Reckitts is an example on 26x PE with margins of 24%. Marathon is concerned about the US and UK delay in increasing interest rates and the market uncertainty that is generated being damaging to expectations. The adage that low interest rates beget low interest rates with too much debt built on that low permanence was mentioned. A consumer melt down on event the slightest increase is considered a possibility.

9. Discussions took place on VW (cars purchased with PPI payouts and consumers now on the verge of more compensation). VW is a stock that is in the European sleeve but not in the global sleeve of the portfolio. While the share price has fallen a long way, Simon is not sure that it is possible to assess the potential scale of liabilities – he believes fines in such high profile cases are levied according to ability to pay rather than damage done, so there is further downside possible in the share price. VW also has a significant exposure to Chinese markets, representing a double whammy in their current fortunes.

10. A couple of housekeeping issues were also discussed, including fee aggregation, the timing of the move to a more tax efficient fund structure and the possibility of using P-notes in India, given the holding limits for the pooled fund. Graeme was asked to provide more details about the counterparty risk aspects of P-notes and to what extent we could address the India issue within the pooled fund constraints.

    Advisor view: another very strong period of performance supported by clear and insightful investment thinking. Marathon remains a core investment capability.

Franklin Templeton

Performance	Return	Benchmark	Relative
	%	%	%
Quarter	-6.9	0.5	-7.4
1 year	-8.8	-3.6	-5.2
Since inception*	-1.8	-1	-0.8
Capability:			
*3 years**	*1.5*	*-1.5*	*3.0*
*5 years**	*4.2*	*1*	*3.2*

*Annualised

1. Met with Chris Orr and Stuart Lingard.

2. Franklin Templeton has suffered large outflows from its retail products and there has also been some loss of investment professionals. The team confirmed that the institutional client base for the Global Macro fund has seen minimal net outflows in 2015 to the end of September 2015 (10 new clients and 14 losses with net outflow of less than $20m) and that the asset base is close to $100bn. There have been no changes in the investment team in 2014 or 2015.

3. Performance was very poor in the quarter to end September 2015, but has improved since then, with a return of 3.9% in October (versus a benchmark of 0.4%) and further gains in the first few days in November. The since inception performance for Surrey to end October 2015 would be about 0.5% per annum, ahead of the benchmark.

4. The portfolio is positioned for rising US interest rates and is to be very different from the benchmark, with a negative correlation to US Treasuries and large exposures to EM bonds. These were both significant detractors in the latest quarter to September 2015.

5. Credit views were positive (+0.8%), but offset by country (-2.7%) and especially by currency (-5.6%). Within emerging markets, the biggest hits were from currencies exposed to China (South Korea, Malaysia) or oil (Mexico, Brazil). The main positives were a short position in Australian dollars (a hedge on China) and the refinancing of Ukrainian bonds. The Ukrainian holdings are now trading above cost despite the haircut on refinancing.

6. Franklin's core views remain the same – that US interest rates will rise in December 2015 as wage pressures increase and the strength of the US economy and the US consumer continue apace; China will experience a soft landing (with consumer/service sectors offsetting weak industrial sectors) and world economic growth will be about 3% pa. FT regards the Chinese devaluation as having made sense and a sensible move, despite the poor communications and poor implementation. The Chinese stock correction was marked but should be taken in the context of previous growth.

7. On this basis, they believe US Treasuries are highly overvalued. FT regards the Federal Reserve as remaining very aware of global events. Could EM economies could be a disaster area when the US raises its rates? Possibly, but places like Mexico will continue to supply export markets. They regard it as being hard to argue against the future strength of the US dollar.

8. The Franklin portfolio has virtually no duration (0.1 years) and a very short profile to maturity (average 2.8 years). This is regarded as a defensive stance. They hold very little in US or Euro bonds and no Japanese government bonds. The currency positions are also hugely short in terms of Euro (-48%) and Yen (-30%), with long positions in Mexico (+19%) and the Korean Won (+18%). Ukraine debt is still holding a profitable position.

9. With regard to Brazil, reforms will worsen the recession in the short term, but things look favourable over the long term.

Advisor view: FT takes huge views relative to the index so relative returns will often be very different each quarter or year. While the latest quarter is clearly disappointing, it is still too early to judge the manager properly. The encouraging aspects are that they are sticking to their views and that the team is stable. Nonetheless, we should remember that this fund will not behave like any of our other bond mandates. It would suffer hugely if a collapse in China prompted a global deflation crisis, but should deliver good returns if the world economy continues to muddle through. As a result it is a diversifying growth asset not a defensive matching asset.

UBS

Performance	Return	Benchmark	Relative
	%	%	%
Quarter	-8.4	-5.7	-2.7
1 year	-4.8	-2.3	-2.5
3 years*	**9.7**	**7.2**	**2.5**
5 years*	8.2	6.7	1.5
Since inception*	6.7	5.5	1.2

Annualised

1. Met with Digby Armstrong, Steve Magill and Guy Walker.

2. The retirement of Richard West and the new arrival of Guy Walker have not resulted in any changes to the client base for the UK Value product. Indeed, it has been upgraded to ‘buy’ by Mercer, although there is little demand for new UK equity mandates. The UBS team regard Guy as having made a good start since Richard’s departure.

3. Different value indices all show substantial headwinds for the style since early 2014, with a large fall over the summer. Value indices are overweight in mining, oil and banks, so they were heavily hit by weaker commodity prices and concerns about China. The portfolio was also affected by the mining section downturn.

4. The performance shortfall of 2.7% in the quarter is large, but not unprecedented for this product. Roughly half of the shortfall came from strong performance from stocks not held, such as SAB Miller that was the subject of a takeover bid. Active risk is regarded as having risen over the year with a medium risk stance now being taken.

5. Historically, M&A activity tends to benefit the value style, but this is not the case at present because most M&A is in ‘safe’ sectors that are already expensive.

6. Valuation remains the key focus for stock selection. The Value Team does not interact with the wider analyst team at UBS.

7. During the quarter the fund added to mining stocks, which now trade at a low price relative to tangible assets or sustainable return on capital. The fund introduced Glencore during the quarter as its price fell from 250p to a low of 70p. The average purchase price was 114p with many small purchases undertaken during the quarter. The market perception of risk and low price has allowed aggressive buying to take place. Industrial stocks contributed significantly over the quarter and consumer stocks detracted from performance.

8. The advisor asked about stocks where the team had changed its view. An example is Standard Chartered where the initial expectation for a management turnaround was undermined by deteriorating trading conditions in Asia. The position was sold at a loss when the fund bought HSBC. The team is currently debating whether or not to switch back into Standard Chartered following a substantial share price fall. There is a compelling case to return but a clear out at the bank and further price fall could still happen.

9. The team took positions in Serco Group with a new management team in place. The shares were lowly valued with the company looking good with prospects for major improvement.

10. The portfolio will remain overweight with oil/gas, industrials and financials. The portfolio still has a very strong value bias and the team are very happy with the new working arrangements.

Advisor view: Value is a cyclical style that has a good long-term track record but with a lot of bumps along the way. When investors change from being relaxed to being worried, as they have this year, it is usual for value stocks to suffer. As those fears recede, value stocks should tend to do well.

Western Asset Management

1. Met with Anthony Dickson and David McIntyre.

Performance	Return	Benchmark	Relative
	%	%	%
Quarter	-2.1	0.1	-2.2
1 year	1.6	0.5	1.1
3 years*	**4.5**	**0.5**	**4.0**
Since inception*	5.8	0.5	5.3

Annualised

2. Following Mike Brooks's departure, the Diversified Growth team has added a new analyst (Scott Lothian) and Felix Amoako has been appointed a Fund Manager.

3. Performance is regarding as having fallen away over the last quarter.

4. The long term capital market assumptions have been reduced to reflect lower expected 'normal' interest rates at 2.25% nominal over the next 10 years. This, in turn, reflects lower structural productivity growth, demographic headwinds in developed economies and the high starting debt burden. The implication is that equities will probably trend to 6% per annum rather than 8% per annum.

5. The last 12 months have been disappointing, with emerging market exposure undermining positive contributions from currency, absolute return and property. EM markets are weak as the market reassessed future growth prospects under the threat of increased US interest rates. However, EM markets are still favoured in the long term, given the advantages of demographic profile and the potential growth from infrastructure improvements. Also, whilst the level of EM debt is lower, growth prospects are higher than developed markets.

6. However, some emerging economies will fail despite having the right ingredients, largely because the political structures are inefficient. Brazil is an example. Mexico, by contrast, is progressing well, although it has been hit just as hard in the recent sell off. In part, this is due to liquidity factors. Mexico has a more liquid bond market, so it tends to suffer when investors want to reduce EM exposure across the board. Mexico's structural reforms provide a clear sense that things are starting to get better.

7. While positive on EM generally, BG are wary of China. The transition of such a large economy from industrial to consumer/services driven seems implausible without a financial crisis along the way, but the economic/investment data is too opaque to be sure what is actually happening. While such an outcome would be damaging, they would expect some offsets through short positions in Australian and NZ dollars. They would also expect the trend following absolute return funds to perform well.

8. Recent valuation swings make listed equities and high yield more attractive relative to senior secured assets. Similarly, the reduced expectations for cash returns make real assets with low nominal returns (property and infrastructure) more interesting.

9. Insurance linked continues to be wound down, with the exposure likely to fall from 4% to below 2% early next year following renewals. Capital flows into this market have forced renewal rates too low. In particular, they highlighted US retail demand, with one firm apparently now accounting for over 10% of the ILS market and needing to bid aggressively for every new issue to satisfy fund flows.

10. The new Diversified Growth fund is still in the pipeline, but will launch soon. It is designed for the DC market, so has a lower fee charge and makes less use of external or illiquid capabilities.

11. The advisor asked if there were any regrets in the quarter. With hindsight, BG would have chosen to hedge EM currencies. The portfolio suffered for this.

12. With regard to the worst future scenarios, deflation and a China collapse remain high on the possible damage radar. If such a collapse took place, high rated sovereign gilts would be a safe haven to turn to. Currently, Brazilian bonds are very cheap but BG are unsure if they might go cheaper still.

Advisor view: it has been a difficult year for Diversified Growth funds generally and Baillie Gifford has performed broadly in line with others. The fund continues to provide exposure to a range of interesting asset classes and an attractive mix of consistent, risk adjusted returns in the long term.

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ANNEX 1

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) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Board on 13 February 2015. Future trigger points for leverage will provide liability protection against interest rate risk with the full protection framework in place. Once leverage commences, this will reduce the net score arising from mitigating actions.	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 within a liability driven investment portfolio to mitigate risk. 4) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Board on 13 February 2015. Future trigger points for leverage will provide liability protection against inflation risk with the full protection framework in place. Once leverage commences, this will reduce the net score arising from mitigating actions.	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 and postcode 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) 2015/16 Investment strategy review is current. 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. Overall investment benchmark and out-performance target is fund specific.	3	30
Operational	5	5	Rise in ill health retirements impact employer organisations	1	4	1	6	4	24	TREAT- 1) Possibility of insuring against the cost and impact previously considered and deferred.	4	24
Investment	6	6	Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £2.6m	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 compared with less diversified structures.	2	24
Financial	7	7	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	8	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
Investment	9	9	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 compared with historical data.	2	20
Funding	10	10	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond	3	4	3	10	3	30	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) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate.	2	20
Funding	11	11	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	12	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
Investment	13	13	Volatility caused by uncertainty with regard to the possible withdrawal of the UK from the European Union	3	3	2	8	3	24	TREAT- 1) Officers to consult and engage with advisors. 2) Possibility of looking at move from UK to global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.	2	16
Operational	14	14	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	15	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	16	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	17	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
Operational	18	New Entry	Failure to hold personal data securely	1	1	4	6	3	18	TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin records are locked daily in a secure safe. 4) SCC IT data security policy adhered to.	2	12
Funding	19	18	Impact of government policy on the employer workforce	3	2	1	6	3	18	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 when carrying out the actuarial valuation.	2	12
Governance	20	19	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	21	20	Change in membership of Pension Fund Committee 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	22	21	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	23	22	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	24	23	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	25	24	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
Governance	26	25	Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	1	4	6	1	6	TOLERATE -1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board	1	6
Financial	27	26	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	28	27	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	29	28	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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