

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 12 February 2016 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:

Jason Bailey, Pensions Services Manager
Rachel Basham, Senior Manager – Leadership and Member Support
John Harrison, Surrey Pension Fund Advisor
Nick Harrison, Chairman – Local Pension Board
Kevin Kilburn, Chief Finance Officer
Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)
Steve Turner, Partner, Mercer
Ayaz Malik, Trainee Accountant

1/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

No apologies were received.

2/16 MINUTES OF THE PREVIOUS MEETING 13 NOVEMBER 2015 [Item 2]

The Minutes were approved as an accurate record of the meeting, apart from a small amendment on page 16, concerning the identity of a fund manager interviewed.

3/16 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of disclosable pecuniary interest.

4/16 QUESTIONS AND PETITIONS [Item 4]

No questions or petitions were received.

5/16 ACTION TRACKING [Item 5]

Declarations of interest:

None

Key points raised during the discussion:

1. In relation to A18/15, it was clarified that a report outlining the CPI plus model, economic model and gilts plus model would be presented to the committee at its next meeting on 25 February 2016. Given the importance of the paper, the Chairman agreed that the draft report should be circulated to the committee as soon as it was ready.
2. All the other actions were reported as complete and ready to be removed from the action tracker.

Actions/further information to be provided:

1. That the draft report outlining the CPI plus model, economic model and gilts plus model be shared with the committee in the week commencing 15 February 2016.

Resolved:

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

6/16 LOCAL GOVERNMENT PENSION SCHEME INVESTMENT REFORM: NATIONAL POOLING [Item 6]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report. He stated that since the publication of the government consultation in November 2015, Local Authorities had carried out a significant amount of work to bring forward proposals for pooling Local Government Pension Schemes.
2. The Government had set out four main criteria for administering authorities to consider when developing their criteria:
 - a. Assets pools that achieve the benefits of scale
 - b. Strong governance and decision making
 - c. Reduced costs and excellent value for money
 - d. An improved capacity to invest in infrastructure.

3. There was a discussion regarding criteria point d - the improved capacity to invest in infrastructure. The Committee expressed concern that it was not the place of Government to mandate investment of local pension funds, and that this should be reflected in Surrey's consultation response.
4. The Strategic Finance Manager (Pension Fund & Treasury) put forward the current pooling options being considered, as listed on pages 28 and 29 of the agenda papers. Surrey now forms part of the Borders to Coast Pensions Partnership (BCPP), which it had founded alongside East Riding and Cumbria. The partnership was unusual in the fact that it was not a regional collaboration (as is the case with many of the other pooling options), but a collaboration with other like minded funds.
5. One Member queried what the proposed consultancy budget provision would be used for. The Chairman responded that there were consulting firms with experience of fund mergers, taxation, legal structures and audit who would be called upon to provide advice to the pool.
6. The Strategic Finance Manager (Pension Fund & Treasury) stated that further details regarding the BCPP were included in annex 1, which had been sent to the Committee by e-mail. As not all the Committee Members had yet had time to read the annex, the Chairman agreed to adjourn the meeting for a short period to allow them to do so before continuing the debate.

The meeting was adjourned from 10.30am – 10.50am.

7. When the Committee returned the Chairman stated that under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting as the discussion of annex 1 would involve the likely disclosure of exempt information under the relevant paragraph of Part 1 of schedule 12a of the Act.
8. The Committee had a discussion regarding the detail included in annex 1, the proposal for pooling from the BCPP.

Actions/further information to be provided:

1. That the Strategic Finance Manager (Pension Fund & Treasury) provides clarification on what the term TECKAL Company means.

Resolved:

1. That the Strategic Finance Manager (Pension Fund & Treasury) amends the BCPP proposal to include comments from the committee in reference to governance arrangements.
2. That, subject to those amendments taking place, the Pension Fund Committee approves and adopts the proposal to government reference the Border to Coast Pensions Partnership.
3. That the Pension Fund Committee approves an initial £50,000 for consultancy and advisory costs.

7/16 LOCAL GOVERNMENT PENSION SCHEME INVESTMENT REGULATIONS CONSULTATION [Item 7]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, which outlines the details of a Government consultation on LGPS investment regulations and Surrey's draft response.
2. There was a debate regard point 3 in Surrey's response, specifically, 'Surrey has some concern about the broad powers being taken for the Government to direct funds' investment processes.' The Committee felt that this needed to be strengthened to reflect their *considerable* concerns in this area. It was also important to make clear that fund investments should ultimately be driven by the need to pay members' pensions, rather than directions from Government to invest in certain areas.

Actions/further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee approve and agree the attached response to government, shown in annex 2, subject to the amendments raised in the discussion regarding point 3 (as detailed above).

8/16 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 8]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, which provided a summary of manager issues for the committee's attention, as well as details of manager investment performance.
2. The committee had a number of questions relating to the proposal, detailed on page 53 of the agenda papers, to invest in the Secondary Opportunities Fund (SOF) III:
 - a. The Vice-Chairman queried whether it was sensible to invest in funds that would not form part of the BCPP. The Strategic Finance Manager (Pension Fund & Treasury) responded that Government accepted that there would be a small number of assets that would not immediately go into the pool and that there was a period of over two years before the pool would come into operation.
 - b. There was a request for information on the performance of SOF I and II, to which the Surrey Pension Fund Adviser responded that it was still early days to assess performance on such long term investments.

- c. The Chairman queried what Standard Life were investing the money in, to which the Surrey Pension Fund Adviser responded that it was unlikely they would provide a structured list. He stated that the advantage of secondary investments was that, due to their long-term nature, assets could be brought at a reduced price. However, the disadvantage was that you did not tend to have a say in which industries you were investing in.
 - d. The Strategic Finance Manager (Pension Fund & Treasury) clarified that Surrey had invested \$20 million dollars in both SOF I and II, and that such investments had generally been very profitable.
 - e. The Partner from Mercer highlighted that the Surrey fund was slightly underweight in their commitment to private equity. Investing in the SOF III now would be a good way of diversifying the fund's vintage year exposure.
 - f. After discussion, Members and Officers agreed to support investment into SOF III. However, the Vice-Chairman requested that it be recorded in the minutes that he would prefer to know what other SOF opportunities were available.
 - g. The Chairman requested that Officers look to further reduce the management fee.
3. There was a discussion regarding Manager meetings and the fact that, in the past, committee members had been able to attend these and found them helpful. The Strategic Finance Manager (Pension Fund & Treasury) stated that, in future, he would ensure the dates of these meetings were circulated to committee members. However, the Chairman stressed that it was important for Members to remember that these meetings are an executive tool and that Members should only attend as observers.
 4. The Senior Accountant introduced the Management Investment Performance Report. The Independent Advisor highlighted the fact that overall asset value had reduced by 5%.
 5. The Surrey Pension Fund Adviser provided an overview of the Fund Manager meetings, as detailed in annex 2. The Surrey Pension Fund Adviser stated that the key issue for consideration of the Pension Fund Committee was in relation to the meeting held with CBRE, and whether to increase investment in property given that the fund is already overweight in this area. After discussion, the committee agreed to amend the policy allocation to property from 6.5% to 7.5%, allowing for an investment of £30million from pension fund cash.
 6. The Partner from Mercer stated that Western may change their portfolio to tap into high yield opportunities in America. The Surrey portfolio with Western's Multi Asset Credit team would have advantage of this.

Actions/further information to be provided:

None.

Resolved:

1. That the report was noted.
2. That the Pension Fund Committee approve a \$25m USD commitment to Standard Life Capital Partners Secondary Opportunities Fund III, subject to successful fee negotiation.

3. That the Pension Fund Committee agrees to amend the asset policy allocation to property from 6.5% to 7.5%, allowing for a cash injection of £30million.

9/16 PENSION FUND BUSINESS PLAN 2016/17 [Item 9]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the business plan, which is revised annually. He stated that a report would come to the May meeting of the Pension Fund Committee to update Members on the implementation of the business plan.

Actions/further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee adopts the attached Business Plan shown in Annex 1 in respect of the 2016/17 financial year.

10/16 PENSION FUND RISK REGISTER [Item 10]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the Pension Fund Risk Register.
2. One new risk was highlighted to the committee which concerned the implementation of the BCPP asset pool.

Actions/further information to be provided:

None.

Resolved:

That the report was **NOTED**.

11/16 CORPORATE GOVERNANCE SHARE VOTING [Item 11]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the paper which provided a summary of the Fund's share voting process in quarter 2 and quarter 3 of 2015/16.

Actions/further information to be provided:

None.

Resolved:

1. That the report was **NOTED**.

**12/16 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE
[Item 12]**

Declarations of interest:

None

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report, which provided an update against Pension Fund key performance indicators as well as an update of administration issues.
2. The Pensions Fund Manager highlighted some areas of concern that had impacted the operational team's performance level. Firstly, the Surrey pension team had recently inherited two administration services from London Boroughs. This had resulted in the service needing to take on new members of staff and it is often difficult to recruit senior LGPS advisors. New staff had now been recruited and the team restructured, which should have a positive impact on performance by quarter 2.
3. The service had also recently set up a Pensions Helpdesk which was averaging 1000 enquires a week, signalling an increased awareness in pensions.
4. One Member stated that, whilst he understood the difficulties in recruiting staff, there was a need to ensure that performance levels in certain areas, such as death benefits and benefit statements, were maintained as far as possible. The Pensions Fund Manager stated that he felt the restructure would offer more resilience to maintain good performance levels in these areas in the future.
5. There was also a query from a Member regarding the number of people making enquiries about transferring out of the scheme, and whether there was a possibility that the beneficiaries were being 'scammed'. The Pensions Fund Manager responded that, although the changes to pensions by Government earlier in the year did result in a number of enquiries about transferring out of the scheme, the number of actual transfers was minimal with evidence of independent advice to to each beneficiary statutorily required.

Actions/further information to be provided:

None.

Resolved:

1. That the report, including the KPI statement shown in Annex 1, was **NOTED**.

13/16 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 13]

Declarations of interest:

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report. Although there had been no recent changes to the Statement of Investment Principles (SIP) and Core Belief Statement, it was considered good governance for the Committee to review these documents on a regular basis.

Actions/further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee approved the Statement of Investment Principles shown in Annex 1.
2. That the Pension Fund Committee approved the Core Belief Statement shown in Annex 2.

14/16 EXCLUSION OF THE PUBLIC [Item 14]

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 the relevant paragraphs of Part 1 of Schedule 12A of the Act.

With the agreement of the Committee, the Chairman considered item 16 before item 15.

15/16 CATEGORISING OF EMPLOYERS BY RISK AND COVENANT STRENGTH [Item 15]

Declarations of interest:

None

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report, before answering a number of questions from Members.

Actions/further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee agreed the risk based methodology to be employed.
2. That the Pension Fund Committee approve the commissioning of a covenant specialist to carry out a review of the covenant strength of relevant employers within the fund.

16/16 PENSION ADMINISTRATION SYSTEM [Item 16]

Declarations of interest:

None

Key points raised during the discussion:

1. The Pensions Services Manager introduced the report, before answering a number of questions from Members.

Actions/further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee agreed the recommendations in relation to the Pension Fund Administration System, as set out in the report.

17/16 PUBLICITY FOR PART 2 ITEMS [Item 17]

It was agreed that non-exempt information may be made available to the press and public, where appropriate.

18/16 DATE OF NEXT MEETING [Item 18]

The date of the next meetings was NOTED.

Meeting ended at: 3.15pm

Chairman