MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 12.45 pm on 2 June 2017 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:
(*Present)

* Mr Tim Evans (Chairman)
  Mr Ben Carasco (Vice-Chairman)
* Ms Ayesha Azad
* Mr John Beckett
* Mr David Mansfield
* Mrs Hazel Watson

Co-opted Members:

* Mr Tony Elias, Borough/District Representative
* Margaret Janes, Employers
* District Councillor Peter Stanyard, Borough/District representative
  Philip Walker, Employees

In attendance:

Sheila Little, Strategic Director of Finance
Phil Triggs, Strategic Finance Manager (Pensions and Treasury)
John Harrison, Advisor
Jo Holden, Mercer
Mr Nick Harrison, Chairman Local Pension Board
Neil Mason, Senior Advisor
Jason Bailey, Pension Lead Manager
Angela Guest, Regulatory Committee Manager

18/17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Mr Ben Carasco and Mr Philip Walker.

19/17 MINUTES OF THE PREVIOUS MEETING - 10 FEBRUARY 2017 [Item 2]

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

20/17 DECLARATIONS OF INTEREST [Item 3]

There were none.

21/17 QUESTIONS AND PETITIONS [Item 4]

There was one question from Mr Stephen McDonald. This and the response are attached as Annex A.

22/17 COMMITTEE WORKPLAN [Item 5]

The Committee workplan was noted.

With the committee's agreement the Chairman re-ordered the agenda to run as follows: Items 9, 6, 14, 13, 7, 8, 10, 11 and 12 followed by the Exempt urgent item.

23/17 INVESTMENT STRATEGY STATEMENT [Item 9]

Declarations of interest:
None

Witnesses:
Phil Triggs, Strategic Finance Manager (Pensions and Treasury)

Key points raised during the discussion:

1. The Strategic Finance Manager explained that the latest Statement had been approved at the last meeting, with minor amendments added to this latest version as a result of new investment opportunities approved at the previous meeting. The Committee's stance to Environmental, Social and Governance (ESG) issues are set out in the Statement and the Committee had previously requested for the Local Pension Board to review the ESG Policy and to feed back. He went through each section of the Statement explaining it to the new members.
2. The Committee agreed that the objectives were well written.

Actions/ further information to be provided:
None.

Resolved:

That the Investment Strategy Statement, as in Annex 1 to the report, was approved.

Reason for decision:
It is a statutory requirement that the Pension Fund Committee should approve and regularly review its Investment Strategy Statement.

24/17 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

Declarations of interest:
None

Witnesses:
John Harrison, Advisor
Phil Triggs, Strategic Finance Manager
Sheila Little, Strategic Director of Finance
Mercer

Key points raised during the discussion:

1. John Harrison presented the report to the committee. Notes from meetings with fund managers was tabled and are attached as Annex B.

2. Each of the fund managers were discussed regarding performance and issues arising. It was agreed that Newton should be visited every three to six months, rather than annually, to seek reassurance.
3. Mercer had been requested to review the asset allocation and risks as there may be a risk of being overweight in equities. Their comments were attached as Annex 4 to the report.
4. The Chairman was of the opinion that the Strategy should not be correlated to the measure of liabilities. That the Committee should decide if they were happy with the level of equities and whether to rebalance, but not on the percentage level of funding.
5. The Strategic Director of Finance explained that the Committee would govern the Strategy but the way the Strategy will be delivered will be the responsibility of the new Border to Coast Pension Pool (BCPP).
6. Mercer agreed to send some proposals to the Strategic Manager.

Resolved:
That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the discussion on the exempt appendix on the grounds that it involved the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

Actions/ further information to be provided:
To consider setting up an additional meeting in July 2017 for potential interviews.

Resolved:
1. The report was noted.
2. The Border to Coast side letter for inclusion in the final governance BCPP governance documents was approved (Exempt Annex 1 to the report).
3. That the £15m commitment to the Standard Life Secondary Opportunities III Fund (SOF III) agreed at the meeting on 10 February 2017 be denominated in US dollars in the sum of USD20m.
4. That USD20m is not committed to BlackRock PEP VII (2016 Vintage).
5. To allocate USD20m to the West Street Infrastructure Partners Fund III was approved.
6. That the Pool's revised approach to cost allocation was approved.

Reason for decision:
In order to achieve best possible performance alongside optimal risk.

Mr John Beckett left the meeting at 1.45pm.
Mr Tony Elias left the meeting at 1.55pm

The Committee adjourned for a five minute comfort break at 1.55pm and reconvened at 2pm.

25/17 LOCAL PENSION BOARD UPDATE & REPORT ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMPLIANCE [Item 14]

Declarations of interest:
None

Witnesses:
Mr Nick Harrison, Chairman Local Pension Board

Mercer

Key points raised during the discussion:

1. The Chairman of the Local Pension Board explained the report and went through each recommendation from the Board. Mercer explained their advice provided in the exempt annex provided with the report. Both responded to Member queries.

Resolved:
That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the discussion on the exempt Annex 2 on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act.

Actions/ further information to be provided:
None.

Resolved:

1. That the Local Pension Board continue to gather evidence from peers, such as South Yorkshire Pension Authority, the Environment Agency and Avon, with a view to recommending proposals to the Committee for long term ambition in regard to sustainable investment for consideration later in 2017.
2. That the Fund publishes its Stewardship Statement with the Financial Reporting Council (FRC) as part of the Strategy review.
3. To develop a set of principles on its approach to climate change as part of its Investment Strategy Statement (ISS).
4. To consider what additional transparency and reporting arrangements could be made in regard to its Responsible Investment activities, including reporting its interaction with the Local Authority Pension Fund Forum (LAPFF), annual Environment, Social and Governance (ESG) ratings and stewardship reports.
5. That UN Principles for Responsible Investment (PRI) be followed but not to be a member.
6. To request that Mercer undertake further research into the fiduciary prudence of adopting a target of investment in low carbon assets.
7. That the Committee support the following expectations with the Border to Coast Pensions Partnership (BCPP) asset pool:

    - That portfolio level monitoring of ESG metrics and carbon foot printing is developed as part of the pooling arrangements.
    - That the pooled fund use its scale and influence to develop a consistent RI approach.
    - That the pooled fund appoint managers with clear ESG policies in place.
    - That the pooled fund retain specialist expertise in respect of responsible investment.
    - That the pooled fund make arrangements to develop a specific low carbon passive investment vehicle.

8. That the next steps contained in the report be taken forward.

Reason for decisions:
They set out both a short-term and long-term approach to incorporating ESG considerations into the investment decisions made by the Fund, and reflect industry standards around good governance, transparency and fiduciary prudence.

26/17 ADMINISTRATION UPDATE AND ISSUES [Item 13]

Declarations of interest:
None

Witnesses:
Neil Mason, Senior Advisor
Jason Bailey, Pension Lead Manager

Key points raised during the discussion:

1. The Senior Advisor introduced the report and the Pension Lead Manager explained the Key Performance Indicators (KPIs). In response to a member query regarding the three KPIs not met it was explained that officers expected them to be met within three to six months.
2. Some serious concerns were raised in respect of the Internal Audit report on pensions administration and the performance of pension administration in general. Officers propose to take an update report on the Orbis management response to Internal Audit recommendations and the general performance of pension administration to the Local Pension Board meeting of 27 July 2017. Members of the Committee were welcome to attend that local board meeting of 27July.

Resolved:
That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the discussion of exempt annex 2 on the grounds that it involved the likely disclosure of exempt information under paragraph1 of Part 1 of Schedule 12A of the Act.

Actions/ further information to be provided:
None.

Resolved:

1. To commission the local pension board to monitor improvement progress of the pension administration function.

2. That the reports on Key Performance Indicators for the quarter to 31 March 2017, the Pensions Administration Audit 2016/17 and the update from the Local Pension Board be noted.

Reason for decision:
In order to achieve best possible performance alongside optimal risk.

27/17 PENSION FUND RISK REGISTER [Item 7]

Declarations of interest:
None

Witnesses:
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Committee had a short discussion about cyber risk and whether IT systems needed changing. It was reported that the IT system did not need changing and that security level had increased.

Actions/ further information to be provided:
None.

Resolved:
That there were no additions or amendments to be made to the Risk Register.

Reason for decision:
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.

28/17 SHARE VOTING [Item 8]

Declarations of interest:
None

Witnesses:
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Stategic Finance Manager introduced the report and in response to a member query stated that he would bring back information regarding changes as a result of voting.

Actions/ further information to be provided:
That the Strategic Finance Manager bring back information regarding changes as a result of voting.

Resolved:
1. To note the report.
2. That the latest versions of the Responsible Investment and Stewardship Policy and Voting Template were approved.

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

29/17 MIFIDII [Item 10]

Declarations of interest:
None.

Witnesses:
None.

Key points raised during the discussion:

1. This report and its recommendations were agreed without discussion.

Actions/ further information to be provided:
None.

Resolved:

1. That the report be noted.

2. That officers undertake the opting up to elective professional status process when the proposed Regulations come into force.

Reason for decision:
The Pension Fund Committee must approve all legislative processes reference the pension fund.

30/17 ACTUARIAL VALUATION 2016: OUTCOME [Item 11]

Declarations of interest:
None.

Witnesses:
None.

Key points raised during the discussion:

1. This report and its recommendations were approved without discussion.

Actions/ further information to be provided:
None.

Resolved:

1. That the report was noted.

2. That the 2016 actuarial valuation and the Funding Strategy Statement be adopted.

Reason for decision:
A triennial actuarial valuation is a statutory requirement for the pension fund.

31/17 PENSION FUND BUSINESS PLAN 2016/17: OUTTURN REPORT [Item 12]

Declarations of interest:
None

Witnesses:
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Strategic Finance Manager introduced the report which was an annual document and briefly explained achievements made and where further, or ongoing, work was needed. Overall most of what was wanted to be achieved was achieved to a good standard.
2. A self assessment score was tabled and it attached as Annex C. The committee were happy with the mix of members on the committee and congratulated officers.

Actions/ further information to be provided:
None.

Resolved:
That the achievements and progress made with regard to the Business Plan objectives, shown in Annex 1 to the report, in respect of the 2016/17 financial year were noted.

Reason for decision:
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.

32/17 EXCLUSION OF THE PUBLIC [Item 15]

Resolved: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act.

33/17 URGENT ITEM - ACTUARIAL AND BENEFITS CONSULTANCY SERVICES [Item 15a]

Declarations of interest:
None

Witnesses:
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. This item has been accepted as an urgent item according to procedural rules and agreed by the Chairman for consideration on 2 June 2017.
2. The Strategic Finance Manager introduced this exempt report.

Actions/ further information to be provided:
None.

Resolved:
1. To undertake a temporary contract with Hymans Robertson to 30 September 2017, or a later date mutually agreed by the Administering Authority and Hymans Robertson, subject to Legal and Procurement advice.

2. That officers engage with National LGPS Frameworks reference the actuarial contract procurement, subject to Procurement advice, and a shortlist of candidates be brought to a Pension Fund Committee for interview.

Reason for decision:
To ensure continuation of the provision of actuarial and benefits consultancy services.

34/17 DATE OF NEXT MEETING [Item 17]

The date of the meeting was noted.

Meeting ended at: 3.30 pm

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Chairman

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SURREY PENSION FUND COMMITTEE – 2 JUNE 2017

Question from Mr Steve McDonald

The Surrey Pension Fund has significant investments in fossil fuel companies.

Please confirm; 1) the total value of those investments, and 2) the value of those investments in BP and Shell.

Response given:

GIC Sub Industries - S&P/MSCI	Asset description - long	Sum of Bid/Ask market value - base
		105299771.5
Oil & Gas Equipment & Services	AMEC FOSTER WHEELE ORD GBP0.50	1891382.85
	NATIONAL OILWELL VARCO COM STK	1565169.47
	PETROFAC ORD USD0.02	38012.72
	SAIPEM NPV	353068.88
	SUPERIOR ENERGY SVCS INC COM	514296.33
	TECHNIPFMC PLC COM USD1	63025.53
	VALLOUREC SA EUR2.00	56098.45
Oil & Gas Equipment & Services Total		4481054.23
		4481054.23
		4481054.23
Integrated Oil & Gas	BP ORD USD0.25	42555875.48
	OIL CO LUKOIL PJSC ADR EACH REPR 1 ORD RUB0.02	257316.54
	ROYAL DUTCH SHELL 'A'SHS EUR0.07	343385.13
	ROYAL DUTCH SHELL 'A'SHS EUR0.07(GBP)	1440518.4
	ROYAL DUTCH SHELL 'B'ORD EUR0.07	43884235.68
	STATOIL ASA	231710.75
	SUNCOR ENERGY INC COM NPV 'NEW'	3594437.25
	TOTAL EUR2.5	157898.89
Integrated Oil & Gas Total		92465378.12
Oil & Gas Exploration & Production	CDN NATURAL RESOURCES COMMON STOCK	1848856.94
	CONOCOPHILLIPS COM	3278655.14
	EOG RESOURCES INC COM	283702.44
	PRAIRIESKY ROYALTY COM NPV	511665.35
	SANTOS LIMITED NPV	65886.21
	TULLOW OIL ORD GBP0.10	2364573.06
Oil & Gas Exploration & Production Total		8353339.14
		100818717.3
		100818717.3
		105299771.5

Total	**105,299,771.49**
Shell	**45,668,139.21**
BP	**42,555,875.48**

Surrey Pension Fund – Manager Review Meeting on 26th May 2017
Attended by Phil Triggs and John Harrison

Majedie: UK Equities
Chris Field (Portfolio Manager) and James Mowat (Client Relationship)

Adviser view: no issues
Another excellent year from the Majedie team. They have consistently anticipated changes in market direction and positioned the portfolio accordingly. The move from a cyclical bias to a more defensive portfolio appears sensible. There are no immediate issues with this mandate.

In the longer term, the main challenge for the business will be succession management. The founders established the business in 2003 and are of similar age to Simon Hazlett, who has now retired. There is no indication that any of the main investors (James de Uphaugh, Chris Field and Matthew Smith) are planning to leave soon, but this is an issue to monitor.

Mandates
- UK Equity (£368m) long only portfolio seeking index +2.5% pa (inception Sept 2004)
- Tortoise (£15m) long/short global equity portfolio seeking positive absolute returns (inception Sept 2009)

Performance

	Q1 2017 %	12 months %	3 years % pa	Since inception % pa
UK Equity Fund	1.7	25.7	8.4	12.2
FTA All Share index	4.0	22.0	7.7	8.3
Relative	**- 2.3**	**+ 3.7**	**+ 0.7**	**+ 3.9**
Tortoise Fund	**- 2.1**	**+ 14.1**	**+ 4.5**	**+ 5.3**

The rolling three-year returns are above benchmark but a little below our target. However, Majedie's long-term performance remains impressive. They have rarely been behind the index for more than a few months and have far exceeded our targets since inception.

Points covered
- Simon Hazlett has retired and James Mowat has replaced him as Client Relationship Director. James was previously with Baillie Gifford.
- Majedie remains focused on equity mandates and closed to new asset flow in 2006. Subsequent asset growth has been through market movement and outperformance. Pension fund de-risking has led to a steady recycling of clients from corporate schemes to other investors – DB pension schemes now account for less than 50% of the business, with more than half of this represented by their 9 LGPS clients. They have this week joined the options available on the London CIV.
- LGPS pooling may be a challenge given capacity constraints. The capacity available to the London CIV is about £1bn, of which about £500m is for existing clients.
- Relative performance benefited from market movements post-Brexit. In particular, mining stocks recovered strongly, with Anglo American, BHP Billiton and KAZ Minerals the largest individual contributors over the year to March 2017. Banks also performed well.
- They have around 10% invested in non-UK equities, mostly in Europe.
- They are becoming more cautious, with the economic cycle already relatively prolonged and US interest rates likely to rise. Fiscal measures are stalling, inflation pressures are building and there is growing uncertainty about how to unwind QE. They expect the US to face headwinds but Europe to see improved economic growth.
- They have reduced cyclical exposure by trimming weightings in banks and miners, but regard traditional defensives (utilities and consumer staples) as too expensive. They prefer European telecoms (BT, Orange, Telecom Italia), food retailers (Tesco, Morrison) and support services (Rentokil). They also have over 3% in gold miners.
- One recurrent theme is 'Darwinian winners' – businesses which are squeezing weaker players out. Examples include Ryanair and Card Factory.

Western Asset Management: Bonds
Annabel Rudebeck (Portfolio Manager) and Marian George (Client Relationship)

Adviser view: no issues
Performance has been steady and broadly based on both portfolios.

Mandates
- UK Credit (£181m) seeking index +0.75% pa (inception Dec 2015)
- Multi-asset Credit (£135m) unconstrained portfolio seeking positive absolute returns (inception Dec 2016)

Performance

	Q1 2017 %	12 months %	3 years % pa	Since inception % pa
UK Credit Fund	2.2	10.8		10.6
Benchmark	1.8	9.7		9.6
Relative	**+ 0.4**	**+ 1.1**		**+ 1.0**
MAC	**+ 3.1**	**+ 9.0**		**+ 9.1**

It is still early days for mandates that should be measured over rolling 3-year periods or longer. To date performance has been good.

Points covered
- Annabel Rudebeck has taken over from Paul Shuttleworth who has now retired. Annabel was previously with Rogge and before that JP Morgan. She is responsible for non-US investment grade credit and sits on the Global Investment Strategy and Global Credit Committees.
- Political events have had a big influence on both markets and policy makers. The £10bn corporate bond programme by the Bank of England in the wake of the UK referendum result has now ended but had a meaningful impact. Markets have also been reacting to the Trump result and to concerns about elections this year in France, Italy and Germany. This has provided opportunities.
- Performance attribution for the year to March shows that they gained from sector allocation, security selection and US duration views. The only negative was the underweight position in UK duration (long gilts).
- They have a sanguine view of markets. They believe defaults will remain low, so US high yield is not expensive despite a yield below 6%. They are also relaxed about some perceived global economic risks, such as a hard landing in China – the debt concerns are well known, largely domestic and mostly in government backed banks.
- There are areas of concern. For example, Italian banks have 16% NPLs.
- Electoral surprises could also prompt volatility, although they would regard sterling weakness following a hung parliament as a buying opportunity.
- The UK credit portfolio yields 2.7% (0.5% above the benchmark) and a similar duration. The MAC portfolio yields 6.1% with a duration of 4.9 years.
- We asked for more information about the longer-term default experience in the US high yield portfolio used within the MAC mandate. Marian will provide this.

Newton: Global Equities
Paul Markham (Portfolio Manager) and David Moylett (Client Relationship)

Adviser view: close attention required
The last 12 months have been very poor and raise questions about the role Newton should have in the Fund in the longer term. While I have some sympathy for their cautious outlook, the portfolio construction disciplines have not been impressive. Following such a strong cyclical run, markets could well become more fearful, which ought to align better to Newton's approach. If they are to retain/regain our confidence, it will be important that they deliver much stronger relative returns if markets stumble.

Mandate
Global equities (£305m) seeking index +2% pa (inception Nov 2007)

Performance

	Q1 2017 %	12 months %	3 years % pa	Since inception % pa
Fund	4.0	23.5	15.4	8.4
Benchmark	5.6	32.2	15.6	8.9
Relative	**- 1.6**	**- 8.7**	**- 0.2**	**- 0.5**

Performance has been very poor in the last year, undermining the outperformance seen in the previous four years. Newton are keen to position the shortfall as having been too defensive in a 'mad and unsustainable' market. While this has undoubtedly been a factor, attribution (see below) suggests analytical failures were equally responsible.

Points raised

- Performance had been well ahead of target in three of the previous four years, benefiting from a defensive bias during a period of economic uncertainty. The last 12 months have seen a significant swing back to cyclicals as markets have anticipated fiscal reflation following the election of President Trump – materials and financials have been the strongest performers, with consumer staples and utilities lagging. Newton did not believe fiscal reflation would be deliverable and continue to distrust bank balance sheets, so they maintained a defensive bias and suffered significantly in the year to March. Investor excitement has waned since March and they believe they are 1.5% ahead of the index in the current quarter.
- Attribution of underperformance in individual stocks, however, suggests a number of losses from poor analysis.
- The largest hit was from Teva Pharmaceuticals, which is 1.6% of the portfolio and cost 1.12% in relative return. Teva is a generics drug company domiciled in Israel, which has a large US business. It should have benefited from a drive to spend less on branded drugs. However, long delays in gaining regulatory approval for its acquisition of a business from Allergan, high debt costs relative to cash flow and the resignation of the CEO (and potentially the CFO) have undermined the share price. The biggest concern is that Newton's largest position in the stock was below 2%, implying they continued to buy the shares into the decline despite deteriorating news flow.
- Other disappointments include TripAdvisor (the new business model was unproven and has failed), Japan Tobacco (slow to migrate to e-cigarettes) and AB Foods (valuation highly dependent on Primark where poor like-for-like sales seen). These four negative contributors account for a shortfall of over 3% in the year.
- They remain cautious on market valuations. In particular, price/sales ratios in the US are at all-time highs – other measures are also high but distorted by above average profitability. They think demographics and technology are deflationary and this might be exacerbated by the prolonged period of zero interest rates. They see parallels between the US today and Japan in the 1990s where businesses that should go bust continue because they can still pay debt costs. They also see car loans, with the average tenure now over 6 years, as similar to the sub-prime crisis.
- They are less pessimistic about Europe, although they find it harder to gain a 'pure' exposure without owning banks.

- Recent purchases are Bangkok Bank (low valuation) and Sony (low valuation and operational improvements). Recent sales are stocks that had performed well (Bridgestone, BAT and Toyota). They also sold Dun & Bradstreet because they believe the quality of earnings has declined.
- Most of the portfolio reflects the team's global model. The main stocks owned that reflect Paul's individual view are Don Quijote (well-managed discount food retailer), Blue Buffalo (pet food) and Fanuc (industrial automation).

Aviva: Diversified Growth
Peter Fitzgerald (Portfolio Manager) and Matthew Graham (Client Relationship)

Adviser view: no issues
The Pension Fund has diversified its Diversified Growth Fund exposure through three managers with very different approaches. The Aviva fund is the closest to a hedge fund. It uses a wide range of relative market positions (long versus short) and has a strong emphasis on risk control through diversification. The fund's track record has been broadly consistent with other such funds.

The performance of DGFs generally has been lacklustre since 2015, which has caused some to question whether it would be better to invest in a simpler combination of bonds and equities. I do not share this view. Equities and bonds have both had a strong run and now stand on valuations that are demanding from a historical perspective. It seems likely that the next few years will be more challenging, which would provide opportunities for diversification to be a benefit rather than a cost.

Mandate
DGF (£305m) seeking cash +5% pa (inception Oct 2016)

Performance
In Q1 the fund returned -1.26%, but it is far too early to judge this absolute return mandate.

Points raised
- The market environment for DGFs have been less favourable recently, but the Aviva product has continued to attract new business – in the UK, about half has come from GARS. The AIMS OEIC is currently £4.9bn, with a total of £8.6bn in the strategy as a whole.
- Performance since inception for Surrey (7 months) is close to target, with less than a third of the volatility of equities.
- We discussed managing volatility through periods of election uncertainty. They contrasted elections that are close (e.g. the UK referendum and US President) with those that are not (e.g. France). They sought protection through currency positions for the close elections (short sterling for UK, short Mexico peso for US) but did not for France.
- They do have a long-term allocation to volatility protection, but do not use the Vix because the holding cost is too high. They prefer to use relative volatility between markets (e.g. Hong Kong versus US).
- Their central expectation is for growth in US to moderate, China to stabilise and inflation pressures to build. They believe 10-year break-even inflation at 1.8% pa in the US is too low.
- They key risks to this central case are US interest rates rising too quickly, a hard landing in China, debt deleveraging and nationalism prompting trade wars. None is a large enough probability to drive asset allocation nor a small enough probability to ignore.
- In equities, the favoured areas are Europe and small companies in Emerging Markets.
- In bonds, they are long in the US and short in the UK. They expect US rates to steepen and have a local currency position in short-dated Indonesian bonds.
- In currencies, they have a short Korean Won versus US dollar position as a hedge against a China slowdown.
- The risk profile of the underlying positions would total close to 15% in isolation, but this falls to about 5% taking into account diversification.

John Harrison
31st May 2017

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Annex C

Committee Member Self Appraials Scores 2017

Section 1: How effective is the boards structure?	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9	Average
The Chairman of the Committee provides appropriate leadership and conducts meetings in a way which encourages wide debate of the issues	1	1	1	1	1	1	1	1	1	1
The Chairman effectively drives accountability and measurement into the Committee.	1	1	1	1	1	1	1	1	1	1
All Committee members have appropriate opportunities to contribute in meetings	1	1	2	1	1	1	1	1	1	1.1
The Committee has the right level of access to the Pension Fund officers	1	2	2	1	1	1	1	1	1	1.2
The Committee receives adequate support from the officers and external advisors	1	1	2	1	1	1	1	1	2	1.2
The members of the Committee have access to people with up-to-date investment knowledge, and these skills, qualities and expertise are put to good use	2	2	2	1	1	1	1	1	1	1.3
The Committee meetings are well organised, efficient and effective	1	2	2	1	1	1	1	1	2	1.3
Meetings are conducted in a way which encourages wide debate of the issues and timely decision making	1	1	2	1	1	1	2	1	2	1.3
Meeting packs are complete, are received with enough lead time, and include the right information to allow meaningful discussion	1	2	2	1	1	1	1	2	1	1.3
Minutes of Committee meetings reflect activities, actions and recommendations discussed at meetings	1	1	2	1	1	2	1	1	2	1.3
The Committee reviews the statement of investment principles (SIP) on a regular basis	1	2	2	1	1	1	2	1	1	1.3
The Committee has the right number of people to allow for effective and timely decision-making	2	1	2	1	1	1	2	1	2	1.4
Meetings allow sufficient focus on the “big picture” strategic issues (such as funding and investment strategy)	1	1	2	1	2	1	2	2	1	1.4
The Committee considers compliance with the Myners/CIPFA principles on investment	1	2	2	1	1	1	2	1	2	1.4
The Committee’s approach to developing and maintaining its level of knowledge and understanding is appropriate	1	1	2	1	2	2	2	1	2	1.6
Committee members are open, honest and effective in their communication with each other	2	2	2	2	1	1	2	1	1	1.6
The Committee’s governance framework is appropriate and well documented	1	2	2	2	1	2	1	1	2	1.6
Taken as a group, the Committee has the right background, experience, collective knowledge and skills to appropriately carry out the Committee’s responsibilities	2	2	2	2	1	1	2	2	1	1.7
The roles, terms of reference and responsibilities of the Committee are appropriate and well understood	1	2	2	2	1	2	2	1	2	1.7
The Committee meetings are well attended	2	2	2	2	1	1	1	2	2	1.7
The Committee ensures that the Fund’s risk assessments are adequate and reviews these regularly	1	3	2	2	1	1	2	1	2	1.7
The Committee meetings are of appropriate length to allow discussion of relevant issues consistent with the Committee’s responsibilities	1	2	2	2	3	1	1	2	2	1.8
The Committee spends adequate time on key strategic investment issues	2	2	2	1	3	1	2	2	1	1.8
The Committee has sufficient time and resource to monitor the effectiveness of the Committee’s investment manager arrangements and has appropriate review mechanisms in place	2	2	2	2	2	1	2	1	2	1.8
The frequency of Committee meetings is appropriate	2	2	2	2	2	1	1	3	2	1.9
The Committee has a clear view on the Fund’s long-term funding objective	1	2	2	1	2	3	2	1	3	1.9
The Committee adequately monitors the performance of the Fund’s administration function	1	2	2	2	2	1	2	3	3	2
The mix of the Committee membership is appropriate	2	2	4	2	2	1	2	2	2	2.1

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