

Notice of Meeting

Surrey Pension Fund Committee

**Date & time**

Friday, 13 May 2016
at 1.00 pm

Place

Members Conference
Room, County Hall,
Kingston upon
Thames, KT1 2DN

Contact

Angela Guest
Room 122, County Hall
Tel 020 8541 9075

Chief Executive

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 Angela Guest on 020 8541 9075.

Elected Members

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

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) and Philip Walker (Employees)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING HELD ON 25 FEBRUARY 2016

(Pages 1
- 6)

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 May 2016).
2. The deadline for public questions is seven days before the meeting (6 May 2016).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 ACTION TRACKING

(Pages 7
- 12)

An action tracker is attached, detailing actions from previous meetings. The Committee is asked to review progress on the items listed. The forward plan is attached for information.

6 EXCLUSION OF PUBLIC

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

PART TWO - IN PRIVATE

The following item of business will be considered by the Committee.

- 7 CHOICE OF DISCOUNT RATE METHODOLOGY: 2016 VALUATION** (Pages 13 - 18)

This report considers the three potential options available to the Fund and suggests one for approval.

Confidential: Not for publication under Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

PART ONE – IN PUBLIC

PART ONE – IN PUBLIC

- 8 POOLED ILL HEALTH RETIREMENT SELF INSURANCE** (Pages 19 - 24)

This report puts the case for pooled ill health retirement (IHR) self insurance as an efficient and cost effective method of mitigating IHR risk to the Fund for approval.

- 9 KEY PERFORMANCE INDICATORS & ADMINISTRATION UPDATE** (Pages 25 - 30)

This report provides the quarterly Pension Fund key performance indicators and an update on administration issues for information.

- 10 PENSION FUND BUSINESS PLAN 2015/16: OUTTURN REPORT** (Pages 31 - 46)

This report sets out the outturn of the annual business plan for 2015/16 for noting.

- 11 LGPS INVESTMENT REGULATIONS- CONSULTATION REPORT** (Pages 47 - 54)

This report requires a decision.

- 12 MANAGER ISSUES AND INVESTMENT PERFORMANCE UPDATE** (Pages 55 - 92)

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

Annex 2: Minutes from meetings with fund managers on 05 May 2016 to follow.

- 13 CORPORATE GOVERNANCE SHARE VOTING** (Pages 93 - 106)

This report provides a summary of the Fund's share voting process in Q4 of 2015/16 (1 January 2016 to 31 March 2016) for noting.

- 14 REVISED STATEMENT OF INVESTMENT PRINCIPLES** (Pages 107 - 128)

The Pension Fund Committee to review and approve its Statement of Investment Principles (SIP) and Core Belief Statement.

- 15 PENSION FUND RISK REGISTER** (Pages 129 - 134)

The Pension Fund Committee to assess the revised Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

16 PUBLICITY FOR PART TWO ITEMS

To consider whether the items considered under Part 2 of the agenda should be made available to the Press and the public.

17 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Board will be on 9 September 2016. An Extraordinary Meeting to be arranged for 11 July 2016 if agreed under item 9.

David McNulty
Chief Executive
Published: 5 May 2016

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 12.00 pm on 25 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

Rachel Basham, Senior Manager – Leadership and Member Support
 John Harrison, Surrey Pension Fund Advisor
 Sheila Little, Director of Finance
 Neil Mason, Senior Advisor (Pension Fund)
 John Orrick Local Pension Board Member
 Phil Triggs, Strategic Finance Manager (Pension Fund & Treasury)

19/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Tony Elias and Hazel Watson.

20/15 MINUTES OF THE PREVIOUS MEETING [Item 2]

The minutes were agreed as a true record of the meeting, subject to a minor amendment regarding ensuring consistency when referring to the Surrey Pension Fund Advisor.

21/15 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of disclosable pecuniary interests.

22/15 QUESTIONS AND PETITIONS [Item 4]

No questions or petitions were received.

23/15 ACTION TRACKING [Item 5]**Declarations of interest:**

None

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) confirmed that he had sent a definition of the term TECKAL company to the Committee outside of the meeting.
2. The Strategic Finance Manager (Pension Fund and Treasury) updated the Committee on an issue that had been raised at the last meeting regarding governance arrangements for the proposed Borders to Coast Pensions Partnership (BCPP). At the last meeting, concerns had been raised regarding the ability of the proposed Supervisory Entity to sign off decisions regarding Fund Managers. Three Committee Members (Alan Young, Tim Evans and Stuart Selleck) had been tasked with working alongside the Chairman and Strategic Finance Manager (Pension Fund and Treasury) to raise this issue outside of the meeting, with a view to amending the governance section in the proposal. Advice had been sought from the Local Government Association who had advised that decisions regarding Fund Managers should be the responsibility of the Executive Body. Therefore, this element of the proposal was not amended.
3. The Chairman stated that although the Supervisory Entity would not appoint Investment Fund Managers, they would take decisions on the sub-buckets and how the fund is structured. They would also be responsible for appointing the Executive Body.
4. The Vice-Chairman queried whether the advice from the LGA was available in writing, to which the Chairman responded that it was and that she would forward it to the Committee outside of the meeting.
5. Members agreed that this decision made the communication between the Surrey Pension Fund Committee and their representative on the Supervisory Entity very important. They would also need to be confident that the Executive Body had the right skills to make decisions about Investment Fund Managers.
6. The Director of Finance confirmed that there was a flowchart which set out the proposed governance arrangements for the BCPP which Officers would share with the Committee.
7. It was confirmed that the detailed submission would be need to be submitted to Government by the end of July 2016, with full implementation by July 2018.

Actions/further information to be provided:

1. That the Chairman e-mails the advice from the LGA regarding the role of the Supervisory Committee in making decisions about Investment Fund Managers to the Surrey Pension Fund Committee.

2. That the Strategic Finance Manager (Pension Fund and Treasury) shares a diagram setting out proposed governance arrangements for the BCPP with the Surrey Pension Fund Committee.

Resolved:

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

24/15 ACTUARIAL ASSUMPTIONS: 2016 VALUATION [Item 6]

Declarations of interest:

None

Witnesses:

Barry McKay, Hymans Robertson

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduced the report, providing an overview of the actuarial assumptions to be used in the next actuarial valuation of the Pension Fund. He also introduced three different models of establishing discount rates (Gilts plus, CPI plus and the Economic model), and outlined the advantages and disadvantages of each one.
2. It was noted that the Economic model was not used widely amongst Pension Funds as it was considered to be more generous and less prudent than the other models.
3. The representative from Hymans Robertson provided an update to the Committee on the 2016 valuation process. He stated that Hymans Robertson had reviewed their valuation method in the previous year and decided, although no model was perfect, that Gilts plus model was the best available.
4. The representative also set out Hymans Robertson's two step approach to valuation. Firstly, they set a funding target using the Gilts plus model and the assumptions set out in the report. Secondly, they set a contribution rate by running over 5000 assumptions.
5. The Chairman queried whether the contribution rate modelling was based on a Gilts yield or CPI model. The representative from Hymans Robertson responded that it was on a Gilts yield curve. A CPI curve was not yet widely available and would therefore take more time to create. He added that the curve used did not impact on the discount rate, simply the way it was presented.
6. The Committee had a discussion, querying the benefits of the CPI plus model vs the Gilts plus model. A number of points were made including:
 - a. Whether the Gilts plus model was proving to be too prudent and therefore not offering the best deal to employees, and ultimately Council Tax payers.
 - b. Whether it was sensible to use a Gilts Plus Model when so much of the fund was invested in assets.
 - c. That the distorted market tended to favour the CPI plus model.

- d. The impact of using the Gilt plus model on public perception, in that the CPI model tends to produce a smaller number.
 - e. Whether the Gilt plus model represented an accurate view of what is happening with inflation.
 - f. Whether the Gilt plus model was overestimating the funds liabilities.
7. A number of Members acknowledged the fact that stabilisation had been successful in setting a stable contribution rate – and that this was something that was important to employers.
 8. The Vice-Chairman stated that any measure chosen could be subject to future distortions; it just happened that current distortions could be seen in the Gilt market.
 9. The Chief Finance Officer stated that Officers did receive queries from the public when accounts were published regarding the size of the deficit and liabilities. Any change to how they were presented would need to be explained.
 10. The majority of the Committee Members expressed preference for the CPI model. It was felt that if the fund liabilities were linked to CPI, valuation should be linked to CPI as well.
 11. It was agreed to look at this item again at the May meeting with a view to making a final decision on which model to use in the future.

Actions/further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee considers whether to move to the CPI plus model at their next meeting in May 2016.

25/15 EXCLUSION OF THE PUBLIC [Item 7]

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.

26/15 INVESTMENT CONSULTANT INTERVIEWS [Item 8]

Declarations of interest:

None

Key points raised during the discussion:

1. The Pension Fund Committee assessed four different firms of Investment Consultants, as part of the procurement exercise to agree a supplier.

Resolved:

That the Pension Fund Committee:

1. Noted the assessment criteria by which an investment consultant may be appointed.
2. Agreed the appointment of a supplier who achieved the highest score on a two year contract with an option to extend for two further years, with effect from 1 April 2016, in line with the LGPS Frameworks document.

27/15 PUBLICITY FOR PART 2 ITEMS [Item 9]

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

28/15 DATE OF NEXT MEETING [Item 10]

That the date of the next meeting, scheduled to take place on 13 May 2016, be re-arranged due to a clash with the Conservative Group Annual General Meeting.

Meeting ended at: 5.30pm

Chairman

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**Surrey Pension Fund Committee
13 May 2016**

ACTION TRACKER

PURPOSE OF REPORT:

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

INTRODUCTION:

An action tracker recording actions and recommendations from previous meetings is attached as **Annex A**, and the Committee 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: Angela Guest, Regulatory Committee Manager
020 8541 9075
angela.guest@surreycc.gov.uk

Sources/background papers: None

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Surrey Pension Fund Committee – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action by when	Action update
A18/15	13 Nov 15	Manager Issues and Investment Performance	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 risks and opportunities involved.	Director of Finance, Strategic Manager, Pension Fund & Treasury	February 2016	It was confirmed at the meeting on 12 February 2016, that this report would come to the meeting on 25 February 2016. Completed
A1/16	12 Feb 16	Action Tracking	That the draft report outlining the CPI model, economic model and gilts model be shared with the committee in the week commencing 15 February 2016.	Director of Finance, Strategic Manager, Pension Fund & Treasury	w/c 15 February 2016	Completed
A2/16	12 Feb 16	Local government pension scheme investment reform: national pooling [That the Strategic Finance Manager (Pension Fund & Treasury) provides clarification on what the term TECKAL Company means	Director of Finance, Strategic Manager, Pension Fund & Treasury	25 February 2016	Completed
A3/16	13 May 16	Scheme of Delegation – Final Submission	Extraordinary Meeting to be arranged for sign off in July	Committee Manager	15 May 2016	

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Surrey Pension Fund Committee: Forward Plan

13 May 2016	<ul style="list-style-type: none"> • Manager Issues, etc • KPIs • Risk Register • Share voting • Business plan outturn 15/16 • Discount rate for actuarial valuation • Investment Regulations consultation and pooling update • Ill Health Insurance
9 September 2016	<ul style="list-style-type: none"> • Manager Issues, etc • KPIs • Risk Register • Share voting • Private equity review • Pension Fund accounts 15/16
11 November 2016	<ul style="list-style-type: none"> • Manager Issues, etc • KPIs • Risk Register • Share voting
February 2017	<ul style="list-style-type: none"> • Manager Issues, etc • KPIs • Risk Register • Share voting • Business plan 17/18

Next training

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: POOLED ILL HEALTH RETIREMENT SELF INSURANCE



SUMMARY OF ISSUE:

This report puts the case for pooled ill health retirement (IHR) self insurance as an efficient and cost effective method of mitigating IHR risk to the Fund.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approve the implementation of pooled IHR self insurance.

REASON FOR RECOMMENDATIONS:

The costs associated with IHR can be substantial and have serious financial implications for individual employers and potentially for all Fund employers.

The inability of a single employer to meet IHR costs could mean that this liability ultimately falls on other employers in the Fund. This risk has increased as the number of employers in the Fund has proliferated.

In previous reports to the Pensions Committee, the relative merits of mitigating IHR risk were documented and the purchase of an insurance product was recommended. However, this was subsequently discounted due to substantial premium costs among other concerns.

It was agreed to revisit the Fund's approach to the mitigation of IHR risk, once data providing evidence of IHR experience relevant to the LGPS 2014 scheme had been assessed.

DETAILS:

Background

1. In a report to the Pension Fund Committee on 14 February 2014, the relative merits of mitigating IHR risk were documented and the purchase of an insurance product to mitigate this risk were approved, subject to confirmation from the Head of Legal Services that the Council would not breach any procurement regulations by taking out the insurance policy with Legal & General.

2. The preferred option was that an ill health insurance policy with Legal & General at a reasonable premium cost of 0.63% of payroll, when compared with the five-year average experienced strain for Tiers 1 and 2 IHRs of 0.51% of payroll from 2008/09 to 2012/13 (which included a peak of 0.82% of payroll in 2011/12).
3. Officers 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.
4. Given the delay which resulted from a protracted procurement process, it was necessary to resubmit fund data to Legal & General for a revised quotation.
5. Legal & General produced a revised quotation on 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 had an increase in premium from 0.63% to 0.88%.
6. Due to the increase in the premium quoted by Legal & General, the Pension Fund Committee did not approve the purchase of IHR insurance until such time that it has been possible to assess the impact of the new scheme rules on the costs of IHR to the Fund and the associated value for money of the Legal & General insurance contract.

Update

7. Data from 2014/15 and 2015/16 shows that Tiers 1 and 2 ill health retirement experience over this period continues to be a significantly less than the ill health insurance premium of 0.88% of payroll; as shown in the Table 1 below:

Table 1: Ill Health Retirement 2011/12 to 2015/16

Financial Year Ending	Total Payroll £m	Annual Premium @ 0.63% £m	Annual Premium @ 0.88% £m	Total Tier 1 and 2 strain £m	Strain and Premium Difference £m	Equivalent premium rate of Tiers 1 and 2 strain
31/03/2016	574		5.05	2.00	-3.05	0.35%
31/03/2015	542		4.77	1.79	-2.98	0.33%
31/03/2014	517	3.26		2.72	-0.54	0.53%
31/03/2013	489	3.08		2.30	- 0.78	0.47%
31/03/2012	465	2.93		3.79	0.86	0.82%
Total	2,587		19.09	12.6	- 6.49	0.49%

Pooled ill health self insurance

8. Currently, employers in the Fund effectively self insure against IHR risk, with the actuary allocating an allowance in accordance with member experience. This ranges from 0.1% to 4.3% of payroll, with the whole of fund average being 2% of payroll. The figures are backwards looking and will require updating for the 2016 valuation, with a likely reduction to reflect recent experience.

9. This approach continues to expose the Fund to a financial risk as the failure of a single employer to meet IHR costs could mean that this liability ultimately falls on other employers in the fund.
10. The Fund has discounted ill health insurance as a method of mitigating this risk as the costs are prohibitive and do not offer value for money.
11. An alternative approach is to continue to self insure but reduce risk by operating this on a pooled basis.
12. The purpose of this approach is to create a pool of assets that would recompense participating employers for the strain costs associated with IHRs. This would be achieved through:
 - Collecting a proportion of employers' contributions as premiums.
 - Allocating these contributions to a segregated sub fund(s) within the unitisation system.
 - The segregated sub fund will be invested in accordance with the Funding Strategy Statement.
 - The segregated sub fund will be capped at the amount of assets required to pay three years of expected claims.
 - When IHRs occur for a participating employer, the strain cost will be met from the segregated sub fund.
13. The calculation of the employer premiums will be the average of the current ill health allowance. This is currently 2% per employer. However, this will require revision to take account of recent IHR experience as previously detailed.
14. This approach does present the possibility that the segregated sub fund will be over or under funded. In each case, the following action will result:
 - Overfunding: any overfunding will be redistributed to employers through reducing or suspending premiums.
 - Underfunding: premiums would effectively be 'borrowed' from employer assets.

Pros and cons of the pooling ill health insurance

15. **Pros**
 - Benefit to the fund of a possible low claim environment.
 - Stability of employer contribution rate.
 - Mitigation of the risk of catastrophic ill health experience for small employers.
16. **Cons**
 - Risk remains with Fund if the cost of IHRs is higher than expected.
 - Subsidy by the IHR pool of those employers with above average IHR experience
 - The potential for some increased actuarial administration

Conclusion

17. The financial risk of IHR, heightened for smaller employers, is acknowledged. The Fund currently operates effective self insurance by employer experience but this does not eliminate the risk of IHR experience for individual employers.
18. The Fund has explored ways of mitigating IHR risk and has previously discounted third party IHR insurance due to cost until further data on recent IHR experience was understood.
19. Recent experience of IHR experience does not show that IHR strain has increased in line with the LGPS 2014 scheme. Indeed, the opposite has been true with the rolling five-year average reducing since the introduction of the new scheme. There has been no equivalent reduction in third party IHR insurance premiums.
20. An alternative method of mitigating IHR risk is through pooled self insurance. This operates in the same way as exists currently but, rather than ill health allowance being allocated by employer, it is instead charged on a whole of fund basis.
21. It is proposed that pooled IHR insurance be implemented for employers from the 2016 valuation on a non-discretionary basis.
22. IHR experience should be reviewed annually.

CONSULTATION:

23. The Chairman of the Pension Fund Committee has been consulted on this report.
24. Scheme employers will be consulted prior to implementation.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

27. The Section 151 Officer (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

28. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

29. 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

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

WHAT HAPPENS NEXT

31. The following next steps are planned:
- Consultation with scheme employers.
 - Implementation of the pooled ill health retirement from the 2016 valuation to take effect from 1 April 2017.

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

Consulted:
Pension Fund Committee Chairman

Sources/background papers:
None

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: KEY PERFORMANCE INDICATORS & ADMINISTRATION UPDATE



SUMMARY OF ISSUE:

In line with best practice, Pension Fund Committee members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices. This paper also includes an update on administration issues.

RECOMMENDATIONS:

It is recommended that:

- 1 The Pension Fund Committee note this report and the KPI statement shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To comply with best practice.

MATERIAL CHANGES FROM THE LAST REPORTING PERIOD (31 DEC 2015)

- 1 There is one funding, one investment performance, one contributions category and five administration categories that report changes over a three-month period as measured against their target.
- 2 Category number six (contributions received) has been amended, with the performance target increased to 100%, after recommendation from the Local Pension Board and to more closely reflect guidance from the Pensions Regulator.
- 3 The funding category has shown 2.3% decrease as compared with the previous three-month reporting period and the target performance level.
- 4 Of the nine administration categories, five show a deterioration as compared against the previous three-month reporting period and four show an improvement. Overall six administration categories failed to meet the performance target and eight either met or exceeded the performance target in the reporting period.
- 5 KPI number eight confirms that the administration costs per member remains in the lowest CIPFA benchmark quartile, as measured in the 12 months to 31 March 2015. The next CIPFA benchmarking results are expected to be available in quarter three.

DETAILS:**Requirement**

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

Key Performance Indicators

- 7 The current KPIs cover the following areas:
- Funding level;
 - Death benefit administration;
 - Retirement administration;
 - Ill health retirement administration;
 - Benefit statements;
 - New joiners;
 - Transfers in and out;
 - Internal dispute cases;
 - Material posted on website;
 - Employer and member satisfaction;
 - Investment performance;
 - Data quality;
 - Contributions monitoring;
 - Audit;
 - Overall administration cost;
 - Scheme membership;
 - Employer membership.
- 7 To provide the committee with a overview of the number of administration cases completed in the three-month reporting period, this number is now included in the KPI schedule.
- 8 The KPI schedule to 31 March 2016 is shown as Annex 1.
- 9 Periods covered in the schedule range from one month, three months and twelve months.
- 10 Members are invited to discuss the performances set out in the schedule.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

- 12 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13 There are no financial and value for money implications.

SECTION 151 (DIRECTOR OF FINANCE) COMMENTARY

14 The Section 151 (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the current KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

16 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

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

WHAT HAPPENS NEXT

18 The following next steps are planned:

- Continued improvement in the key performance indicators.
- Further refinement and additions of useful data.
- Monitoring of KPIs in accordance with future guidance from the Scheme Advisory Board and Local Pension Board.

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman.

Annexes:

Annex 1: Schedule of Key Performance Indicators

Sources/background papers:

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No	Description	Target	Lead Officer	No of cases	Actual (Score and RAG)	Reporting Period	Previous no of cases	Previous Score	Date Last Reported	Improvement/Deterioration	Comments
1	FUNDING										
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	100%	PT		72.7%	31/03/16		75.5%	31/12/15	↓ -2.80%	
2	PENSION ADMINISTRATION										
	DEATH BENEFITS Notify potential beneficiary of lump sum death in service grant within 5 days	95%	JB	6	100.0%	3 months to 31 Mar 16	5	100.0%	3 months to 31 Dec 15	→ 0.00%	
	Write to dependant and provide relevant claim form within 5 days of notification of death	90%		97	75.0%	3 months to 31 Mar 16	87	77.0%	3 months to 31 Dec 15	↓ -2.00%	
	Pay death grant within 5 days of receipt of relevant documentation	90%		48	90.0%	3 months to 31 Mar 16	29	89.7%	3 months to 31 Dec 15	↑ 0.34%	
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	90%		48	90.0%	3 months to 31 Mar 16	29	89.7%	3 months to 31 Dec 15	↑ 0.30%	
	RETIREMENTS Employer decision and options to members within 10 days	90%	JB	196	56.1%	3 months to 31 Mar 16	167	53.1%	3 months to 31 Dec 15	↑ 2.99%	
	New retirement benefits processed for payment following receipt of election within 10 days	95%		201	89.0%	3 months to 31 Mar 16	205	89.8%	3 months to 31 Dec 15	↓ -0.76%	
	ILL HEALTH RETIREMENTS Retirement options to members within 10 days	90%	JB	17	100.0%	3 months to 31 Mar 16	14	100.0%	3 months to 31 Dec 15	→ 0.00%	
	New retirement benefits processed for payment following receipt of election within 10 days	95%		17	100.0%	3 months to 31 Mar 16	13	100.0%	3 months to 31 Dec 15	→ 0.00%	
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%	JB		Final Tranche Issued Dec 2015/Jan 2016	12 months to 31 Aug 15	7024	Final Tranche Issued Dec 2015/Jan 2016	12 months to 31 Aug 15		
	DBS issued to 85% of eligible deferred members by 30th June	95%			Issued July 2015	12 months to 30 Jun 15		Issued July 2015	12 months to 30 Jun 15		
	NEW JOINERS New starters processed within 20 days	90%	JB	607	96.0%	3 months to 31 Mar 16	877	86.9%	3 months to 31 Dec 15	↑ 9.15%	
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	90%	JB	43	90.0%	3 months to 31 Mar 16	100	90.0%	3 months to 31 Dec 15	→ 0.00%	
	Non LGPS transfers-in payments processed within 20 days	90%		34	87.0%	3 months to 31 Mar 16	59	97.0%	3 months to 31 Dec 15	↓ -10.00%	
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	90%	JB	74	72.0%	3 months to 31 Mar 16	132	93.2%	3 months to 31 Dec 15	↓ -21.20%	Target days are 20 but the statutory time limit is 90 days (period of guarantee)
	Non LGPS transfers out payments processed within 20 days	90%		58	73.0%	3 months to 31 Mar 16	75	93.3%	3 months to 31 Dec 15	↓ -20.33%	
	INTERNAL DISPUTE CASES Number of cases referred to the stage 1 IDRPA adjudicator	N/A	JB/NM	1		3 months to 31 Mar 16	1	N/A	3 months to 31 Dec 15	→ 0	
	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 Mar 16		100%	3 months to 31 Dec 15	→ 0.00%	
3	CUSTOMER SERVICE										
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	80%	JB/NM		82%	At Aug 15		82%	At Aug 15		Annual survey: 19/23 respondents rated service good or higher. 4 rated Fair (none rated poor)
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	80%	JB		84%	At Jun 15		89%	At Jun 15	↓ -5.00%	
4	INVESTMENT PERFORMANCE										
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	Benchmark	PT		BENCHMARK -0.9%	12 months to 31 Mar 16		BENCHMARK 3.0%	12 months to 31 Dec 15		
					ACTUAL -1.2%	12 months to 31 Mar 16		ACTUAL 3.8%	12 months to 31 Dec 15		
5	DATA										
	DATA QUALITY Common data quality within the Fund should be at least 90% accurate.	90%	JB		99%	12 months to 31 Mar 15		99%	12 months to 31 Mar 15		Due Q2 for Valuation Submission
6	CONTRIBUTIONS										
	CONTRIBUTIONS RECEIVED Pension Fund 100% (total value) of contributions to be received by 21st day of the ensuing period.	100%	PT		99%	Mar-16		98%	Dec-15	↑ 1.00%	
7	AUDIT										
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	Unqualified	PT/JB / NM		Achieved	12 months to 31 Mar 15		Achieved	12 months to 31 Mar 15		
	Annual audit returns no significant findings	No significant findings			Investments + Administration Internal Audit opinion "effective"		Administration Internal Audit opinion "effective"				
8	COST										
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	< lowest quartile	PT/JB / NM		Lowest Quartile achieved	12 months to 31 Mar 15		Lowest Quartile achieved	12 months to 31 Mar 15		
9	SCHEME MEMBERSHIP										
	SURREY COUNTY COUNCIL Number of SCC members administered by the Pension Service Team	N/A	JB		89,847	As of 31 Mar 16		89,154	As of 31 Dec 15	↑ 693	
	Active members			33,404	33,101		↑ 303				
	Deferred members			33,200	32,966		↑ 234				
	Pensioner members			23,243	23,087		↑ 156				
	TOTAL Total number of members across all LGPS schemes administered by the Pension Service Team	N/A	JB		204,000	As of 31 Mar 16		204,000	As of 31 Dec 15		This sum includes all current schemes administered by the Pension Services Team.
10	SCHEME EMPLOYERS										
	SURREY EMPLOYERS Number of active employers in the Surrey Pension Fund	N/A	NM		202	As of 31 Mar 16		201	As of 31 Dec 15	↑ 1	

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: PENSION FUND BUSINESS PLAN 2015/16: OUTTURN REPORT



SUMMARY OF ISSUE:

The 2001 Myners Report (later confirmed by the CIPFA/Myners Principles) recommended that local authority pension funds 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. This report sets out the outturn of the annual business plan for 2015/16.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Note the achievements and progress made with regard to the Business Plan objectives 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. Monitoring the outturn against the objectives set is an essential part of the planning and monitoring and outturn processes.

DETAILS:

Background

- 1 At the Pension Fund Committee meeting of 13 February 2015, the Committee approved a business plan for 2015/16, identifying the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives. The business plan listed the investment process and pension administration tasks to be carried out during 2015/16, and the target date when these should be achieved.
- 2 The original 2015/16 business plan is shown as Annex 1.

Outturn 2015/16

- 3 This report sets out the outturn results of the pension fund business plan implementation, setting out each individual action required (in line with the original approved business plan shown as Annex 1) and the commentary of the outcome results of the year's work of the Pension Fund investment and administration staff.

Outturn: Administration

- 4 Action 1: Director of Finance and Pension Fund Committee to receive key performance indicators report on a quarterly basis.

Outcome: **Achieved.** All KPI reports were sent to the Director of Finance and Pension Fund Committee clerk within the stated time limit of eight days before the quarterly meeting. There were no instances of failures to meet these targets.

- 5 Action 2: Pension Fund Committee to receive the Pension Fund Annual Report by 30 September 2015.

Outcome: **Achieved.** The Pension Fund Annual Report was posted onto the Fund's website in mid September 2015.

- 6 Action 3: Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner.

Outcome: **Achieved.** There were no complaints against pensions team staff during the year. There have been three Stage One internal dispute resolution procedure (IDRP) appeals in 2015/16. Two appeals were in respect of ill health benefits and the third concerned added years accrual. In the two ill health cases, the scheme employer was directed to reconsider their decision. In the third case regarding added years accrual, the employer decision was upheld by the Stage One nominated adjudicator. Where appropriate, the scheme employer was advised to compensate the applicant for any administrative delays.

- 7 Action 4: Review the content of the pension fund website to ensure it is relevant and kept up to date.

Outcome: **Achieved.** The pension fund website is updated on an ongoing basis. This has included refreshing links to the national LGPS website, information on changes to the annual and lifetime allowance and information on the annual pension increase applicable to pensioner members. The sections on pension policies, the Pensions Fund Committee and the statutory Local Pension Board have also been maintained.

- 8 Action 5: Final aspects of new LGPS 2014 Scheme implementation which took effect on 1 April 2014.

Outcome: **Achieved.**

The LGPS 2014 scheme has now been fully implemented. The deadline for producing annual benefit statements was not met due to a delay in the third party system's functionality with the new LGPS scheme (further information is provided in the Communication section of this report).

- 9 Action 6: Review the current pension administration strategy.

Outcome: **Partially Achieved**

There has been initial stakeholder engagement and scoping of the revised pension administration strategy, including a review of the current suite of

KPIs. It is planned to present the new proposed new administration strategy in quarter three.

Outturn: Communication

- 10 Action 1: Production of a newsletter to pensioners in April each year.

Outcome: **Achieved.** An update regarding the annual pension increase was provided in March 2016 and confirmed in writing as part of a newsletter sent to all pensioners of the Surrey Pension Fund.

- 11 Action 2: Timely production of benefit statements.

Outcome: **Partially Achieved.** Benefit statements were issued on time to deferred members by July 2015 and to councillor members in September 2015. The benefit statements for active members were issued between October and December 2015. Changes as a result of the new LGPS 2014 scheme created additional data requirements with regard to all administering authorities and employers. To this end, the Pension Regulator has acknowledged the additional challenge for all administering authorities. The Pension Regulator had set a clear expectation that the target of 100% of annual benefit statements issued to active members by 31 August 2016 is achieved by all administering authorities in 2015/2016. The pension administration team is prepared for this deadline and is confident of meeting it.

- 12 Action 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

Outcome: **Achieved.** Standard booklets, information sheets and policies are regularly updated to comply with any regulatory changes to the scheme. Scheme employers and members have also been issued with a bulletin, which has provided details of regulatory and wider legislative changes.

- 13 Action 4: Communication on a timely basis of material scheme changes to the Pension Fund Committee, employer bodies and members.

Outcome: **Achieved.** The Committee considered the national pooling consultation from the Department of Communities and Local Government (DCLG), issued in November 2015 and presented at the 12 February 2016 Committee meeting, with a response provided to Government on 19 February 2016. A consultation from the DCLG on new LGPS Investment Regulations was presented to the same Committee meeting and sent to Government by the same deadline. All Committee reports are available for scrutiny by employer bodies and members via the Council's 'my council' portal. Newsletters and information have been made available on the pension fund website.

- 14 Action 5: Prepare the Pension Fund Annual Meeting (November) and receive feedback from employers.

Outcome: **Achieved.** The Fund held a successful annual meeting on 20 November 2015, attended by the actuary who was available for one-to-one

sessions with employer representatives following the formal meeting. Feedback from delegates who attended the meeting was very favourable and pointed to a successful event.

Outturn: Actuarial/Funding

- 15 Action 1: Commence preparation for the 2016 actuarial valuation.

Outcome: **Achieved.** Preparations have gone well with all employers invited to actuary presentations in three separate tranches (districts and borough councils, academies and all other employers). Weekly conference calls have been held with the actuary since the start of 2016.

- 16 Action 2: Receive satisfaction survey feedback from employers (scheduled and admitted bodies).

Outcome: **Achieved.** The Fund's actuary presented to the Fund's annual meeting held on 20 November 2015. One-to-one sessions with individual employer representatives after the meeting resulted in the resolution of many queries and problems. Feedback received was positive.

- 17 Action 3: Provide employers with IAS19/FRS17 funding statements when requested.

Outcome: **Achieved.** Individual FRS17/IAS19 reports (2015/16 accounts closure) were commissioned and provided to all employer bodies as required in line with individual deadlines.

- 18 Action 4: Monitor and reconcile contributions schedule for the County Council and scheme employers.

Outcome: **Achieved.** Contributing authorities to the Fund were closely monitored as to the accuracy and completeness of their monthly contribution receipts. Late or inaccurate payments were always followed up immediately. There are no current difficulties or outstanding issues with member bodies.

- 19 Action 5: Member training covering funding issues.

Outcome: **Achieved.** Regular quarterly training for the Committee was carried out and various external conferences and seminars have been attended by Committee members and officers.

Outturn: Pension Fund Committee Members

- 20 Action 1: Review decision-making process to ensure decisions are made effectively.

Outcome: **Pending.** Results of the questionnaires designed for the assessment of the Committee's governance will be presented to the Committee on 13 May 2016. Training proposals will be presented to the Committee at the same meeting. Committee members are invited to discuss the 2015/16 financial year with a view to reviewing its decision-making process and the effectiveness of the way in which its decisions are made.

- 21 Action 2: Review Pension Fund Committee member training requirements and implement training plan as appropriate.

Outcome: **Pending.** The Committee approved a Knowledge and Skills framework at its meeting on 31 May 2013. Regular quarterly training for the Committee is provided and various external conferences and seminars are attended by Committee members. Members will be invited to discuss this item within the forum of the meeting on 13 May 2016. In addition the Committee agreed that all members would complete the Pensions Regulator's Public Sector Toolkit Modules by the 13 May Committee meeting.

- 22 Action 3: Agree annual plan for Pension Fund Committee member training.

Outcome: **Achieved.** The Committee last approved its Knowledge and Skills Framework at the meeting of 31 May 2013. Training was provided at every Committee meeting in the financial year.

- 23 Action 4: Ensure that meeting papers are issued at least seven days prior to meeting.

Outcome: **Achieved.** Committee agendas and reports were sent out on a timely basis within the 7-day target. One submission (the national pooling proposal submitted by the Border to Coast Pool) was delivered to members in the run-up to the Committee meeting as vital information had not been received by officers before the 7-day target.

- 24 Action 5: Ensure that governance remains in line with revised Myners/CIPFA principles to ensure 100% compliance.

Outcome: **Achieved.** All governance documents are now existent. The latest draft of the Statement of Investment Principles incorporating the Fund's stated compliance with Myners/CIPFA principles will also be considered at the 13 May 2016 Committee meeting.

Outturn: Financial and Risk Management

- 25 Action 1: Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile.

Outcome: **Achieved.** This is monitored on a regular basis and also reported to the Committee as a key performance indicator.

- 26 Action 2: Produce Annual Statement of Accounts.

Outcome: **Achieved.** This was produced with a slight delay of one day on the external auditor's deadline (2014/15 accounts, financial statements and annual report) with no external audit qualifications.

- 27 Action 3: Produce Annual Pension Fund Report.

Outcome: **Achieved.** The Pension Fund Annual Report was posted onto the Fund's website in September 2015. It was used as the basis for the Local Government Chronicle (LGC) Large Pension Fund of the Year Award 2015, with the Fund winning Large Fund of the Year and also Elected Member of the Year. The Surrey Fund has since been externally nominated for awards at

the Chief Investment Officer and Financial News publications to be announced at formal events on 2 June and 20 June respectively

- 28 Action 4: Carry out risk assessment of the management of the fund for 2015/16.

Outcome: **Achieved.** An evaluation of the Fund's risk assessments with risk control procedures was presented at every Committee meeting in the financial year and will be a regular agenda item at future meetings.

- 29 Action 5: To implement a system of disaster recovery/business continuity in the event of major disaster.

Outcome: **Achieved.** The disaster recovery procedures relevant to the Surrey Pension Fund and its administrative functions are contained in the Business Continuity Plans for Finance and Shared Services. There is in addition to a business continuity resilience which is applied to the pension administration system software, Altair, employed by the Pension Services Team.

- 30 Action 6: To review the current employer covenant.

Outcome: **Achieved.** The Fund's new risk assessment of in accordance with strength of covenant was approved by the Pensions Committee at the meeting of 12 February and will be applied from the 2016 valuation.

Outturn: Investment

- 31 Action 1: Ongoing consideration of the CIPFA/Myners principles.

Outcome: **Ongoing.** In terms of governance standards, the new Local Pension Board was set up during the year with meetings held on 27 July 2015, 12 October 2015 and 9 March 2016.

- 32 Action 2: Review of investment manager arrangements.

Outcome: **Achieved.** A liability multi-asset credit portfolio was implemented with the transition process completed on 21 December 2015. Work is continuing on the investment strategy review, further diversification possibilities (including infrastructure) and future de-risking as the funding level approaches 100%.

- 33 Action 3: Review asset allocation with consultant and independent advisor.

Outcome: **Achieved.** Asset allocation and variances have been consistently reviewed at each quarterly.

- 34 Action 4: Discuss/meet with all investment managers and report to Pension Fund Committee.

Outcome: **Achieved.** Meetings have been held with all investment managers in every quarter during 2015/16 and the minutes included in Committee agenda reports with the independent advisor's written and verbal commentaries at meetings.

- 35 Action 5: Review the Statement of Investment Principles (SIP)

Outcome: **Achieved.** Revised versions of the SIP were approved at every Committee meeting in 2015/16. An updated version will be presented to the Committee at the 13 May 2016 meeting.

- 36 Action 6: Pension Fund Committee to receive quarterly monitoring reports.

Outcome: **Achieved.** Investment performance review reports are considered by the Committee every quarter.

- 37 Action 7: Respond to national initiatives on pension fund merger/ collaboration/mandatory passive investment and report to the Pension Fund Committee as necessary

Outcome: **Achieved.** All national initiatives with a consultation process were considered by the Committee with a response sent within stated deadlines. The most important documents were the initial response to the pooling initiative (Surrey formed the Border to Coast Pensions Platform) and the response to the proposed new LGPS Investment Regulations where Surrey submitted its replies by the 19 February deadline.

CONSULTATION:

- 38 The Chairman of the Pension Fund Committee has been consulted on the outturn report and has offered full support in respect of the achievements, and with regard to specific areas where progress is still ongoing.

RISK MANAGEMENT AND IMPLICATIONS:

- 39 Risk related issues are specifically discussed within the report where relevant.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 40 Financial and value for money issues are specifically discussed within the report where relevant.

DIRECTOR OF FINANCE COMMENTARY

- 41 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the outturn report, and that the document will provide the Committee and officers with a useful update as to the achievement of the business plan's objectives, and a useful tool for the monitoring of progress.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

- 43 The outturn report will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

45 The following next steps are planned:

- Continuation of the current year's work programme in line with the 2015/16 business plan.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Committee meetings.
- Outturn report of the 2016/17 financial year to be presented at the first meeting of the Pension Fund Board in 2017/18.

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Business Plan 2015/16

Sources/background papers:

None

**Surrey Pension Fund
Business Plan and Actions for 2015/16**

Administration			
Objective(s)			
<ul style="list-style-type: none"> - 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 Committee 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 Committee 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 Committee	Jason Bailey/Neil Mason
6	Review the current pension administration strategy	Ongoing 2015/16	Phil Triggs/Jason Bailey/Neil Mason

Communication			
Objective(s) <ul style="list-style-type: none"> - 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)			
<ul style="list-style-type: none"> - 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 Committee Members			
Objective(s)			
<ul style="list-style-type: none"> - 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	Committee 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)			
<ul style="list-style-type: none"> - 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)			
<ul style="list-style-type: none"> - 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

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: LGPS INVESTMENT REGULATIONS: CONSULTATION



SUMMARY OF ISSUE:

The Government is seeking consultation on planned reforms to the Investment Regulations governing the LGPS in England and Wales.

RECOMMENDATIONS:

It is recommended that:

- 1 The Pension Fund Committee note the Surrey Pension Fund response sent to Government, shown in Annex 1.
- 2 The Pension Fund Committee agree to schedule an extraordinary meeting of the Committee on 11 July 2016.
- 3 The Pension Fund Committee agree to delegate responsibility to a sub group of four members of the Committee to work with fund officers on the national asset pooling submission.

REASON FOR RECOMMENDATIONS:

To assist the Department of Communities and Local Government in the formation of an appropriate set of Investment Regulations.

To assist officers in the formation of a full response to Government reference the national asset pooling solution.

DETAILS:

Background

- 1 The Government sought consultation on planned reforms to the Investment Regulation governing the LGPS in England and Wales by 19 February 2016.

Proposed reform

- 2 Two main areas of reform were proposed. The first removed the prescribed means of securing a diversified investment strategy and placed the onus on authorities to determine the balance of their investments and approach to risk. The second introduced safeguards to ensure that guidance on pooling assets is

adhered to, including a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

- 3 The final response is attached at Annex 1 and this was sent to Government by the deadline of 19th February 2016.
- 4 Officers will provide a verbal update of the national pooling process at the meeting on 13 May 2016.

Working Party

- 5 On 15 July 2016, the Surrey Pension Fund will, alongside the Border to Coast Pensions Partnership, submit a final proposal document to the Government with regard to future investment asset pooling. The final submission will be prior to the next scheduled meeting of the Pension Fund Committee on 9 September 2016.
- 6 It is recommended that the Pension Fund Committee agree to schedule an extraordinary meeting of the Committee outside of normal scheduled quarterly meetings on 11 July 2016 to allow the final submission document to be approved by the committee.
- 7 It is recommended that the Pension Fund Committee agree to delegate responsibility to a sub group of four members of the committee to work with fund officers on the pooling submission in advance of the final proposal and Committee meeting on the 11 July.
- 8 This solution will provide assurance for the Pension Fund Committee that that final proposal for the Fund's involvement in the Border to Coast asset pool will be sufficient to achieve the Government's requirements.

CONSULTATION:

- 9 The Chairman of the Pension Fund Committee has been consulted on the final response and has offered full support.

RISK MANAGEMENT AND IMPLICATIONS:

- 10 Risk related issues within the parameters of the proposed prudential approach to investment with no regulatory constraints, and the government holding too much power to intervene in local authority investment decisions were contained within the Council's final response to Government, shown in Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 11 Financial implications within the parameters of possible cost to a local authority resulting directly from a government intervention are contained within the Council's final response set out in Annex 1.

DIRECTOR OF FINANCE COMMENTARY

- 12 The Section 151 (Director of Finance) supports the final response to Government and the formation of a working group reference the final pooling submission for 15 July.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

- 14 An equality analysis will not be required as the response to Government is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

- 16 The following next steps are planned:
- Final approved Regulations from Government to be monitored.
 - Working Group to report to Pension Fund Committee on 11 July 2016.

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Final response to Government reference the LGPS Investment Regulations

Sources/background papers:

None

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Proposed LGPS Investment Regulations: Consultation Response from Surrey Pension Fund

Summary

- 1 Surrey welcomes the move from the arbitrary and prescriptive asset limits in the previous LGPS investment regulations, and the move towards prudential regulation. This will enable LGPS funds to effectively manage individual fund investment risk, thus meeting the specific needs of the scheme LGPS beneficiaries. Specific mention of the ultimate objective of the LGPS investment process to meet the ultimate needs of the LGPS beneficiaries would be a useful inclusion as this seems to have been overlooked. Additionally, the design and alignment of the investment strategy alongside the funding strategy would also be a useful mention.
- 2 The Government should also consider extending the knowledge and understanding requirements (currently falling only on Local Pension Boards) to the Scheme Manager/Pension Fund Committee. A prudent person requirement ultimately only works if those making investment strategy decisions have the knowledge, capacity and capability to achieve this.
- 3 Surrey has great concern about the broad powers being taken for the government to direct funds' investment processes. Such an encompassing power could ultimately be used by government to direct funds into specific asset classes with limited attention paid to the impact on the future payment of members' pensions. Moreover, a range of criteria or trigger points for government intervention should be considered.

Proposal 1: Deregulating and adopting a local approach to investment

Q1: Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?

The proposed deregulation is appropriate, particularly the removal of the prescriptive Schedule 1 of the Regulations, which no longer has any relevance.

The review of the Investment Strategy Statement should be consistent with the review of the Funding Strategy Statement, such that it can reflect the implications of the latest actuarial valuation and funding levels as they are monitored on a regular basis between valuation cycles.

Q2: Are there any specific issues that should be reinstated? Please explain why.

The proposed regulations appear to remove the requirement to state the extent to which a Fund complies with the Myners' Principles (Regulation 12(3)). The Myners' Principles are seen as best practice in investment management and it is appropriate that LGPS Funds continue to explicitly state the extent of their compliance with the principles. Inclusion of the principles and the "comply or explain" approach stated within the SIP is seen as the best way to achieve this.

Q3: Is six months the appropriate period for the transitional arrangements to remain in place?

The proposed timeframe for the transitional arrangements to remain in place would appear to be somewhat short. Surrey is concerned about the timescale for implementation which feels rushed, given the work commitment on the national asset pooling activity and the deadline for the proposal of 15 July 2015.

Q4: Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

In addition to maintaining risk management, derivatives can also be used for a number of reasons including efficient portfolio management purposes, e.g., in a transition process, obtaining immediate exposure to an equity market before completing the construction of an equity portfolio, or for pure return-seeking purposes.

The intention of the proposed changes to the existing LGPS regulations is for government to no longer be entirely prescriptive in terms of the types of investments available for Funds. Therefore, it would be more appropriate to permit the use of derivatives within an investment strategy and rely on the requirement for Funds to take an entirely prudential approach in ensuring the suitability of investments, appropriate diversification, and overall approach to managing risk.

Proposal 2: Introducing a safeguard (Secretary of State power to intervene)

Q5: Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

The proposed power of intervention provides the Secretary of State with wide ranging powers to intervene in the operation of an individual LGPS fund, and this causes Surrey significant concern.

The Secretary of State would have to ensure consistency of application across different funds. For example, if a certain piece of evidence, e.g., performance data suggested that there should be an intervention at one particular fund, then this evidence should also be considered to determine whether an intervention is required at another fund. Failure to do this could lead to inconsistent, or even discriminatory, treatment across LGPS funds. It is recommended that a series of criteria/trigger points for intervention should be used as a framework for considering intervention.

Q6: Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

In the event that the Secretary of State is considering an intervention and gathering evidence, it is essential that this process should remain confidential in order to avoid adversely affecting the reputation of the administering authority before the intervention has been confirmed.

In addition to authorities being able to present evidence in support of their existing governance arrangements, they should also have full access to any evidence that the Secretary of State is using to determine whether an intervention is appropriate, prior to an

intervention being determined. The authorities should have an appropriate length of time to consider this evidence with the opportunity to rebut the evidence or to introduce supplementary evidence to support a counter-argument to the evidence provided by the Secretary of State.

No timescales are laid down in the draft regulations and therefore it is not possible to comment as to whether authorities will have sufficient time to present evidence. However, it should be reiterated that the regulations should ensure that authorities have sufficient time to consider the evidence presented by the Secretary of State, as well as to present its own evidence.

Q7: Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

It would appear that the Secretary of State has a lot of flexibility to determine the extent of the intervention. Whilst it is appreciated that it is the intention that the power to intervene is deliberately broad so that it can be applied in a wide range of circumstances, there is an argument that the power is too dominant and this will increase the risk of a legal challenge from an authority subject to an intervention.

The Secretary of State should consider developing a comprehensive guidance document. Such a document would need to be far more extensive than the small number of examples given in the consultation document. The document can make clear that it is not an exhaustive list, but would give some comfort to authorities that interventions will only be considered when there is a specific and fundamental issue that needs to be resolved.

There are potential issues with the proposed interventions, which may result in the authority being required to implement a completely different investment strategy or for its investment function to be assumed by the Secretary of State or another body. If it can be demonstrated that this has resulted in an adverse impact compared with an authority's existing investment arrangements, then it could be argued that the authority should not be responsible for the costs of this.

The consultation document states that all costs of the intervention, which presumably includes an adverse impact on the value of the pension fund, will be met by the pension fund's assets. If the Secretary of State's intervention has an overall adverse impact on a pension fund's assets, then the department should be responsible for this, and not the pension fund.

Q8: Do the proposals meet the objective of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

The proposed changes to the LGPS Investment Regulations are welcome and will provide LGPS funds with the flexibility to implement their chosen investment strategies and will facilitate meeting the requirement to pool assets.

It is also appreciated that the Secretary of State requires a means to prevent an adverse impact from the proposed deregulation, and to ensure that all funds participate in the requirement to pool assets.

However, the circumstances under which this power of intervention would be used need to be further refined to ensure that it is only being used when an authority materially departs from best practice, guidance or regulation and cannot justify this action.

In addition, the proposed power to intervene appears to relate only to the investment function of an individual administering authority. The Secretary of State should clarify that this is the case and that the power of intervention would not be extended to the operation of the national asset pools.

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

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 Committee, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the report.
2. Approve a £24m commitment to Capital Dynamics LGPS Collective Private Equity Vehicle.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

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 March 2016 and 30 April 2016 are shown in Annex 1.
Various	Client meetings	A verbal update from external fund manager meetings held on 5 May 2016 will accompany this item. Minutes from the meetings will be provided on the day of the meeting as Annex 2

2) Freedom of Information Requests

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

Date of Response	Organisation	Request	Response
11 March 2016	Bloomberg	Private equity and venture capital partnership data	List of private equity investments as at 31 December 2016
11 March 2016	Pitchbook	Private equity and venture capital partnership data	List of private equity investments as at 31 December 2016

3) **Future Pension Fund Committee Meetings/Pension Fund AGM**

The schedule of meetings for 2016 is as follows:

- 13 May 2016: Committee meeting hosted at County Hall.
- 11 July 2016: Extraordinary Committee meeting hosted at County Hall.
- 9 September 2016: Committee meeting hosted at County Hall.
- 11 November 2016: Committee meeting hosted at County Hall.
- 18 November 2016: Pension Fund AGM hosted at County Hall

4) **Local Pension Board**

The last Local Pension Board meeting was on 9 March 2016. Minutes of this meeting are shown as Annex 3.

The next meeting of the Local Pension Board is scheduled for 4 July 2016.

5) **Stock Lending**

In the quarter to 31 March 2016, stock lending earned a net income for the Fund of £120k with a value on loan equal to £129m.

6) **Internally Managed Cash**

The internally managed cash balance of the Fund was £64m as at 31 March 2016. As at 30 April 2016, the cash balance was £63m.

7) **Liability Driven Investment (LDI) Framework**

At its meeting on 13 February 2015, the Committee set the real yield trigger for future LDI leverage and this was incorporated into the mandate documentation with Legal & General (LGIM).

Now that the implementation for the leveraged gilt mandate has been completed, the Committee will regularly monitor movements in real yields and, specifically, the trigger point that has been agreed. Officers will report verbally to the meeting.

8) **Considerations when setting academy contribution rates**

As part of the 2016 formal valuation, employers will be categorised into different risk groups to allow appropriate contribution rates to be set that are consistent with the risks that different employer pose to the Fund.

All academies benefit from a Department for Education (DfE) guarantee. In the event of an academy failing, the guarantee would meet any existing debt unrecovered from the academy due to the Fund. This provides some protection. However, the guarantee is time limited, with about four years remaining, and has a ceiling. We are unaware of any claim being made on this guarantee to date.

The Fund is currently not in favour of a universal pooling of academy contribution rates and funding levels. The reasons for this are as follows:

- Contribution rates will be based on the average experience of all the academies in the pool. In effect, academies with positive member experience will subsidise the academies with poorer experience.
- Accumulated deficits will be difficult to track and apply to each employer, possibly resulting in complications if one academy fails or opts to leave the pool.
- There would be a sharing of the impact of pay awards. This could be a drawback for academies whose pay awards are lower than the average for the pool.
- Outside of a pool, the academy has more control over its pension contributions and can reduce them by exercising discipline in pay awards.

Most academies have joined together to form multi-academy trusts (MATs). Membership of a MAT normally means that a standard set of terms and conditions are employed, including pay awards and sharing of resources and expenses.

In the 2016 valuation, academies within MATs will be offered the opportunity to fully pool contributions and funding levels. The benefits of this approach are as follows:

- Pooling reduces the volatility of contribution rates (for smaller academies in particular) arising because of experience. Small employers will benefit from the protection the pool provides from uncertain and unpredictable events such as pensioner members enjoying unexpectedly and unusually long periods in retirement. Having a single contribution rate across the MAT will provide a significant budgeting and administration benefit, especially as school staff are often shared across sites within the MAT.
- MATs will have a single accounting report. This will provide clear efficiencies in administration for the academies and the Fund. This is likely to be of increased relevance due to the proposed proliferation of school to academy conversions.
- Pooling allows academies in the MAT to share pool risks. In the event of one academy in the MAT failing, the remaining academies in the MAT would share any debt. This provides additional protection for the Fund.

In order for a MAT pool to be created, all academies within the MAT will need to opt in and sign a legally enforceable undertaking committing them to share the risk of academies failing within the MAT pool.

The impact of the improved covenant of MAT pools will have an impact on the Fund's risk categorisation of academies. When setting the contribution rate at the formal valuation, the Fund will take into account whether an academy is a member of a MAT pool or otherwise. In line with the new risk based approach for calculating employer contributions for the 2016 valuation, academies within a MAT pool will be allowed a greater risk tolerance for their contribution rates than academies outside of a MAT pool.

9) Internal Audit - Pension Fund Investments

The internal audit for the pension fund investments was completed in February 2016, with the final report taken to the Audit and Governance Committee in April. The opinion was 'Effective' with no recommendations. A copy of the report is shown as Annex 4.

10) Private Equity Opportunity – Capital Dynamics LGPS Collective Private Equity Vehicle 2016/2017

Capital Dynamics has developed a Collective Private Equity Vehicle specifically designed for LGPS investors (LGPS CPEV) in response to the ongoing quest to reduce investment management fees via collaboration. The vehicle is sterling denominated and provides an opportunity for LGPS investors to gain access to an optimally balanced portfolio of private equity strategies including access restricted opportunities.

The portfolio will be globally diversified with an optimal combination of strategies to mitigate the J-Curve effect. No less than 65% will be invested in primary investments, of which approximately 40% will be in the US, 40% in the EU and 20% in Asia and the Emerging Markets. Up to 20% will be invested in Capital Dynamics own private equity funds with no double layering of fees, (i.e. secondaries and co-investment). Up to a further 15% will be invested in secondaries on an opportunistic basis. The secondary and co-investment proportion of the portfolio will have global diversification.

The portfolio has been designed to minimise risk, whilst preserving attractive target returns of between 12% and 15% net internal rate of return (IRR), (1.5x to 1.8x net multiple of cost). The Capital Dynamics track record over the same strategies (including immature funds in their respective J-curves) is 19.2% net.

LGPS CPEV 2016/2017 will invest 20% of the vehicle in Capital Dynamics's Global Secondaries IV Fund and the Capital Dynamics Mid-Market Direct Fund IV (the current co-investment fund) with no additional layer of fees. The investment period will be two years from the first close of each vehicle.

The discounted management fee of 21.6bps is for LGPS investors who can commit to three annual programmes in advance. Fees will only commence as each Fund commences. Each pooled vehicle is close-ended, with a ten-year life. The performance fee of 7.5%, is payable after all capital invested has been returned to investors in cash plus a compounded 8% hurdle. Once this has been achieved, Limited Partners receive 92.5% of profits and Capital Dynamics receive 7.5%.

Capital Dynamics is an independent global private equity and infrastructure asset manager with over 140 staff across ten offices worldwide. They have been investing in private equity for more than 25 years and their senior investment professionals have an average of over 20 years of investing experience and due diligence expertise. Capital Dynamics currently has 16 LGPS clients included in its investor base.

Report of the Strategic Finance Manager

Financial and Performance Report

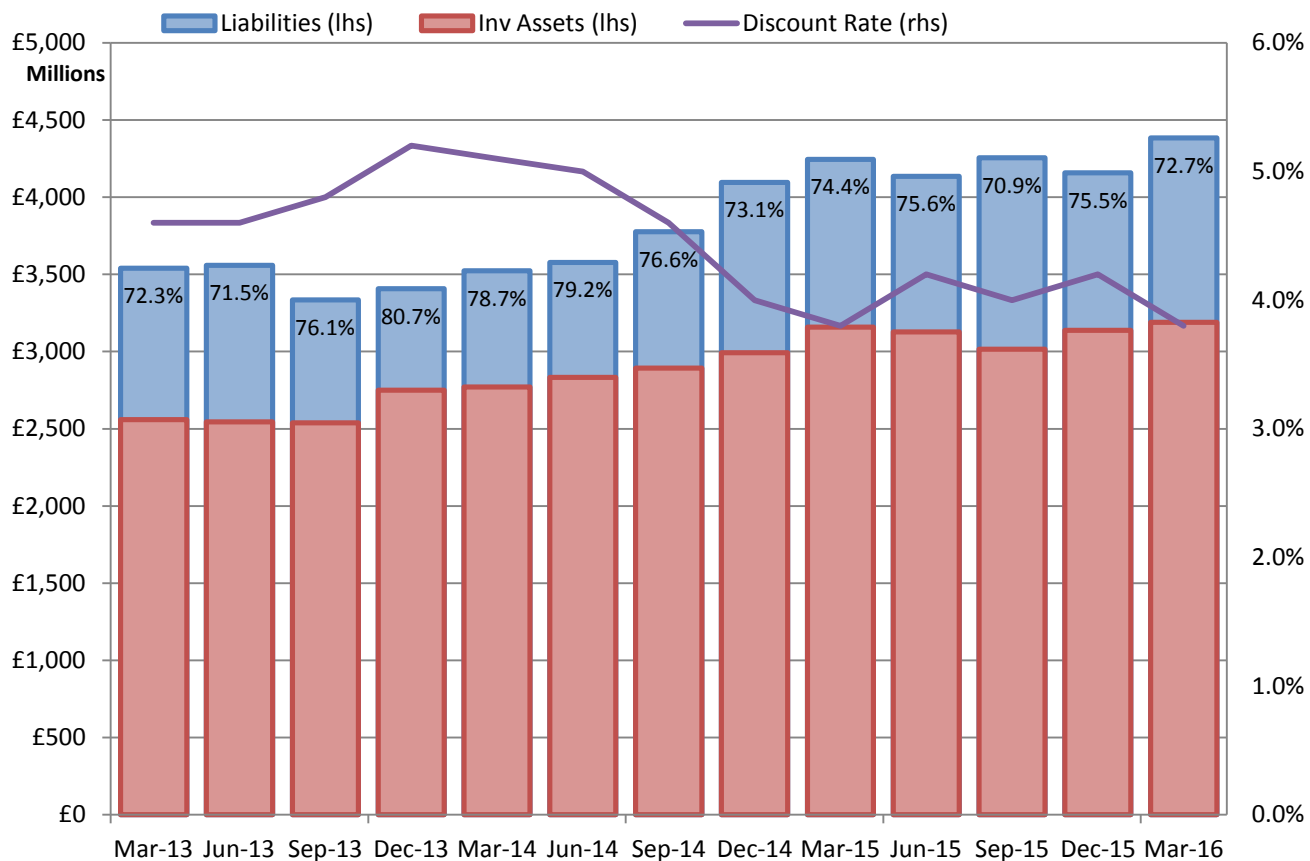
1. Funding Level

Past Service Position	31 March 2016 £m
Past Service Liabilities	4,384
Market Value of Assets	3,188
Deficit	1,195
Funding Level	72.7%

If this calculation was performed using the valuation assumptions proposed for the 2016 valuation, e.g., a higher asset outperformance assumption of 2.0% rather than 1.6% and reduced salary and inflation assumptions, the result would be a funding level of 79.7% with a deficit of just under £800m.

Quarterly Reconciliation	£m
Deficit at 31 December 2015	-1,019
Interest on deficit	-14
Excess return on assets	10
Change in actuarial assumptions	-186
Contributions less benefits accruing	14
Deficit at 31 March 2016	-1,195

The period since the 2013 actuarial valuation has seen sizable and volatile movements in the funding level. The graph below sets out the value of liabilities and fund assets and the corresponding funding level along with the relevant discount rate applied for each quarter

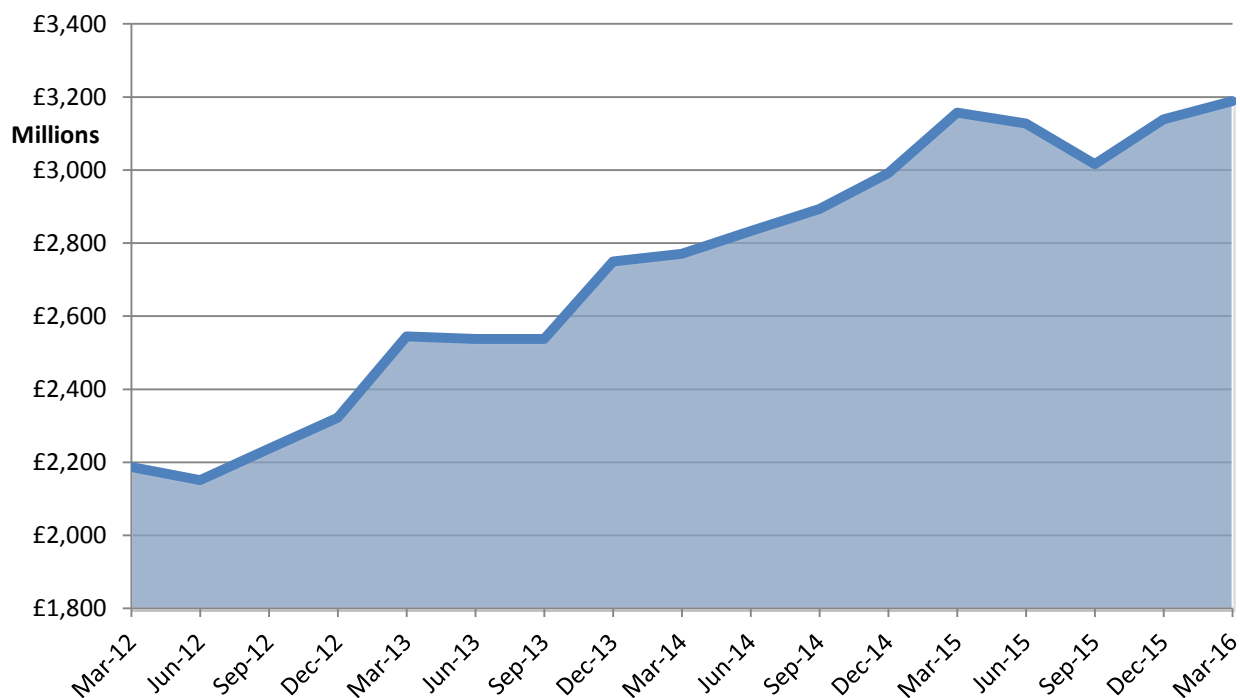


Valuation Period to date Reconciliation	£m
Deficit at 31 March 2013	-980
Interest on deficit	-158
Excess return on assets	162
Change in actuarial assumptions	-357
Contributions less benefits accruing	138
Deficit at 31 March 2016	-1,195

2. Market Value

The value of the Fund was £3,188.9 at 31 March 2016 compared with £3,138.4 at 31 December 2015. The investment performance for the period was +1.1%.

Total Fund Value



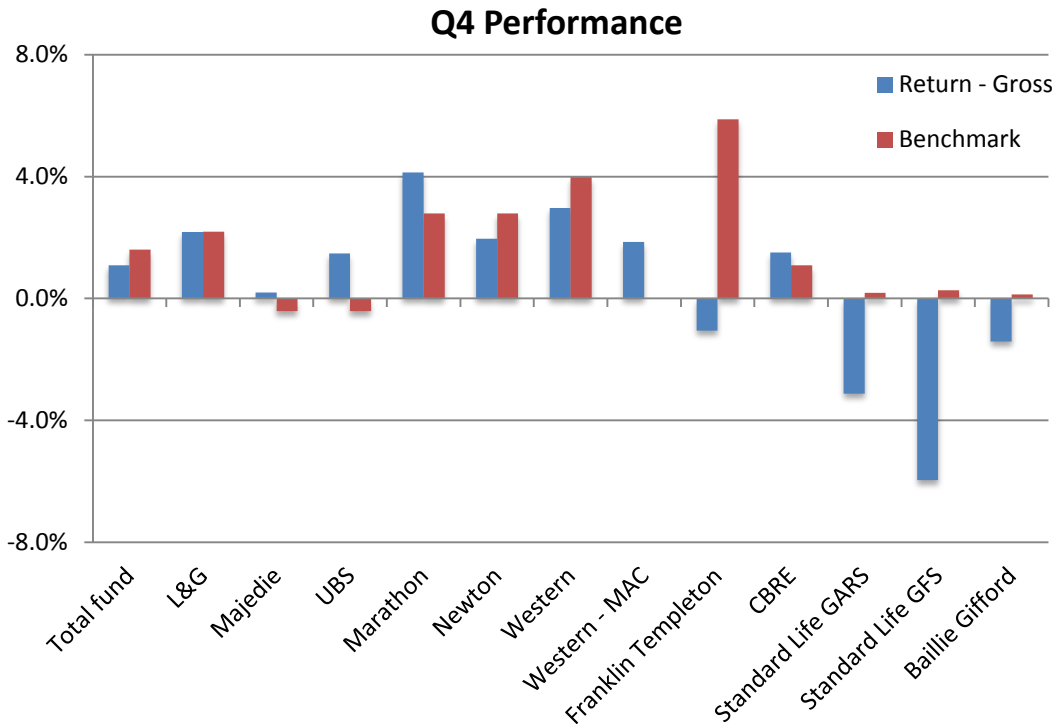
The change in market value is attributed as follows:

Quarterly Market Value Reconciliation	£m
Market Value at 31/12/2015	3,138.4
Contributions less benefits and net transfer values	14.8
Investment income received	11.0
Investment expenses incurred	-2.7
Market movements	27.4
Market Value at 31/03/2016	3,188.9
Market Value at 30/04/2016	3,190.3

3. Fund Performance

Summary of Quarterly Results (gross of investment fees)

Overall, the Fund returned +1.1% in Q4 2015/16, in comparison with the Fund's customised benchmark of +1.6%.



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

The final quarter of the financial year saw significant volatility with equity markets falling significantly in the first half of the year arising largely from worrying news flow and economic data from China. This market decline had largely reversed by the end of the quarter following more encouraging economic news from the US, particularly surrounding consumer spending and employment, as well as moves to negative interest rates from the Bank of Japan and the European Central Bank.

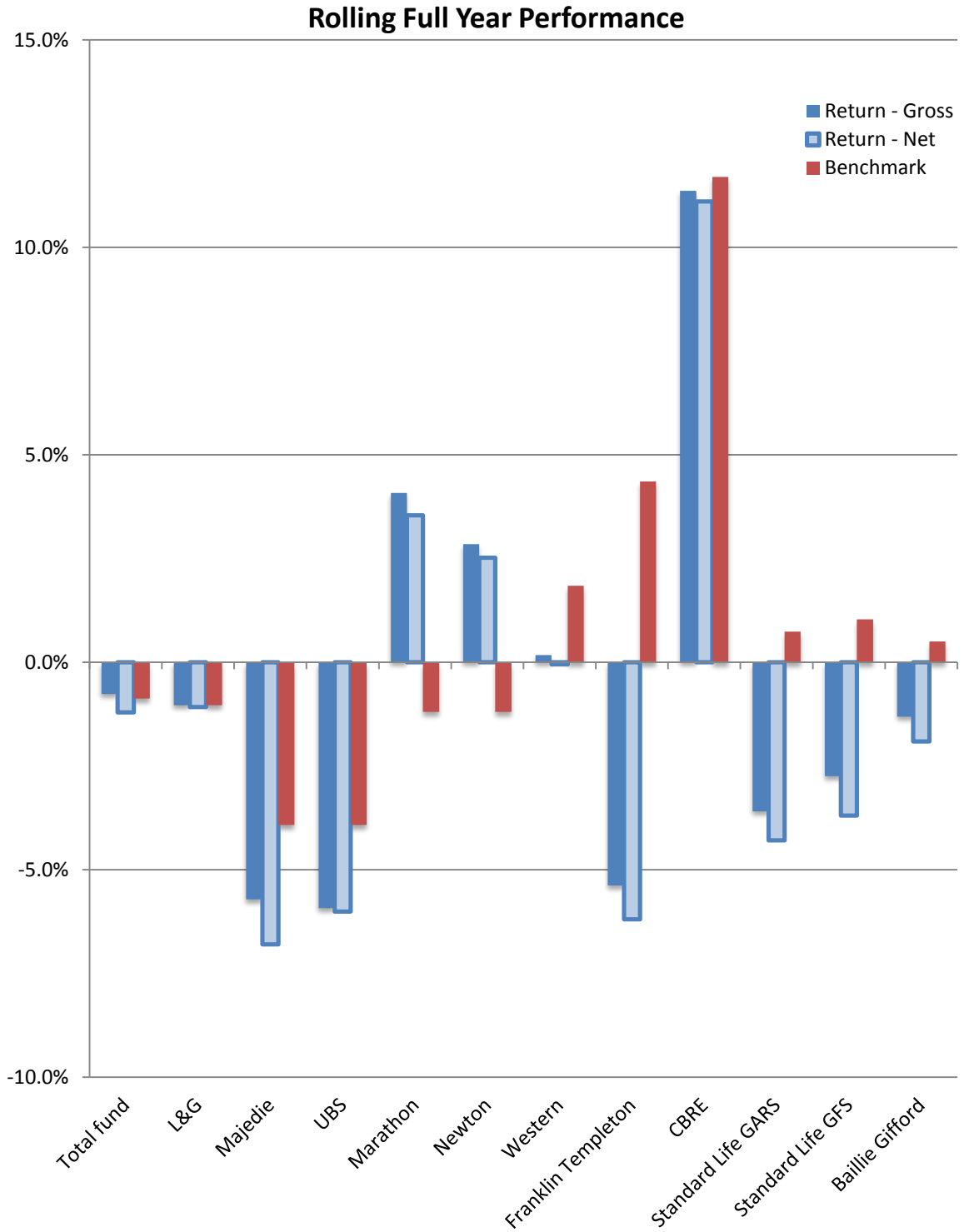
The table below shows manager performance for 2015/16 Q4 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Performance %	Benchmark %	Relative %
Total fund	1.1	1.6	-0.5
L&G	2.2	2.2	0.0
Majedie	0.2	-0.4	0.6
UBS	1.5	-0.4	1.9
Marathon	4.1	2.8	1.3
Newton	2.0	2.8	-0.8
Western	3.0	4.0	-1.0
Western - MAC	1.9	0.0	1.9
Franklin Templeton	-1.1	5.9	-7.0
CBRE	1.5	1.1	0.4
Standard Life GARS	-3.1	0.2	-3.3
Standard Life GFS	-6.0	0.3	-6.3
Baillie Gifford	-1.4	0.1	-1.5

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

Summary of Full Year Results

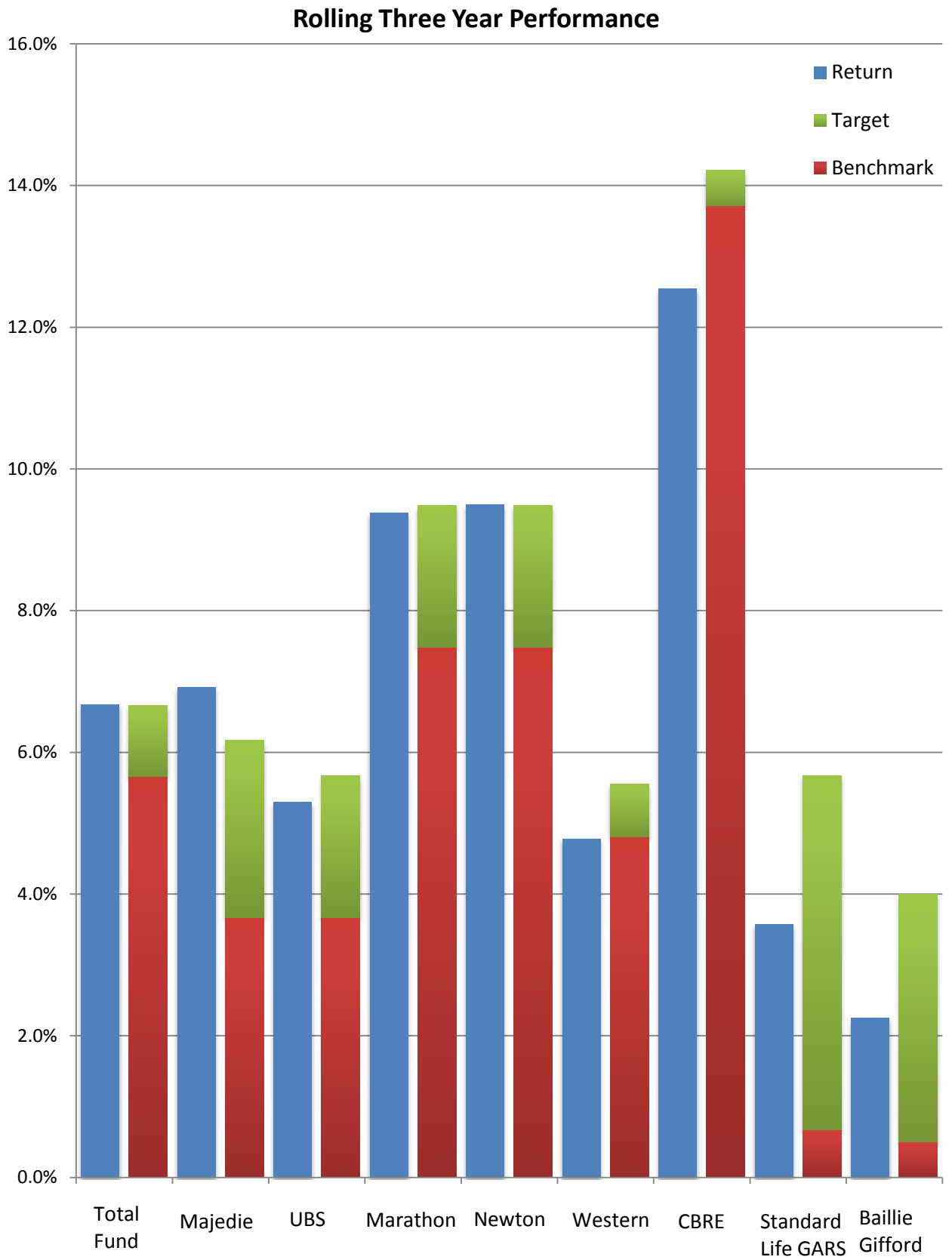
During the course of the previous 12 months to 31 March 2016, the Fund returned -0.8% gross of investment fees against the customised fund benchmark of -0.9%



Manager	Gross of Fees Performance %	Benchmark %	Performance Relative to Benchmark %	Net of Fees Performance %
Total fund	-0.8%	-0.9%	0.1%	-1.2%
L&G	-1.0%	-1.0%	0.0%	-1.1%
Majedie	-5.7%	-3.9%	-1.8%	-6.8%
UBS	-5.9%	-3.9%	-2.0%	-6.0%
Marathon	4.1%	-1.2%	5.3%	3.5%
Newton	2.8%	-1.2%	4.0%	2.5%
Western	0.2%	1.8%	-1.6%	-0.1%
Franklin Templeton	-5.4%	4.4%	-9.8%	-6.2%
CBRE	11.4%	11.7%	-0.3%	11.1%
Standard Life GARS	-3.6%	0.7%	-4.3%	-4.3%
Standard Life GFS	-2.7%	1.0%	-3.7%	-3.7%
Baillie Gifford	-1.3%	0.5%	-1.8%	-1.9%

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

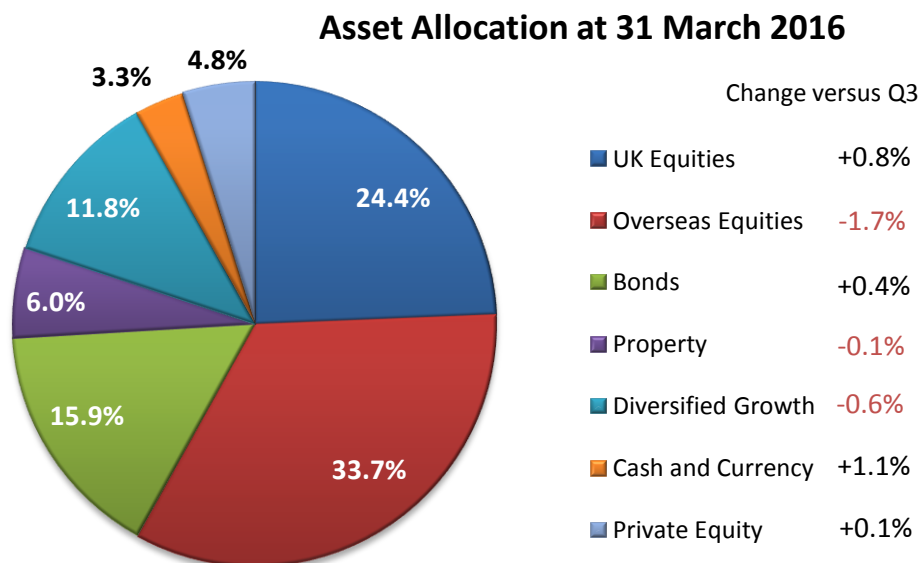


The below table shows the annualised performance by manager for the previous three years.

Manager	Performance %	Benchmark %	Target Above Benchmark %	Relative %
Total Fund	6.7	5.7	1.0	0.0
Majedie	6.9	3.7	2.5	0.8
UBS	5.3	3.7	2.0	-0.4
Marathon	9.4	7.5	2.0	-0.1
Newton	9.5	7.5	2.0	0.0
Western	4.8	4.8	0.75	-0.75
CBRE	12.5	13.7	0.5	-1.7
Standard Life GARS	3.6	0.7	5.0	-2.1
Baillie Gifford	2.2	0.5	3.5	-1.8

4. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at the 31 March 2016.

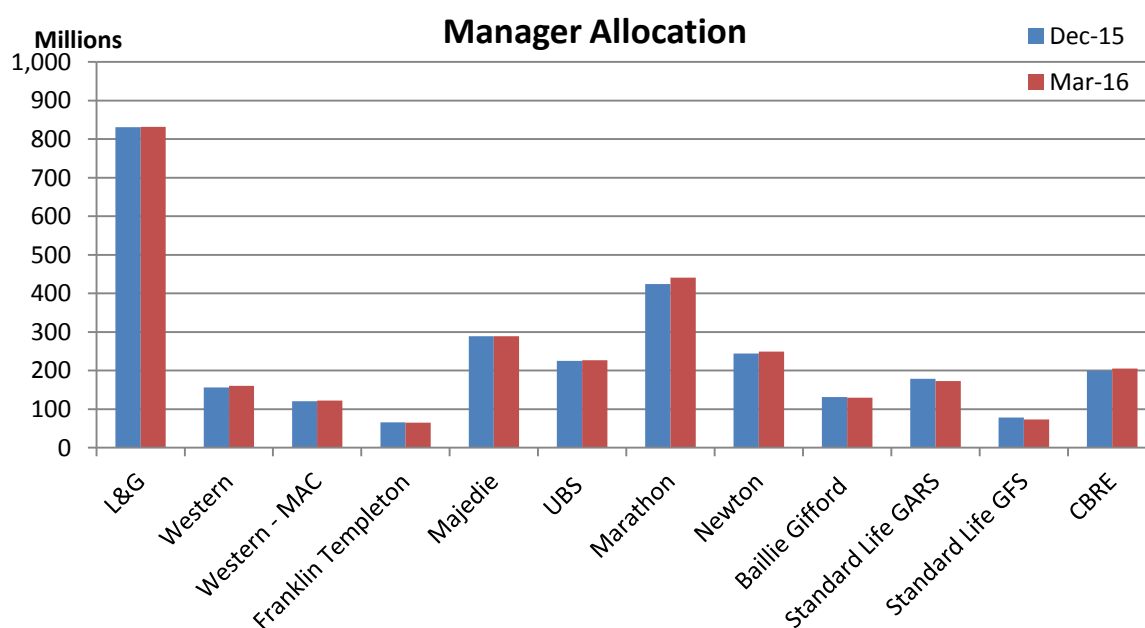


The table below compares the actual asset allocation as at 31 March 2016 against target asset weightings.

	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	120.6	3.8	4.4
Investment Grade Credit	151.3	5.0	5.3
Index Linked Gilts	153.8	5.1	5.5
Unconstrained	66.1	2.0	2.4
Equities			
UK	740.7	24.4	27.5
Overseas	1,109.6	33.7	32.3
Property Unit Trusts	190.6	6.0	6.2
Diversified growth	388.7	11.8	11.4
Cash	86.7	3.5	0.0
Currency hedge	-17.9	-0.2	0.0
Private Equity	148.2	4.8	5.0
TOTAL	3,138.4	100.0	100.0

5. Manager Allocation

The graph below shows the current manager allocation.



6. Fees

The following table shows a breakdown of fees paid during Q4 2015/16

Manager	Market Value 31/03/2016 £m	Manager Fees Q3 £000	Annualised Average Fee
L&G	831.7	163	0.08%
Western	160.9	125	0.31%
Western - MAC**	122.7	18	0.30%
Franklin Templeton*	65.3	131	0.81%
Majedie	289.5	294	0.41%
UBS	227.3	134	0.24%
Marathon	440.7	473	0.43%
Newton	249.0	162	0.26%
Baillie Gifford*	129.8	173	0.53%
Standard Life GARS*	173.1	289	0.67%
Standard Life GFS*	73.7	179	0.97%
CBRE	205.5	110	0.21%
Manager Fees Total		2,251	0.28%
Tax withheld		280	
Other investment expenses***		139	
Total Investment Expenses		2,670	

* Estimated, to exclude transaction fees

**MAC expense only from mid December.

*** Primarily transaction costs & property fund expenses

CONSULTATION:

- 7 The Chairman of the Pension Fund Committee 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.

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

- 10 The Section 151 Officer (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 there is no 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 Committee Chairman

Annexes:

Annex 1: Asset Allocation Policy and Actual as at 31 March 2016 and 30 April 2016
 Annex 2: Minutes from meetings with fund managers on 05 May 2016
 Annex 3: Minutes from the Local Pension Board Meeting held on 9 March 2016.
 Annex 4: Pension Fund Investments Internal Audit Report 2016

Sources/background papers:

None

Asset Allocation Update

The table shows the actual managed asset allocation as at 31 March 2016 against the target allocation. The allocation for 30 April 2016 is shown overleaf.

	Category	Allocation Policy %	Allocation at 31/03/2016	Variance %
Equities		63.0	62.9	-0.1
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	8.4	-1.6
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	9.8	-1.2
<i>UBS</i>	<i>Core Active</i>	8.0	7.7	-0.3
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	13.8	-0.2
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	14.9	+2.9
<i>Newton</i>	<i>Core Active</i>	8.0	8.3	+0.3
Property		6.5	6.7	+0.2
<i>CBRE</i>	<i>Core Active</i>	6.5	6.7	+0.2
Alternatives		12.0	13.1	+1.1
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	8.7	+0.7
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.4	+0.4
Bonds		18.5	17.3	-1.2
Index linked gilts				
<i>Legal and General</i>	<i>Core Active</i>	5.8	5.5	-0.3
Investment grade credit				
<i>Western</i>	<i>Core Active</i>	5.5	5.5	+0.0
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6	2.2	-0.4
Multi Asset Credit				
<i>Western</i>	<i>Unconstrained</i>	4.6	4.1	-0.5
Total		100.0	100.0	

Asset Allocation Update

The table shows the actual managed asset allocation as at 30 April 2016 against the policy.

	Category	Allocation Policy %	Allocation at 30/04/2016	Variance %
Equities		63.0	62.1	-0.9
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	8.1	-1.9
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	9.8	-1.2
<i>UBS</i>	<i>Core Active</i>	8.0	7.5	-0.5
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	13.5	-0.5
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	14.8	+2.8
<i>Newton</i>	<i>Core Active</i>	8.0	8.4	+0.4
Property		6.5	7.0	+0.5
<i>CBRE</i>	<i>Core Active</i>	6.5	7.0	+0.5
Alternatives		12.0	13.5	+1.5
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	8.9	+0.9
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.6	+0.6
Bonds		18.5	17.4	-1.1
Index linked gilts				
<i>Legal and General</i>	<i>Core Active</i>	5.8	5.5	-0.3
Investment grade credit				
<i>Western</i>	<i>Core Active</i>	5.5	5.5	+0.0
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6	2.2	-0.4
Multi Asset Credit				
<i>Western</i>	<i>Unconstrained</i>	4.6	4.2	-0.4
Total		100.0	100.0	

MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 9 March 2016 at The Chapel, Surrey Fire and Rescue Service Headquarters, Croydon Road, Reigate, Surrey, RH2 0EJ.

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

Elected Members:

- * Paul Bundy
- A Tony Geer
- * Mr Nick Harrison (Chairman)
- * Tina Hood
- * Mr John Orrick (Vice-Chairman)
- * David Stewart
- * Claire Williams-Morris
- * Trevor Willington

In attendance

Neil Mason, Senior Advisor (Pension Fund)
 Alex Moylan, Senior Accountant
 Jason Bailey, Pension Services Manager

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

The Board welcomed Tina Hood, who had been appointed as a member representative on 29 January 2016.

There were no apologies for absence or substitutions.

2/16 MINUTES FROM THE PREVIOUS MEETING: 12 OCTOBER 2016 [Item 2]

These were agreed as an accurate record of the meeting.

3/16 DECLARATIONS OF INTEREST [Item 3]

Trevor Willington asked that it be noted that he is a governor at Nescot College, which is an employer in the scheme.

David Stewart asked that it be noted that he was employed by Hammersmith and Fulham, an authority whose pension administration is provided by Surrey County Council as part of the Orbis Partnership.

4/16 QUESTIONS AND PETITIONS [Item 4]

There were no questions or petitions.

5/16 FORWARD PLAN [Item 5]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant

Key points raised during the discussion:

1. The Chairman asked the Board to note the forward plan, which had been created with input from officers and the Vice-Chairman. It was highlighted that the Board would be meeting quarterly, and Board members were invited to propose items for future agendas.

Resolved:

The Board noted its action tracker.

6/16 ACTION TRACKER [Item 6]**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant

Key points of the discussion:

1. The Board requested an item considering independent member appointments for the next meeting.
2. The Board was reminded to advise the Board's scrutiny officer on any training completed. It was confirmed that Surrey Pension Fund Committee training attended by Board members was also recorded.
3. The Board was advised that the Chartered Institute for Public Finance and Accountancy (CIPFA) Pension Administration benchmarking figures had been finalised. These contained no material changes from the draft figures reviewed by the Board on 12 October 2015.

Resolved:

That the Board notes its action tracker.

Actions/further information to be provided:

The Board to receive an item on independent member appointments at its next meeting (Quarter 1 2016/17)

7/16 UPDATE FROM RECENT SURREY PENSION FUND COMMITTEE MEETINGS: 13 NOVEMBER 2015, 12 FEBRUARY 2016 AND 25 FEBRUARY 2016 [Item 7]**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant

Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. Officers updated the Board on the Surrey Pension Fund Committee meetings that had taken place since 12 October 2015. The Board was advised that the key areas of focus had been the government consultation regarding the pooling of investments, and the models of actuarial valuation for the forth-coming tri-annual valuation of the Pension Fund.
2. In reference to investment fund pooling, the Board was informed that the Surrey Pension Fund had opted to join with 13 partners to form Border to Coast Pension Partnership. This was a pooled fund totalling in the region of £36 billion in assets, with Surrey representing approximately £3 billion. The Board was informed that the proposed partnership had been well received by central government, who had responded to the expertise already present within the partnership. It was commented that the government's stated intention was that investment decisions would be taken by an executive body, with oversight from each of the partners through a supervisory body.
3. The Board raised several questions pertaining to the governance of the Border to Coast Pension Partnership, and the role of the different bodies in decision-making and scrutiny. Officers clarified that the governance arrangements were yet to be set out in detail, but that an initial £50,000 investment had been required of each partner for legal and merger consultancy costs. The Board was informed that the set-up costs would fall equally to each partner, but the management charge for assets under management through the partnership would be pro-rata. It was also highlighted that decisions around asset allocation and funding would remain under each partner's local decision-making structures.
4. The Board discussed recent coverage in the media concerning local government pension investments, both in reference to infrastructure and "sin stocks" (tobacco, alcohol and firearms). The Board noted that the Pension Fund Committee's response to the government's consultation on investment regulations had highlighted the Fund's fiduciary duty to its members, and had expressed concern regarding the proposals set out in the consultation to enable central government to direct pension fund investments.
5. The Board also discussed the level of interest in ethical investments by members. It was highlighted that a public question had been submitted to the Pension Fund Committee on 13 November 2015. The Board was informed that the Local Government Association had sought counsel opinion on the matter 18 months prior, this had highlighted the primacy of a pension fund's fiduciary duty to its members over any decision to disinvest. This had been reinforced by central government in the proposed changes to investment regulations. Officers also commented that there had been a number of individuals writing in or submitting Freedom Of Information (FOI) requests in reference to investments. The Board requested that the detail of the Fund's responses was circulated for their information.

6. Officers highlighted that a decision had been taken on 12 February 2016 by the Pension Fund Committee to extend the fund's property portfolio to include global investment, with a £30 million additional investment in property. There were discussions ongoing with CBRE on how to proceed with implementing this decision.

Actions/further information to be provided:

The proposed governance arrangements contained in the Pension Fund Committee report on pooled investments to be circulated to the Board.

The Fund's response to FOI requests concerning investments to be shared with the Board.

8/16 KEY PERFORMANCE INDICATORS AND ADMINISTRATION [Item 8]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
 Alex Moylan, Senior Accountant
 Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. Officers outlined the areas requiring improvement in relation to the Key Performance Indicators (KPIs) and actions taken to address these. It was highlighted that:
 - Changes as result of the 2014 scheme and the complexity of administering these had impacted adversely on the performance of Pension Services.
 - General awareness of pensions had increased amongst members, and Pension Services had seen an increase in the number of enquiries it received.
 - Pension Services had expanded to take on the pension administration for the London Boroughs of Hammersmith and Fulham and Hillingdon and the Royal Borough of Kensington and Chelsea. This had created additional resource implications during transfer and implementation.
2. The Board was informed that the following actions had been taken in regard to the above:
 - Pension Services had been restructured, creating two posts with a specific focus on improving performance and reviewing operational processes.
 - Negotiations with the software provider had introduced a number of new functions to the pensions systems, enabling additional savings to be realised while improving performance in relation to pension administration.
 - Additional staff had been recruited in light of the additional resource implications created by the tri-annual assessment.

Officers stated that they expected to see improvements in performance by quarter two of 2016/17.

3. The Board commented that previous discussions had highlighted additional demand was created due to a number of retirements within the Pension Service. A question was raised as to whether the restructure had sought to improve resilience in the team. Officers commented that the restructure had dissolved the specialised benefits team, and instead created four operational teams. This had the advantage of enabling all staff to train up and deal with benefits queries. It was confirmed that there was a training plan in place for the year ahead to support this.
4. The Board was informed that a dedicated pensions help-desk had been operational since February 2016, it was highlighted by officers that this had provided management data and given better intelligence on the type of queries coming to Pension Services. The Board was told that 70% of these queries had been dealt with during the first contact, and that this was positive performance for a newly established helpdesk.
5. The Board discussed how the Pension Service provided services to employers. Officers commented that a dedicated employer portal was being established, and this would enable improved processes around data input. It was recognised by officers that the communications with employers needed improvement, and the Board was informed that the Pension Service would be meeting with district and boroughs to discuss their changing needs in light of the current financial pressures faced by all local authorities
6. The Board highlighted the performance figures related to the provision of benefit statements, and commented that this was an area of concern given the statutory obligations in this regard. Officers explained that changes to the scheme in 2014 had created additional data requirements on all administering authorities and employers. To this end, the Pension Regulator had acknowledged the additional challenge for all administering authorities in 2014/15 and agreed to take no further action. The Pension Regulator had set a clear expectation that the target of 100% of annual benefit statements issued to members by September was attained by all administering authorities in 2015/2016. The Board was informed that Pension Services anticipated that this would be achieved, and highlighted that employers were being required to make submissions for the tri-annual valuation by June 2016. The progress of this would give a clear indication as to whether the statements would be issued in accordance with the statutory requirements. The Board requested an update on this to the next meeting.
7. The Board discussed the 98% target for contributions to be received by 21st day of the ensuing period. Officers clarified that it was the responsibility of employers to collect and pass on contributions, and that there were sometimes delays in doing so. The Board was informed that this was not consistently one employer, and actions were taken to raise it with employers when it occurred. The Chairman highlighted the statutory requirement to receive all contributions within the 21 days and asked that the bench-mark be raised to 100% reflect that. The Board asked that any failure to achieve that bench-mark was

reported, with additional narrative where it was believed to be of material consequence.

8. The Board expressed concerns that the Pension Service was seeing a detrimental impact on performance as result of taking on additional local authority administering authority clients. It recognised that that there was action being undertaken to address these issues, but also commented that appropriate analysis should be conducted prior to further expansion in order to understand any likely impact on performance. The Chairman proposed to write to the Cabinet Member for Business Services and Resident Experience and Chief Finance Officer putting forward the Board's comments.

Resolved:

- That the Chairman write to the Cabinet Member for Business Services and Resident Experience to encourage greater impact analysis prior to any agreement to provide pension administration services to other administering authorities.

Recommendation:

- That the contributions received benchmark to be adjusted to 100% in line with the statutory requirements.

Actions/further information to be provided:

- Pension Services to circulate its action plan and timescales for improvement in relation to the issues outlined above to Board members.
- An update on the progress of employer data submissions in relation to the tri-annual valuation and the issuing of annual pension benefit statements to be brought to the next Board meeting.

9/16 SCHEME ADVISORY BOARD BENCHMARKING EXERCISE [Item 9]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
 Alex Moylan, Senior Accountant
 Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. The Board was informed that 13 funds took part in the Scheme Advisory Board pilot. The next steps for the Scheme Advisory Board were to recommend to the Department for Communities and Local Government (DCLG) that these key performance indicators became a regulatory requirement. Officers commented that the intention was to assist high performing funds to identify and offer assistance to those requiring additional support. It was noted that the benchmarking exercise was weighted more to investment performance than administration.

2. The Board sought clarification on the scoring and asked how self-assessments would be reviewed to ensure consistency. Officers highlighted that a consultation was expected from the Scheme Advisory Board and that the Local Pension Fund Board would have an opportunity to share its comments.

Resolved:

That the Board note the Scheme Advisory Board Benchmarking Exercise

Actions/Further information to be provided:

The Board to receive the consultation from the Scheme Advisory Board for further comment.

10/16 SURREY PENSION FUND: DISASTER RECOVERY PROCEDURES [Item 10]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
 Alex Moylan, Senior Accountant
 Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. The Board discussed the business continuity arrangements for both the finance management and administration of the fund. The Board confirmed that the payment of benefits to members was considered a priority under the business continuity plans of both Finance and Shared Services.
2. It was confirmed that the Altair software had been successfully tested. Officers commented that there was a level of risk if both data centres used by Shared Services were rendered non-operational, but the cost of mitigating this had been prohibitive. The Board was informed that the data centres were located in Guildford and Redhill.

Resolved:

That the Board notes the content of this report.

Actions/Further information to be provided:

None.

11/16 SURREY PENSION FUND: FROZEN REFUNDS [Item 11]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
 Alex Moylan, Senior Accountant
 Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. The Board was given an outline of the nature of frozen refunds. Officers highlighted that, prior to 2014, refunds of contributions were held indefinitely until the person either claimed the refund or retired, when it would be paid to them as a benefit. Following changes to the Local Government Pension Scheme (LGPS) in 2014, this frozen refund would now be refunded after five years.
2. The Board questioned what monetary value was held in frozen refunds, and officers agreed to follow-up with further detail. It was clarified that solely the value of the frozen refund was held, with no additional interest accounted for.

Resolved:

That the Board notes the content of this report.

Actions/further information to provided:

Officers to confirm the monetary value held by the Fund in frozen refunds.

The address screening exercise to issue a letter and claim form to those entitled to a frozen refund prior to 2014.

12/16 SURREY PENSION FUND: UNPROCESSED LEAVERS [Item 12]**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund)
 Alex Moylan, Senior Accountant
 Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. The Board sought clarity on the relationship between leavers with no pension entitlement, and those with a frozen refund as referred to in item 11. Officers explained that the numbers did not directly relate to one another, though it was highlighted that those members who did not claim a refund in the six month time period would be processed to receive a deferred benefit.
2. Officers asked the Board to note that the number of cases waiting to be processed as deferred members should reduce to zero, following the data-submission for the tri-annual valuation.
3. The Board was informed that the issues around the pension system aggregating separate employments were being resolved. The Board discussed the use of multiple contracts by schools for staff members, and the impact this could have on administering pensions. It was clarified that those acting up into roles would receive the benefit through the Career Average Revalued Earnings scheme.

Resolved:

That the Board note the content of the report.

Actions/Further information to be provided:

That a further report is provided following the tri-annual valuation.

**13/16 COUNSEL OPINION ON THE LEGAL STATUS OF PENSION BOARDS
[Item 13]**

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
Jason Bailey, Pension Services Manager

Key information raised during the discussion:

1. The Board was given a brief update on the context of the counsel opinion. It was confirmed by officers that all Board members would be covered under the County Council's indemnity and insurance arrangements, as this had been raised previously by the Board on 27 July 2016.
2. The Board asked whether there would be a requirement to review governance structures in light of the counsel opinion. It was confirmed that this would be undertaken once the Scheme Advisory Board had updated its guidance.

Resolved:

That the Board note the content of the report.

Actions/further information to be provided:

The correspondence confirming indemnity and insurance arrangements to be circulated to the Board.

A further report concerning any changes to governance structures required to be brought once the Scheme Advisory Board has updated its guidance.

14/16 DATE OF THE NEXT MEETING [Item 14]

The Board agreed to schedule its next meeting for June 2016, with a date to be confirmed based on member availability.

15/16 EXCLUSION OF THE PUBLIC [Item 15]

The Board resolved:

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of 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.

16/16 UPDATE FROM RECENT SURREY PENSION FUND COMMITTEE MEETINGS: 13 NOVEMBER 2015, 12 FEBRUARY 2016 AND 25 FEBRUARY 2016 [Item 16]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. The Board was advised that there were a number of commercially sensitive decisions taken in relation to the previous Pension Fund Committee meetings. Board members discussed each of these items in turn and sought clarity on a number of points.

Actions/further information to be provided:

The Board to receive a further update concerning asset allocation following the tri-annual valuation.

17/16 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES IN 2015/16 (QUARTER 3) [Item 17]

Witnesses:

Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
Jason Bailey, Pension Services Manager

Key points raised during the discussion:

1. The Board discussed the nature of Internal Dispute Resolution (IDR) cases.

Actions/further information to be provided:

None.

Meeting ended at: 12.56 pm

Chairman

SURREY COUNTY COUNCIL INTERNAL AUDIT REPORT

Pension Fund Investments

2015/16

Prepared for: Phil Triggs, Strategic Manager, Pensions and Treasury

Prepared by: Tasneem Ali, Internal Auditor

Sue Lewry-Jones
Chief Internal Auditor
Chief Executive's Office
County Hall
Kingston upon Thames
Surrey KT1 2EA

February 2016

Additional circulation list:

Director of Finance	Sheila Little
Service Finance Manager	Susan Smyth
Chairman Pension Fund Committee	Denise Le Gal
Chairman Surrey Local Pension Board	Nick Harrison
Senior Accountant Pension Fund & Treasury	Alex Moylan
Strategic Director	Julie Fisher
Risk and Governance Manager	Cath Edwards
Audit and Governance Committee	All
External Auditor	Grant Thornton UK LLP

Glossary:

LGPS	Local Government Pension Scheme
PSP	Public Service Pensions
KPI	Key Performance Indicators
SAP	Surrey County Council Accounting Software

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.
Major 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.

1. INTRODUCTION

- 1.1 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.
- 1.2 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. The Surrey Pensions Committee meets quarterly to ensure the proper governance and administration of the fund.
- 1.3 On 1 April 2015, in line with Public Service Pensions (PSP) Act 2013 the Authority established the Local Pension Board which has guidance, advisory and scrutiny remit.
- 1.4 A review of Pension Fund Investments was included as part of the 2015/16 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.

2. WORK UNDERTAKEN

- 2.1 Discussions were held with key staff associated with the investment function of the pension scheme.
- 2.2 The content of the Surrey Pension Fund website together with minutes for the last 12 months of the Pension Fund Committee and Local Pension Board were considered to assess the level of scrutiny by members and review the resolutions passed.
- 2.3 Documents were examined and suitable test samples were selected.
- 2.4 Testing was then carried out to provide assurance that there was compliance with the expected controls. The effectiveness of controls was reviewed and assessed.

3. OVERALL AUDIT OPINION AND RECOMMENDATIONS SUMMARY

- 3.1 **Opinion:** Effective.
- 3.2 **Recommendations analysis:** There are no recommendations

4. MANAGEMENT SUMMARY

- 4.1 The process for drawing down funds for investments by the fund custodian and payments to fund managers and private equity funds is effective. Sample testing found no errors.
- 4.2 Fund manager performance is presented to the Pension Fund Committee on a quarterly basis. The minutes reflect that information is adequately presented by the Pensions Team and there is effective review over the performance of the fund managers.
- 4.3 Quarterly reconciliations between Northern Trust and SAP ensured that data from Northern Trust was updated to SAP to ensure accounting information was correctly reported.

- 4.4 From sample testing of dividend income, the auditor independently confirmed the correct dividend value was recognised as investment income.
- 4.5 Effective review and monitoring of pensions contributions received ensured monthly contributions were received in a timely manner to maintain adequate cash flow levels.
- 4.6 Scrutiny of the bank statements confirmed regular reinvestment of cash to maximise interest potential.
- 4.7 Following the government announcement on pensions reforms effective 1 April 2015, the Surrey Pension Fund commissioned a paper on the impact this would have if any on the funding position of the Surrey Pension Fund. The report highlighted areas for consideration such as:
- Cash flow impact of increased transfers on the Investment Strategy;
 - Valuation modelling scenarios showed that in the short term a material impact on employer contribution rates is not expected;
 - Communications regarding Freedom and Choice alerting members to changes, employer engagement and updating retirement packs and benefit statements;
 - Planning for increased transfer quote requests and impact on administration; and
 - Drafting a safeguard monitoring policy in relation to Reduction of Cash Equivalents Regulations 2015.
- 4.8 Discussions with the Senior Accountant and feedback received from the Pension Services Manager together with a review of relevant minutes confirmed that the impact of the changes have been considered by the Pensions Team and to date the impact on the cash flow has not been significant.
- 4.9 The auditor is pleased to note the recommendations from the prior year's audit have been implemented.
- 4.10 In view of the findings of the Internal Audit review, which are set out in more detail in section 5 below the audit opinion is: **Effective**

5. FINDINGS

5.1 Overview of investment performance

Finding

- 5.1 Whilst the Pension Fund Committee continues to consider new private equity schemes, the Pension Fund did not participate in any new private equity arrangements for the period under review. The fund did however continue to commit to draw downs of the existing private equity schemes within agreed limits. This decision follows from regular scrutiny of private equity investment performance by the Committee members.
- 5.2 Fund Manager issues and investment performance updates are presented to members at the quarterly Pension Fund Committee meetings for their consideration. From review of the minutes it was evident that fund manager performance was closely analysed by members of the Pension Fund Committee at their quarterly meetings.
- 5.3 Fund manager appointments are closely considered together with review of investment returns against benchmark data which forms part of the initial agreement with the fund

manager. Any changes to this data are reviewed which is formalised through a new agreement to ensure performance delivery by the fund manager.

5.4 Investment transactions

Findings

5.5 Transactions are facilitated through the use of Northern Trust, the global custodian. Review of a sample of transactions provided assurance that appropriate officers in Pension Fund Team were notified of and authorised the transactions. In each case the funding notice and wiring instructions were clear and the request was addressed to the appropriate officer in the Pensions Fund Team.

5.6 Governance Arrangements

Findings

5.7 The Surrey Local Pension Board was established on 17 March 2015 following changes to the LGPS as a result of the Public Service Pensions Act 2013 and Regulations issued on 28 February 2015. The key role of the Local Pension Board is to assist the administering authority in the running of the Pension Fund and to monitor compliance with rules and standards, whilst primary support is provided to members by the Senior Investment Advisor. Trustees are independent of the Pension Fund Committee and training is provided through the Pensions Regulator –Public Sector Toolkit.

5.8 The Surrey Local Pensions Board utilises a total of 18 Key Performance Indicators to monitor the Surrey Pension Fund. The primary KPI's cover:

- Risk Management;
- Funding Level and Contributions;
- Deficit Recovery; and
- Required Investment Returns

5.9 On 6 October 2015, The Chancellor announced that the 89 local government pension funds are to be 'merged into half a dozen British wealth funds' to reduce costs and help investment in infrastructure across regions. Progress on any such arrangements would require local administration and actuarial arrangements. Discussions with officers in the Pensions Fund Team established that progress is underway to identify potential pension funds with similar investment principles to meet this purpose.

5.10 From the above it was evident that the Pension Fund Committee and the Local Pension Board together with the Pensions Fund Team had a robust approach to addressing changes in legislation to ensure statutory compliance of the Fund. This provides an effective governance framework to manage the Surrey Pension Fund.

6. ACKNOWLEDGEMENT

6.1 The assistance and cooperation of all the officers involved in the completion of this audit is greatly appreciated.

TERMS OF REFERENCE

Pension Fund Investments 2015/16

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. The Surrey Pensions Committee meets quarterly to ensure the proper governance and administration of the fund. On 1 April 2015 the Authority adopted the Local Pension Board which has a guidance, advisory and scrutiny remit.

PURPOSE OF THE AUDIT

The Surrey Pension Fund (SPF) covers around 190 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 audit review of the management of pension fund investments is included in the Annual Audit Plan for 2015/16 agreed by the Audit & Governance Committee. SCC's external auditors may choose to place reliance on the work of Internal Audit.

WORK TO BE UNDERTAKEN

audit will review the progress made on implementing recommendations from previous audits. It will ascertain whether there have been any significant changes to the systems of control. It will seek to gain assurance 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;
- adequate separation of duties exists;
- the Governance structure is in accordance with Statutory Regulations; and
- there is effective independent monitoring of pension fund performance by the new Pensions Fund Board.

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 2014/15.

OUTCOMES

The findings from this review will form a report to Surrey County Council management with an overall audit opinion on the effectiveness of systems in place and recommendations for improvement if required. Subject to 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;
- Business continuity; and
- Risk management

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.

TIMESCALES

Audit fieldwork will commence in January 2016, and it is anticipated that the findings and recommendations arising from this review will be reported to Audit and Governance Committee in April 2016. We would aim to finalise this report by February 2016 to fit in with external audit activity.

REPORTING ARRANGEMENTS

Auditor:	Tasneem Ali, Internal Auditor
Supervisor:	Simon White, Audit Performance Manager
Report to:	Phil Triggs, Strategic Manager, Pensions and Treasury Sheila Little, Director of Finance

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

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 Q4 of 2015/16 (1 January 2016 to 31 March 2016).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must be aware of the voting actions pertaining to the segregated portfolios of shares held within the pension fund.

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).
- 3 Annex 1 contains a list of terms and abbreviations used in the report. Annex 2 shows the Fund's latest approved responsible investment and stewardship (and share voting) policy.

Meetings Voted: Q4 2015/16

- 4 Table 1: Meetings Voted below shows that 60 meetings were voted in total, comprising 47 AGMs and 13 other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Total
UK & Ireland	8	0	6	14
Europe – Developed	10	2	-	12
Europe – Emerging	1	0	-	1
Asia & Oceania – Developed	15	2	-	17
Asia & Oceania – Emerging	3	2	-	5
South & Central America	2	1	-	3
Japan	8	0	-	8
Total	47	7	6	60

Resolutions

- 5 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. This shows the high volume of voting decisions that AGMs bring compared with other meetings. During Q4, 677 resolutions were voted, with the bulk of these in Europe (209), the UK and Ireland (177) and Asia & Oceania – Developed (115).

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Total
UK & Ireland	168	-	9	177
Europe – Developed	194	20	-	214
Europe – Emerging	15	-	-	15
Asia & Oceania – Developed	111	4	-	115
Asia & Oceania – Emerging	31	15	-	46
South & Central America	16	1	-	17
Japan	93	-	-	93
Total	628	40	9	677

- 6 There was a significant increase in voting at the end of Q4, heralding the start of peak proxy session in Europe.

Table 3: Resolutions Voted per Month (January to March)

Event	Jan	Feb	Mar	Total
AGM	2	5	40	47
EGM	3	2	2	7
GM	2	2	2	6
Total	7	9	44	60

Votes Against Management

- 7 The data in Table 4 (Votes Against Management By Resolution Category) show some important perspective on the type of voting decisions being made. As a part of the research analysis of meetings, each resolution is categorised according to the governance considerations to which they relate. Surrey voted against 18.2% of all resolutions for which votes were cast during Q4, which is consistent with the proportion of resolutions opposed in previous quarters.

- 8 A high proportion of the sustainability resolutions were voted against management. Sustainability is broadly defined and the resolutions opposed were in connection with political donations, human rights and environmental practices.
- 9 20% of the Shareholder Rights resolutions saw votes against management. The vast majority were UK resolutions seeking to approve 14-day notice periods for ordinary general meetings (other than AGMs). All capital resolutions voted against were related to share issue authorities.
- 10 Of the 28 remuneration resolutions opposed, four were put forward by Japanese companies seeking approval on the limit on aggregate remuneration payable to the Board of Directors. Seven resolutions opposed were at UK companies, seeking an advisory authority to accept the report on how pay policy had been implemented during the year.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	371	59	15.9%
Remuneration	83	28	33.7%
Audit & Reporting	82	2	-
Capital	75	16	21.3%
Shareholder Rights	40	8	20.0%
Corporate Actions	12	-	-
Sustainability	9	6	66.7%
Other	5	4	80.0%
Total	677	123	18.2%

Shareholder Proposed Resolutions

- 11 Seven resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions usually 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 apply 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.
- 12 In Q4, there was a successful shareholder proposal at Danske Bank to introduce a cap on golden handshakes, which the Board recommended voting in favour of it (it passed with 98.48% shareholder support).

Remuneration

- 13 Votes against remuneration resolutions in Q4 reflected the principles advocated in Surrey's policy. 28 distinct resolutions informed Surrey's remuneration voting but the chief concerns as measured by the number of resolutions associated with remuneration issues were:

- **Disclosure Standards:** The aggregate limit proposed for board remuneration is not accompanied by individual disclosure of remuneration for each director. This was a factor in 19 of the 28 remuneration resolutions opposed by the fund;
- **Bonus Caps:** The upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 4 of the 28 remuneration resolutions opposed by the fund;
- **Independence of the Remuneration Committee:** This was a factor in 3 of the 28 remuneration resolutions opposed by the fund; and
- **Misalignment:** Incentive scheme performance measures and key performance indicators used by the company do not match. This was a factor in 3 of the 28 remuneration resolutions opposed by the fund.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration report	17	8
Policy (long term incentives)	18	-
Policy (short term incentives)	1	1
Remuneration Policy	6	-
Amount (Total Collective)	17	14
Non-executive remuneration	16	5
Amount (Collective, individual)	4	-
Amount (Collective, component)	1	-
Policy (all employee plans)	1	-
Remuneration other	2	-
Total	83	28

Monitoring and Review

- 14 The share voting policy is kept under constant review.

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.

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 reviews of the policy being presented to the Pension Fund Committee on a regular basis.

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:
- Share voting policy be kept under review

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: List of abbreviations

Annex 2: Latest approved share voting policy

Sources/background papers:

None

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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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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.

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.

- **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.

- **Notice Periods**

Evidence of reward for failure has led 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.

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.

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.

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: REVISED STATEMENT OF INVESTMENT PRINCIPLES



SUMMARY OF ISSUE:

It is part of good governance that the Pension Fund Committee should review and approve its Statement of Investment Principles (SIP) and Core Belief Statement on a regular basis.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Review and approve the Statement of Investment Principles as shown in Annex 1.
- 2 Review and approve the Core Belief Statement shown in Annex 2.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must review and 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. The most recent statement needs to be amended as a result of a new private equity opportunity: the Standard Life Secondary Opportunities Fund III.

Revised Statement

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

Core Belief Statement

- 3 The existing Core Belief Statement is shown as Annex 2.

Monitoring and Review

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

CONSULTATION:

- 5 The Chairman of the Pension Fund Committee has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

- 6 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 7 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

- 8 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 SIP and Core Belief Statement offer a clear structure, reflecting the current investment strategies and beliefs approved by the Pension Fund Committee.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 9 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

- 10 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

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

WHAT HAPPENS NEXT

- 12 The following next steps are planned:
- Review and approval of the SIP and Core Belief Statement
 - Documents to be kept under review

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Revised Statement of Investment Principles

Annex 2: Core Belief Statement

Sources/background papers:

None

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Statement of Investment Principles 2015/16

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 the end of the statement.

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

Responsibility and governance for the Pension Fund, including investment strategy, fund administration, liability management corporate governance is delegated to the Surrey Pension Fund Committee, 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 Committee is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Director of Finance and the Strategic Finance Manager (Pension Fund and Treasury). The Pension Fund Committee meets on a quarterly basis.

Assisting, monitoring and scrutiny are delegated to the Local Pension Board, which is made up of:

- four employer representatives;
- four employee representatives;
- two independent representatives.

The Local Pension Board is advised by the Director of Finance and the Senior Specialist Advisor.

The Local Pension Board meets on a half yearly basis.

2. Investment Objectives

The Pension Fund Committee seeks to ensure that the Pension Fund has sufficient assets to be able to meet 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 Committee 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 Committee believes can consistently achieve the performance objectives set and to give each appointed manager a clearly defined 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 Committee 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 Committee 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 Committee 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 Committee 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 Committee usually confines such mandates to specialist managers in regional equities.

Absolute Return managers

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.

	Category	Allocation Policy %	Fund %	Review Range% +/-
Equities			63.0	+/-3.0
UK			29.0	
<i>Legal and General</i>	<i>Passive</i>	10.0		
<i>Majedie</i>	<i>Concentrated Active</i>	11.0		
<i>UBS</i>	<i>Core Active</i>	8.0		
Overseas			34.0	
<i>Legal and General</i>	<i>Passive</i>	14.0		
<i>Marathon</i>	<i>Concentrated Active</i>	12.0		
<i>Newton</i>	<i>Core Active</i>	8.0		
Property			6.5	+/-3.0
<i>CBRE</i>	<i>Core Active</i>	6.5		
Alternatives			12.0	+/-3.0
<i>Standard Life</i>	<i>Diversified growth</i>	8.0		
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0		
Bonds			18.5	+/-3.0
Index linked gilts			5.8	
<i>Legal and General</i>	<i>Passive</i>	5.8		
Investment Grade Credit			5.5	
<i>Western</i>	<i>Core Active</i>	5.5		
Total Return			2.6	
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6		
Multi Asset Credit			4.6	
<i>Western</i>	<i>Unconstrained</i>	4.6		
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 Committee 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.

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
Standard Life SOF III	\$	2016	25.0
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 Committee, 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:

	Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds	%	
Multi Asset Credit	4.6	4.4
Investment Grade Credit	5.5	5.3
Index-Linked gilts	5.8	5.5
Unconstrained	2.6	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 Committee 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.

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	Investment Grade Credit Multi Asset Credit	100.0%: Merrill Lynch Sterling Non-Gilts Index Total return benchmark	+0.75% p.a. (gross of fees) over rolling 3-year periods +5% to 7% per annum over the market cycle
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	FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging Markit iBoxx GBP Non Gilts ex BBB All stock	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

	Index-Linked Gilts	Portfolio of single stock funds structured 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 70:30 GARS:GFS	6 month LIBOR	+5.75% 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 Committee 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 Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Committee 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 Committee:

Mismatch risk: the primary risk upon which the Pension Fund Committee 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 Committee and is reviewed on a regular basis.

Diversification risk: the Pension Fund Committee 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 Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Pension Fund Committee 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 Committee 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 Committee 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 Committee 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 Committee's prior consent.

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

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 Committee 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 Committee.

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

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” 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 Committee 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 Committee, 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.

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.

✓ Full compliance

The Pension Fund Committee and Local Pension Board are supported in their decision making/assisting roles by the Director of Finance, the Strategic Finance Manager (Pension Fund and Treasury) and the Senior Specialist Advisor.

Members of both the Committee and Local Pension 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.

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 Committee on a quarterly basis. Fund managers present to the officers or the Pension Fund Committee 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 Committee, although options other than measuring meeting attendance and the success of the Committee'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.

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 Committee and half yearly reports to the Local Pension 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.

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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.
- 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 present 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.

4 Management Strategies

- 4.1 A well-balanced portfolio has an appropriate mix of passive and active investments.
- 4.2 Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- 4.3 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.
- 4.4 The long term case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.
- 4.5 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.
- 4.6 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.
- 4.7 Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 MAY 2016

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 should be monitored 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.

MATERIAL CHANGES FROM THE LAST REPORTING PERIOD

- 1 The review of the risk register during the preceding quarter has led not led to any adjustments to the existing risk ratings or mitigation actions.
- 2 A new risk pertaining to future increased global financial instability is included in the risk register.

DETAILS:

Background

- 3 A review of the current risk register for the Pension Fund will give the Pension Fund Committee the opportunity to influence and drive the Pension Fund risk management process during 2016-2017.

Risk Management Process

- 4 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.
- 5 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:
 - Investment
 - Financial
 - Funding
 - Operational
 - Governance
- 6 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 Committee and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.
- 7 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.
- 8 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.
- 9 Within the residual red risks, cost ranges are provided on the implications where possible.

CONSULTATION:

- 10 The Chairman of the Pension Fund Committee has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

- 13 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 members and officers with a suitable platform for the monitoring and control of pension fund risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

- 15 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.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 17 The following next steps are planned:
- Monitoring by officers and reporting to the Committee every quarter.

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Pension Fund Risk Register

Sources/background papers:

None

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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	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	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	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	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 specific 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	
Investment	5	New	Increased risk to global financial stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil	4	3	3	10	4	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2016 valuation.	3	30	
Operational	6	5	Rise in ill health retirements impact employer organisations	1	4	1	6	4	TREAT- 1) Investigating the viability of self-insurance across employers within the fund	4	24	
Investment	7	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	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	8	7	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	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	9	8	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	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	10	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	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 continuously 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	11	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	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	12	11	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	2	18	
Governance	13	12	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	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	14	13	Volatility caused by uncertainty with regard to the possible withdrawal of the UK from the European Union	3	3	2	8	3	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	15	14	Poor data quality results in poor information and decision making	2	2	4	8	3	TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrate data to ensure accuracy.	2	16	
Operational	16	15	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	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	17	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	TREAT- 1) Officers consult and engage with DCLG, LGPS Advisory Board, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines.	2	14	
Operational	18	17	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	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	19	18	Failure to hold personal data securely	1	1	4	6	3	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	20	19	Impact of government policy on the employer workforce	3	2	1	6	3	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	21	20	Changes to LGPS regulations	3	2	1	6	3	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	22	21	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	4	1	1	6	4	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	23	22	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	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	24	23	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	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	25	24	Procurement processes may be challenged if seen to be non-compliant with CJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	12	
Governance	26	25	That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious	3	2	4	9	1	TOLERATE-1) Partners for the pool were chosen based upon the perceived expertise and like-mindedness of the officers and members involved with the fund to ensure compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives.	1	9	
Governance	27	26	Failure to comply with legislative requirements e.g. SIP, FSS, Governance Policy, Freedom of Information requests	4	1	4	9	2	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	28	27	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	TOLERATE -1) Ensure that a cooperative, effective and transparent dialogue exists between the pension committee and local pension board	1	6	
Financial	29	28	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	TOLERATE - 1) A separate bank account exists for the pension fund 2) Lending limits with approved banks are set at treasury levels 3) The pension fund treasury management strategy is based on that of SCC.	1	6	
Financial	30	29	Incorrect, failed or late employee/employer contributions payments received	1	4	1	6	2	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	31	30	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	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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