Notice of Meeting

Surrey Pension Fund Committee

Date & time	Place	Contact	Chief Executive
Friday, 8 June 2018 at 10.00 am	Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN	Sharmina Ullah Room 122, County Hall Tel 020 8213 2838	Joanna Killian

We're on Twitter: @SCCdemocracy

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email .

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Sharmina Ullah on 020 8213 2838.

Elected Members

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

Co-opted Members:

Margaret Janes (Employers), Councillor Tony Elias (Borough/District representative) and Philip Walker (Employees), VACANCY (Borough/District representative)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING 26 MARCH 2018 (Pages 1 - 4)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

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 (*4 June 2018)*.
2. The deadline for public questions is seven days before the meeting (*1 June 2018)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 FORWARD PLAN AND ACTION TRACKING (Pages 5 - 8)

The forward plan and action tracker is attached, detailing actions from previous meetings. The Board is asked to review and provide comment as necessary.

6 PENSION FUND BUSINESS PLAN 2017/18: OUTTURN REPORT (Pages 9 - 28)

Purpose of the report: 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 2017/18.

7 CARBON ASSET EXPOSURE REVIEW (Pages 29 - 34)

Purpose of the report: To understand the Surrey County Council Pension Fund's current exposure to assets which are carbon intensive in their activities and how a future reallocation of the Fund's equities will impact its current Carbon Asset exposure.

8 EQUITY STRATEGY REVIEW (Pages 35 - 44)

Purpose of the report: The Investment Strategy Statement of the Surrey Pension Fund currently shows a target allocation of listed equities at 59.8% of the portfolio.

The Fund is scheduled to begin transition of its assets in to the Border to Coast (BCPP) asset pool in the 3rd-4th quarters of 2018, starting with UK equities. In consideration of the appropriateness of Fund's asset allocation in line with this key transition date, an investment strategy meeting was convened between the Chairman of the Pension Fund Committee, Mercer, the Fund's Independent Advisor and officers on 19 January 2018.

As a result of this meeting Mercer produced the Equity Strategy Forward and, at the Pension Fund Committee meeting of 9 February 2018, it was resolved by the Pension Fund Committee to approve further work from Mercer, the Fund's Independent Advisor and officers to consider the following, in accordance with the Equity Strategy Forward plan:

- the balance between UK and global equities;
- the balance between passive and actively managed equities;
- the allocation within the passive section of the portfolio, what allocation should be made to the RAFI multi-factor index and whether an allocation should be made to a low carbon equity fund.

Further meetings to consider these agreed areas were held between the Chairman of the Pension Fund Committee, Mercer, the Fund's Independent Advisor and officers on 17 April 2018 and 15 May 2018 and conclusions from these meetings inform this report.

This strategic approach to managing the portfolio will continue to be critical after assets begin to be transitioned to BCPP and should be considered within the context of this transition.

9 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE (Pages 45 - 64)

Purpose of the report: 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 an update on investment performance and the values of assets and liabilities.

10 INVESTMENT STRATEGY REVIEW AND STATEMENT (Pages 65 - 88)

Purpose of the report: The pension fund is required to publish an investment strategy statement (ISS) as a result of new investment regulations. It is a statutory requirement that the Pension Fund Committee should approve and regularly review its ISS.

11 CASHFLOW ANALYSIS (Pages 89 - 92)

Purpose of the report: A cash-flow analysis allows the Fund to ascertain a projection as to when benefit payments may exceed income. This information can influence both the investment and funding strategy.

12 PENSION FUND INTERNALLY MANAGED CASH STRATEGY (Pages 93 - 96)

Purpose of the report: There is a large amount of unutilised cash in the pension fund account which is earning negligible returns. This cash could be better utilised investing through fund managers to yield greater return. The strategy below discusses this issue in detail.

13 LOCAL PENSION BOARD REPORT (Pages 97 - 110)

Purpose of the report: This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 23 April 2018 that need to be brought to the attention of the Pension Fund Committee.

14 CORPORATE GOVERNANCE SHARE VOTING (Pages 111 - 124)

Purpose of the report: This report provides a summary of the Fund's share voting process in Q4 of 2017/18 (1 January 2018 to 31 March 2018).

15 EXCLUSION OF THE PUBLIC

Recommendation: 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.

16 NATIONAL POOLING UPDATE (Pages 125 - 188)

Purpose of the report: The Border to Coast ambition is to establish a fully regulated asset management company that is ready to accept the transition of assets, as required by government. The working timeline is expected to commence in transitioning assets from quarter four in 2018.

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)

17 PUBLICITY OF PART 2 ITEMS

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

18 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Committee will be on 14

September 2018.

Joanna Killian
Chief Executive
Published: 31 May 2018

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

This page is intentionally left blank

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 26 March 2018 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:

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

In attendance

* Mr Nick Harrison

16/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Margaret Janes.

17/18 MINUTES OF THE PREVIOUS MEETING: 9 FEBRUARY 2018 [Item 2]

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

18/18 DECLARATIONS OF INTEREST [Item 3]

There were none.

19/18 QUESTIONS AND PETITIONS [Item 4]

There were none.

20/18 ACTION TRACKER AND FORWARD WORK PROGRAMME [Item 5]

Members noted and approved the Actions Tracker and Forward Work Programme.

21/18 EXCLUSION OF THE PUBLIC [Item 6]

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.

22/18 APPOINTMENT OF PENSION FUND ACTUARIES [Item 7]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. There was a discussion regarding the appointment process and the scores given to each bid received.

RESOLVED:

That the Committee:

1. Noted and approved the assessment criteria by which an actuary may be appointed; and

2. Approved the re-appointment of Hymans Robertson as the Fund actuary, as the supplier that achieved the highest score, on a 6 year contract with an option to extend for 1 year, with effect from May 2018, in line with the LGPS Frameworks document.

23/18 EXTENSION OF DOWNSIDE EQUITY PROTECTION [Item 8]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Hemal Popat, Mercer

Key points raised in the discussion:

1. There was a wide ranging discussion regarding the protection of equities in the fund and whether the appropriate timescales and situation in which to enter such protection.

RESOLVED:

That the Committee:

1. Noted the progress on the downside equity protection strategy for developed market global equities.

2. Agreed to define the levels and triggers for downside equity protection.

3. Approved the extension of a downside equity protection strategy to also include UK and European equities, to be carried out by Mercer, subject to Section 151 officer, the Chairman of the Pension Fund Committee and Independent Advisor, agreeing the associated fees and within agreed levels and triggers.

4. Agreed to additional collateral required for this third stage to be generated through synthesizing some of the Fund's passive equity exposure.

24/18 PUBLICITY OF PART TWO ITEMS [Item 9]

25/18 DATE OF NEXT MEETING [Item 10]

The date of the meeting was NOTED.

2

Meeting ended at: 11.26 am

Chairman

Surrey Pension Fund Committee – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action by when	Action update
P1/17	10/02/17	Pension Fund Risk Register	To invite the IMT manager to a future committee to give a presentation on the Council implementation of Cyber security in general and of the Pension Fund systems (including related 3rd party systems).	Head of Pensions	September 2017	
P3/17	2/6/17	Manager Issues and Investment Performance	To consider setting up an additional meeting in September 2017 for actuary interviews.	Head of Pensions	September 2017	**Update Sept 2017 – Committee advised that actuarial interviews delayed until Feb 2018** **Update – Actuary interviews completed and action to be ratified by the Committee at this meeting.** **COMPLETE**
P1/18	09/02/2018	Local Board Report	That the Committee would draft a written response regarding BCPP Membership to the local board chairman.	Head of Pensions/ Democratic Services Officer	June 2018	

Surrey Pension Fund Committee – ACTION TRACKING

P2/18	09/02/2018	Risk Registers: Pension Fund And Administration	That a regular update be provided to the committee on a quarterly basis including a breakdown of key risks and a detailed list of scenario plans	Head of Pensions		
P3/18	09/02/2018	Risk Registers: Pension Fund And Administration	That the Local Pension Board add to their forward plan consideration of how the risks are measured and whether the weighting is appropriate	Head of Pensions/Democratic Services		

Surrey Pension Fund Committee: Forward Plan

8 June 2018	• **Investment strategy review update** • **National pooling update** • **Manager issues/investment performance** • **Local board update (to include):** - ***Administration update*** - ***Governance update*** - ***Pension fund and administration risk registers*** • **Share voting** • **Carbon footprint audit** • **Strategic review** - ***Global/UK equity balance*** - ***Passive/active equity balance***
14 September 2018	• **Investment strategy review update** • **National pooling update** • **Manager issues/investment performance** • **Local board update (to include):** - ***Administration update*** - ***Governance update*** - ***Pension fund and administration risk registers*** - ***Share voting*** • **Cash-flow analysis** • **Bespoke employer investment strategy** • **Training, including self-assessment** • **Strategic review** - ***Options appraisal for disinvestment of carbon associated holdings***
16 November 2018	• **Investment strategy review update** • **National pooling update** • **Manager issues/investment performance** • **Local board update (to include):** - ***Administration update*** - ***Governance update*** - ***Pension fund and administration risk registers*** - ***Share voting***

Surrey Pension Fund Committee: Forward Plan

	• **Private equity update** • **Governance review (including mission statement)** • **Cash-flow analysis** • **Bespoke employer investment strategy**

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **PENSION FUND BUSINESS PLAN 2017/18: 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 2017/18.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Note the achievements and progress made with regard to the Business Plan objectives shown in Annex 1 in respect of the 2017/18 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 10 February 2017, the Committee approved a business plan for 2017/18, 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 administration, communication, funding, governance, risk management and investment tasks to be carried out during 2017/18, and the target date when these should be achieved.

2 The original 2017/18 business plan is shown as Annex 1.

Outturn 2017/18

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 KPR I reports were sent to the Director of Finance and Pension Fund Committee clerk 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 2017.

Outcome: **Achieved**

The Pension Fund Annual Report was posted onto the Fund's website in mid-September 2017.

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

Outcome: **Achieved**

There have been no complaints against the Pension Administration team staff during the year. A robust procedure has now been put in place to capture day to day complaints ensuring that they are logged and communicated to within the 10 day turnaround time. Analysis has also taken place on the types of complaints received and how customer service can be improved, leading to the implementation of quicker and more effective administration processes.

This was reported to the Local Pension Board throughout 2017/18. There were five Stage One internal dispute resolution procedure (IDRP) appeal in 2017/18.

There was also three Stage Two IDRP appeal. In each case the Stage Two adjudicator found in favour of the scheme employer. One case was referred to the Pensions Ombudsman in 2017/18; a judgement from the Ombudsman is still awaited.

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: Review the current pension service level agreement between the pension fund and pension services team as part of a new service specification.

Outcome: **Achieved**
A new pension service specification was approved by the Pensions Fund Committee at its meeting on 15 September 2017.

9 Action 6: Design a new pension fund administration strategy.

Outcome: **Partially Achieved**

The revised strategy was approved to issue for a consultation with scheme employers by the Pension Fund Committee on 15 September 2017. The initial consultation was from 18 September 2017 to 23 October 2017, but, was extended to 30 November 2017 at the request of scheme employers. A number of revisions were suggested by scheme employers, which the pension fund is trying to accommodate where possible. This accommodation requires agreement from the pension administration team and once received a further consultation will be issued to scheme employers.

10 Action 7: Complete Implementation of the employer risk/covenant model in partnership with Hymans

Outcome: **Achieved**

An employer risk/covenant model was implemented for the 2016 actuarial valuation, as was fully effective from 1 April 2017. A number of employers have provided covenant assurance to allow a change in their risk categorisation by the Fund.

Outturn: Communication

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

Outcome: **Achieved**

All pensioners in the Surrey Pension Fund were contacted in writing to confirm the new rate of their pension in payment and to inform them about the online portal, the Staff Retirement Association and other information relevant to pensioner members in April 2018.

12 Action 2: Timely production of benefit statements.

Outcome: **Partially Achieved**

Benefit statements for active members were made available online by 31 August 2017 (providing the information needed to produce the statements had been supplied by the employer). Paper statements were issued by 31 August 2017 to those members who it was not possible to contact by email.

Benefit statements for deferred members were issued in early September following lengthy and unexpected delays at the external printers. A new

supplier has been found meaning that deferred statements for 2018 will be posted within 24 hours of the data and template document being sent to the printing company.

Although no complaints were received from scheme members, in accordance with the Surrey Pension Fund Breaches Policy, the late production of statements was reported to the Pensions Regulator who has now responded to the breach report by advising that they do not intend to take any further action with regard to the breach.

13 Action 3: Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme to members and employers. Ensure communication material is amended to comply with the requirements of new regulations/legislation.

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 bulletins which have provided details of regulatory and wider legislative and procedural changes.

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

Outcome: **Achieved**

The Committee and Local Board considered the national pooling progress following the Department of Communities and Local Government (DCLG) approval issued in December 2016. 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.

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

Outcome: **Achieved**

The Fund held a successful annual meeting on 17 November 2017, attended by the actuary who was available for one-to-one sessions with employer representatives following the formal meeting.

16 Action 6: Communicate actuarial valuation to all employers

Outcome: **Achieved**

Following a successful actuarial process, communications were concluded.

Outturn: Actuarial/Funding

17 Action 1: Implement current actuarial valuation 2016.

Outcome: **Achieved**

Relevant changes were implemented effective from 1 April 2017. New employers admitted to scheme have had their contributions assessed using these assumptions.

18 Action 2: Communicate results to all employers.

Outcome: **Achieved**

A draft Funding Strategy Statement was sent to all employers for consultation with a final draft approved at the 2 June 2017 Pension Fund Committee meeting. Every member organisation has received a confirmed schedule of employer contribution rates and deficit contributions in respect of the next three years.

19 Action 3: Receive satisfaction survey feedback from employers (all employer bodies).

Outcome: **Achieved**

The Fund's actuary presented to the Fund's annual meeting held on 17 November 2017. One-to-one sessions with individual employer representatives after the meeting resulted in the resolution of many queries and problems. Feedback received was positive.

20 Action 4: Provide employers with IAS19/FRS17 funding statements when requested.

Outcome: **Achieved**

Individual FRS17/IAS19 reports (2016/17 accounts closure) were commissioned and provided to all employer bodies as required in line with individual deadlines, as follows:

- Scheduled and admitted bodies: Mar 2017
- Colleges: July 2017
- Academies: August 2017

21 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. This is reported in the quarterly statistics report to the Local Pension Board. There are no current difficulties or outstanding issues with member bodies.

22 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

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

Outcome: **Partially Achieved**

A governance review was identified in the Pension Committee forward plan to be carried out in the second/third quarter of 2017/18. This will include questionnaires designed for the assessment of the Committee's decision making.

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

Outcome: **Achieved**

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.

25 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.

26 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.

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

Outcome: Partly **Achieved**

All governance documents are now existent. The latest draft of the Investment Strategy Statement, incorporating the Fund's stated compliance with Myners/CIPFA principles will be reviewed as part of the governance review in the second/third quarter of 2017/18.

28 Action 6: Ensure that Committee is kept fully up-to-date with the national asset pooling project and proposed amendments to legislation.

Outcome: **Achieved**

The national asset pooling was a constant agenda item throughout all of the Pension Fund Committee meetings during 2017/18. The Pension Fund Committee have been active participants in the Border to Coast Joint Committee will met for the first time on 6 June 2017.

29. Action 7: Ensure Committee is kept up to date with Pensions Regulator Code of Conduct

Outcome: **Achieved**

The Committee were provided with a training session on the Pensions Regulator Code of Conduct on 12 February 2016 and have been update where appropriate.
.

Outturn: Financial and Risk Management

30 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.

31 Action 2: Produce Annual Statement of Accounts and achieve an unqualified audit.

Outcome: **Achieved**

This was produced on time (2016/17 accounts, financial statements and annual report) with no external audit qualifications.

32 Action 3: Produce Annual Pension Fund Report.

Outcome: **Achieved**

The Pension Fund Annual Report is posted onto the Fund's website.

33 Action 4: Ensure ongoing risk assessments of the management of the fund for 2017/18.

Outcome: **Achieved**

An evaluation of the Fund's risk assessments with risk control procedures and mitigations was presented at every Committee meeting in 2017/18 and will be a regular agenda item at every future meeting.

34 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. This is in addition to a business continuity resilience which is applied to the pension administration system software, Altair, employed by the Pension Services Team.

35 Action 6: To review the current employer covenant assessment process.

Outcome: **Achieved**

The Fund's new risk assessment in accordance with strength of covenant was approved by the Pension Fund Committee at the meeting of 12 February 2016 was applied in the 2016 actuarial valuation process. This process has been employed for all new employers entering the Surrey scheme in 2017/18.

Outturn: Investment

36 Action 1: Annual consideration of the CIPFA/Myners principles.

Outcome: **Ongoing**

Consideration of the principles is a regular agenda item at every Pension Fund Committee meeting.

37 Action 2: Review of investment manager arrangements.

Outcome: **Achieved**

The investment grade bond element of portfolio with Western has been terminated and transitioned to the multi asset credit portfolio with Western 2017/18. An allocation to infrastructure (through Pantheon) was agreed an implemented in 2017/18. Downside equity protection on the global equity section of the portfolio was implemented in 2017/18, and conditions established to extend this to the UK equity sleeve of the portfolio.

38 Action 3: Review asset allocation with investment consultant and independent advisor.

Outcome: **Achieved**

Asset allocation and variances have been consistently reviewed at each quarterly. An asset repositioning exercise and transition process between managers was conducted during 2017/18. A deep dive in to the mix of the equity portfolio is ongoing with support from Mercer and our independent advisors, with recommendations likely to be taken to the Committee in the first quarter of 2018/19.

39 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 2017/18 and the minutes included in Committee agenda reports with the independent advisor's written and verbal commentaries at meetings.

40 Action 5: Implement new Investment Strategy Statement (ISS)

Outcome: **Achieved**

The ISS was approved at the Committee meeting of 10 February 2017 were approved at every Committee meeting in 2017/18. Any updates to the ISS have been presented to the Committee for approval.

41 Action 6: Pension Fund Committee to receive quarterly investment monitoring reports.

Outcome: **Achieved**

Investment performance review reports are considered by the Committee every quarter.

42 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.

43 Action 8: Implement plan re national asset pooling (Border to Coast Pensions Pool (BCPP)).

Outcome: **Achieved**

The Surrey Pension Fund has been represented by the Chairman as a member of the BCPP Joint Committee and officers have contributed to the planning through the Officers Operations Group. Sub-fund creation and the transition of the first tranche of Fund assets is expected towards the end of 2018.

Outturn: Local Pension Board

44 Action 1: Reasonably comply with any requests from the Local Pension Board with regard to any aspect of the Scheme Manager function.

Outcome: **Achieved**

The Local Pension Board has worked collaboratively with the Pension Fund Committee in order to enable it to assist the Pension Fund Committee in securing compliance with the LGPS regulations, pension law and guidance from the Pensions Regulator.

45 Action 2: Give due consideration to recommendations made to the Pension Fund Committee from the Local Pension Board and respond to the Local Pension Board within a reasonable period of time.

Outcome: **Achieved**

The Local Pension Board has presented the Pension Fund Committee with recommendations in the area of administration and ESG. The Pension Fund Committee has been supportive of these recommendations requests or activities of the Local Pension Board.

46 Action 3: Provide Local Pension Board members access to training offered to Pension Fund Committee members.

Outcome: **Achieved**

Local Pension Board members have been offered access to ongoing training. This has been provided in-house and through external organisations, such as CIPFA and the LGA.

47 Action 4: Invite members of the Local Pension Board to attend Pension Fund Committee meetings.

Outcome: **Achieved**

Local Pension Board members have been invited to and have regularly attended Pension Fund Committee meetings. This invitation has been reciprocated by the Local Pension Board for the Pension Fund Committee to attend Local Pension Board meetings.

48 Action 5: Commission the Local Pension Board to carry out specific studies to assist the Pension Fund Committee.

Outcome: **Achieved**

On 11 November 2016, the Pension Fund Committee commissioned the Local Pension Board to review how ESG factors are taken into consideration informing the Investment Strategy Statement of the Surrey Local Government Pension Scheme (LGPS) Fund. The Local Board's conclusions were reported to the Pension Fund Committee at its meeting on 2 June 2017.

CONSULTATION:

49 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:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

52 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

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

EQUALITIES AND DIVERSITY

54 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

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

WHAT HAPPENS NEXT:

56 The following next steps are planned:

- Continuation of the current year's work programme in line with the 2018/19 business plan.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Committee meetings.
- Outturn report of the 2018/19 financial year to be presented at the first meeting of the Pension Fund Committee in 2019/20.

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1: Business Plan 2017/18

Sources/background papers:
None

This page is intentionally left blank

Surrey Pension Fund
Business Plan and Actions for 2017/18

Administration			
Objective(s) - 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 committee meeting	Phil Triggs/Neil Mason
2	Pension Fund Committee to receive the Pension Fund Annual Report	By 30 September 2017	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	Review the current pension service level agreement between the pension fund and pension services team as part of a new service specification	2 June 2017 Pension Fund Committee	Phil Triggs/Jason Bailey/Neil Mason
6	Design a new pension fund administration strategy	2 June 2017 Pension Fund Committee	Phil Triggs/Jason Bailey/Neil Mason
7	Complete Implementation of the employer risk/covenant model in partnership with Hymans	31 March 2017	Phil Triggs/Neil Mason

Communication			
Objective(s) - 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 2017	Jason Bailey/Neil Mason
2	Timely production of benefit statements	Active members by 31 Aug 2017 Preserved members by 31 Aug 2017 Councillors by 31 Aug 2017	Jason Bailey
3	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme to members and employers. Ensure communication material is amended to comply with the requirements of the new regulations/legislation	Ongoing	Jason Bailey/Neil Mason
4	Communication on a timely basis of material scheme changes to Pension Fund Committee, employer bodies and members	Ongoing	Phil Triggs/ Jason Bailey/Neil Mason
5	Prepare Pension Fund Annual Meeting (November) and receive feedback from employers	30 November 2017	Phil Triggs/ Jason Bailey/Neil Mason
6	Communicate actuarial valuation to all employers	31 March 2017	Phil Triggs/Neil Mason

Actuarial/Funding

Objective(s)

- 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	Implement current actuarial valuation 2016	31 March 2017	Phil Triggs/ Jason Bailey/Neil Mason
2	Communicate results to all employers	31 March 2017	Phil Triggs/ Jason Bailey/Neil Mason
3	Receive satisfaction survey feedback from employers (all employer bodies)	31 March 2017	Phil Triggs/Neil Mason
4	Provide employers with IAS19/FRS102 funding statements when requested	Scheduled and admitted bodies: Mar 2017 Colleges: July 2017 Academies: August 2017	Phil Triggs
5	Monitor and reconcile contributions schedule for the County Council and scheme employers	Ongoing	Phil Triggs
6	Member training covering actuarial funding issues	Ongoing	Phil Triggs/Neil Mason
7	Implement ill health retirement pool	31 March 2017	Neil Mason
8	Implement multi academy trust pool	31 August 2017	Neil Mason

Surrey Pension Fund Committee Members			
Objective(s) - 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 Committee	Committee Members
2	Review Pension Fund Committee member training requirements and implement training plan as appropriate	Ongoing	Phil Triggs
3	Agree annual plan for Committee member training	2 June 2017 Pension Fund Committee	Phil Triggs
4	Ensure that meeting papers are issued at least seven days prior to meeting	Every meeting	Phil Triggs
5	Ensure that governance process remains in line with revised Myners/CIPFA principles to ensure 100% compliance	Ongoing 2017/18	Phil Triggs
6	Ensure that Committee is kept fully up-to-date with the national asset pooling project and proposed amendments to legislation	Ongoing 2017/18	Phil Triggs
7	Ensure Committee is kept up to date with Pensions Regulator Code of Conduct	Ongoing 2017/18	Neil Mason

Financial & Risk Management

Objective(s)

- 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 2017/18	Phil Triggs
2	Produce Annual Statement of Accounts and achieve an unqualified audit	22 May 2017	Phil Triggs
3	Produce Pension Fund Annual Report	30 September 2017	Phil Triggs
4	Ensure ongoing risk assessments of the management of the fund for 2017/18	Ongoing and reported to every committee meeting	Phil Triggs
5	To monitor a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2017/18	Phil Triggs/ Jason Bailey/Neil Mason
6	To review the annual current employer covenant assessment process	31 March 2018	Phil Triggs/Neil Mason

Investment			
Objective(s) - Periodically review investment strategy and benchmarks - Monitor performance against benchmarks - Meet with investment managers to discuss performance			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Annual consideration of CIPFA/Myners principles	31 March 2018	Phil Triggs
2	Review of investment manager arrangements	31 March 2018	Phil Triggs
3	Review asset allocation with investment consultant and independent advisor	31 March 2018	Phil Triggs
4	Discuss/meet with all investment managers and report to Pension Fund Committee	Quarterly 2017/18	Phil Triggs
5	Implement new Investment Strategy Statement	1 April 2017	Phil Triggs
6	Pension Fund Committee to receive quarterly investment monitoring reports	Quarterly 2017/18	Phil Triggs
7	Respond to all government consultations and report to the Pension Fund Committee as necessary	Ongoing 2017/18	Neil Mason
8	Implement plan re national asset pooling (Border to Coast Pensions Pool)	1 April 2018	Phil Triggs

Local Pension Board			
Objective(s) - To ensure the Local Pension Board is constituted and functions within the regulations - To help facilitate the effective operation of the Local Pension Board			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Reasonably comply with any requests from the Local Pension Board with regard to any aspect of the Scheme Manager function	Ongoing 2017/18	Phil Triggs/Neil Mason
2	Give due consideration to recommendations made to the Pension Fund Committee from the Local Pension Board and respond to the Local Pension Board within a reasonable period of time	Ongoing 2017/18	Phil Triggs/Neil Mason
3	Provide Local Pension Board members access to training offered to Pension Fund Committee members	Ongoing 2017/18	Phil Triggs/Neil Mason
4	Invite members of the Local Pension Board to attend Pension Fund Committee meetings	Quarterly 2017/18	Phil Triggs/Neil Mason
5	Commission the Local Pension Board to carry out specific studies to assist the Pension Fund Committee	Ongoing 2017/18	Neil Mason

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **CARBON ASSET EXPOSURE REVIEW**

SUMMARY OF ISSUE:

To understand the Surrey County Council Pension Fund's current exposure to assets which are carbon intensive in their activities and how a future reallocation of the Fund's equities will impact its current Carbon Asset exposure.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must approve and review all working documents produced for the Pension Fund.

DETAILS:

Background

1. The Surrey Local Pensions Board conducted a review of Environmental, Social and Governance (ESG) compliance in spring 2017 which was then reported to the Surrey Pension Fund Committee on 10 November 2017.The Pension Fund Committee then approved the recommendation to establish the fund's current carbon asset exposure, with the initial analysis being carried out on the Fund's passive and active equities.

Methodology

2. TruCost's carbon footprint analysis measures the greenhouse gas emissions produced within each equity portfolio (per tonnage) in relation to their annual revenue, demonstrating how much of their return is determined by activities which emit carbon dioxide.

   This is done by measuring the carbon footprint of each individual asset holding, encompassing both direct and first tier indirect impacts. Direct impacts are those which result from a company's own vehicles, operations and waste. First tier indirect impacts occur as a result of a company procuring services from within their supply chain.

Findings

3. The table below summarises the carbon asset exposure of each Equity manager in comparison to their Benchmarks.

Equity Manager	Value of Holdings (£m) as at 28 February 2018	Total CO2 Footprint per £m holding (tCO2e/£m revenue)	Benchmark CO2 Footprint per £m holding (tCO2e/£m revenue)	Variance	Benchmark used
LGIM Passive - UK Equity	351.89	361.66	358.17	+0.98%	FTSE UK All Share
LGIM Passive - World Developed	485.13	390.90	394.02	-0.79%	FTSE Developed
LGIM Passive World Emerging Market	54.09	832.70	854.41	-2.54%	FTSE Emerging Markets
Marathon Global Equity	491.86	313.03	420.54	-25.57%	MSCI ACWI
Newton Global Equity	320.8	173.54	420.54	-58.73%	MSCI ACWI
Majedie UK Equity	321.27	286.45	358.17	-20.02%	FTSE UK All Share
UBS UK Equity	306.06	276.04	358.17	-22.93%	FTSE UK All Share

4. The deciding factor which contributes to how a portfolio's carbon exposure exceeds its benchmark is whether it is heavily invested in carbon intensive markets (the more intensive being the Utilities, Energy or Materials market). The other factor would be if a portfolio is invested in the most carbon intensive companies within a market.

Contributing Factors

5. Some of the contributing factors relating to the Carbon Efficiency of each portfolio are highlighted below

Equity Manager	Contributing Factor to Variance
LGIM Passive - UK Equity	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Telecommunication Services and Information Technology, which together contribute 0.0% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Materials and Consumer Discretionary, which contribute to 0.61% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are Royal Dutch Shell PLC, BP and CRH Plc with a combined carbon apportionment of 45.33% of the portfolio.
LGIM Passive - World Developed	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Industrials and Materials, which together contribute 1.11% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Utilities and Energy, which contribute to 1.24% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are LafargeHolcim Ltd, Exxon Mobil Corp and RWE AG with a combined carbon apportionment of 7.89% of the portfolio.
LGIM Passive World Emerging Market	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Utilities and Financials, which together contribute 2.28% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Industrials and Consumer Staples, which contribute to 0.2% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are Gazprom PJSC, NTPC Ltd and Sasol Ltd with a combined carbon apportionment of 14.36% of the portfolio.
Marathon Global Equity	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Utilities and Energy, which together contribute 33.24% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Consumer Staples and Health Care, which contribute to 18.84% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are Archer-Daniels-Midland Co, Bunge Ltd and

	Praxair Inc. with a combined carbon apportionment of 43.06% of the portfolio.
Newton Global Equity	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Utilities and Materials, which together contribute 39.21% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Health Care and Telecommunication Services, which contribute to 4.95% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are Royal Dutch Shell PLC, Conoco Phillips and Albemarie Corp with a combined carbon apportionment of 41.73% of the portfolio.
Majedie UK Equity	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Consumer Staples and Utilities, which together contribute 21.41% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Financials and Industrials, which contribute to 11.35% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are BP, Royal Dutch Shell PLC and Mondi Ltd with a combined carbon apportionment of 46.53% of the portfolio.
UBS UK Equity	In aggregate, the two sectors that have the greatest positive effect on carbon efficiency are Materials and Industrials, which together contribute 19.67% of the increased carbon efficiency. The two worst performing sectors in the portfolio are Financials and Consumer Discretionary, which contribute to 3.89% of reduced carbon efficiency. The largest Contributors to the Portfolio's Total Carbon Apportionment are BP, Royal Dutch Shell PLC and Anglo American PLC with a combined carbon apportionment of 51.53% of the portfolio.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

7. Reduce risk by rebalancing holdings to favor companies that are more carbon efficient

8. Engage with companies within the Fund's portfolios to disclose better environmental data

9. Use the analysis to understand how equity allocation rebalance will have an impact on the Fund's existing Carbon Asset exposure.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

10. There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

11. The Director of Finance (Section 151) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

12. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

13. The Carbon Asset Exposure analysis does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

15. The following next steps are planned:

    - Continued review by the Pension Fund Committee;
    - Seek advice from Mercer and the Independent Advisor on how the proposed equity rebalance will have an impact on carbon asset exposure.

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman

Annexes: None

Sources/background papers: None

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **EQUITY STRATEGY REVIEW**

SUMMARY OF ISSUE:

The Investment Strategy Statement of the Surrey Pension Fund currently shows a target allocation of listed equities at 59.8% of the portfolio.

The Fund is scheduled to begin transition of its assets in to the Border to Coast (BCPP) asset pool in the 3rd-4th quarters of 2018, starting with UK equities. In consideration of the appropriateness of Fund's asset allocation in line with this key transition date, an investment strategy meeting was convened between the Chairman of the Pension Fund Committee, Mercer, the Fund's Independent Advisor and officers on 19 January 2018.

As a result of this meeting Mercer produced the Equity Strategy Forward and, at the Pension Fund Committee meeting of 9 February 2018, it was resolved by the Pension Fund Committee to approve further work from Mercer, the Fund's Independent Advisor and officers to consider the following, in accordance with the Equity Strategy Forward plan:

- the balance between UK and global equities;
- the balance between passive and actively managed equities;
- the allocation within the passive section of the portfolio, what allocation should be made to the RAFI multi-factor index and whether an allocation should be made to a low carbon equity fund.

Further meetings to consider these agreed areas were held between the Chairman of the Pension Fund Committee, Mercer, the Fund's Independent Advisor and officers on 17 April 2018 and 15 May 2018 and conclusions from these meetings inform this report.

This strategic approach to managing the portfolio will continue to be critical after assets begin to be transitioned to BCPP and should be considered within the context of this transition.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approve the reduction in UK equities in the portfolio from the current 46% to 20%, all in the active portion of the portfolio.

2. Retain the current balance in the equity portfolio of 38% passive and 62% active.

3. Approve the balance within the passive portfolio to be 16% global RAFI, 16% global low carbon and 6% emerging markets.

4. Approve further work for officers, Mercer and the Independent Advisor to consider the appropriate balance of the active global/regional element of the equity portfolio and negotiate with BCPP to enable this asset mix to be realised through the BCPP global or regional sub fund offerings.

5. Note the progress on the downside equity protection strategy.

REASON FOR RECOMMENDATIONS:

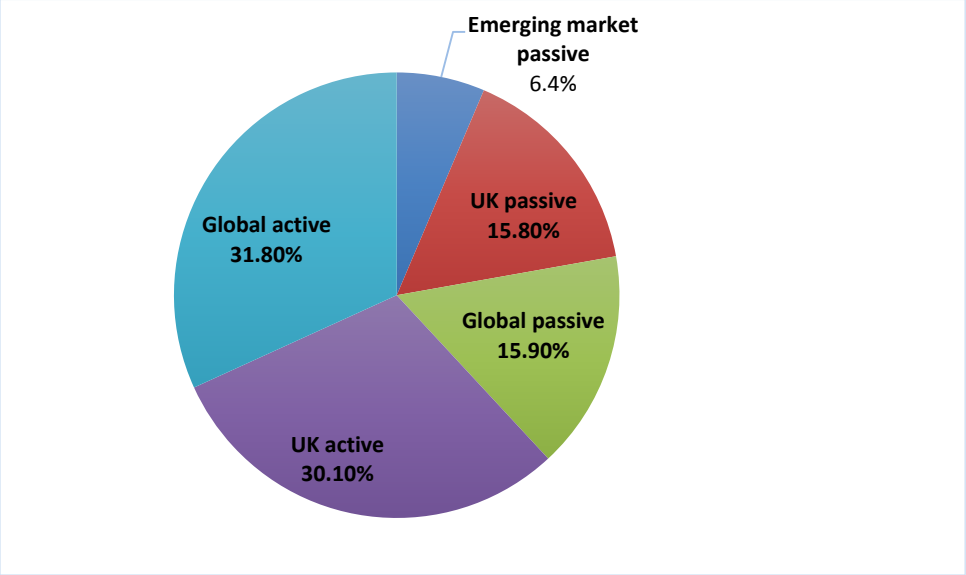
The Pension Fund Committee believes that the actions recommended will fulfil the objectives of the Equity Strategy Forward plan, approved at the Pension Fund Committee meeting of 9 February 2018, and are a key element in the review of asset allocation of the equity portfolio in accordance with the timetable to transition assets to BCPP.

DETAILS:

Reduction in the allocation to UK equities

1. The current equity portfolio is weighted as follows:

Passive	**38.1%**	**Active**	**61.9%**
UK equities	15.8%	UK equities	30.1%
Global equities	15.9%	Global equities	31.8%
Emerging market equities	6.4%		



2. The current equity portfolio is split approximately 46% *to UK* / 54% *overseas.* In contrast, the UK makes up just over 6% *of the global equity market* weighted by market cap:

Country	MSCI ACWI (weight)
USA	52.0%
Japan	8.0%
UK	5.8%
France	3.7%
China	3.6%
Germany	3.2%
Other	23.6%
Total	**100.0%**

Source: MSCI, as 30th April 2018.

3. This bias in the UK currently presents the Fund with a number of inherent risks:
   - Sector concentration: the UK section of the portfolio is significantly concentrated in certain sectors (e.g. oil/gas and financials) and underweight in others (e.g. technology) when compared to the global benchmark;
   - Stock concentration: The UK section of the portfolio is also concentrated in certain stocks (the 10 largest UK-listed stocks amount to 35% of the UK market) when compared to the global benchmark (the10 largest stocks account for only 10% of the global market);
   - Economic uncertainties: There is prolonged uncertainty regarding the possible impact of Brexit and this raises questions about the merits of maintaining the size of the current UK allocation.

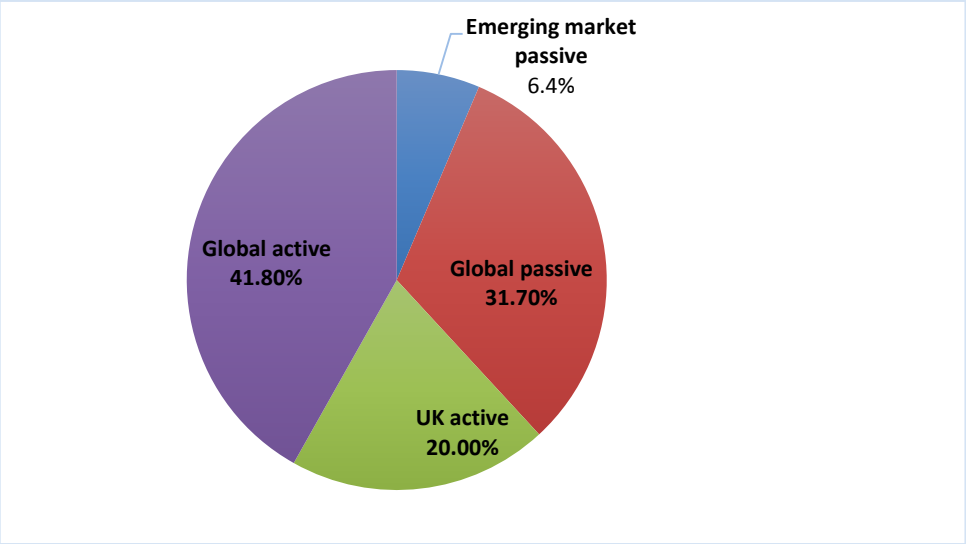
4. There are, however, a number of local factors that make some an element of overweight exposure compared to global market cap desirable. These include the fact that the Fund's pensioners live in the UK, the quality of UK governance and the rule of law over ownership rights. In addition, the P/E ratio for the UK market has recently fallen to its long term average level, making the UK market potentially valuable.

5. In consultation with the Pension Fund Committee Chairman, Mercer and our Independent Advisor it is recommended that there be a reduction in the UK section of the portfolio (see the Mercer and Independent Advisor background papers). However, to take account of the mitigating factors mentioned, it is not proposed that this reduction be such that it be consistent with global market cap (approximately 6%).

6. It is recommended to reduce the direct UK equity holdings to 20% of the total equity portfolio. Note – some exposure to UK stocks would also be gained through the global mandates. This should be entirely located in the active portion of the portfolio. Active holdings are not as concentrated as those in the passive section. The reduced allocation would also provide mitigation of risk as less exposure to the Fund's carbon footprint (this is shown in more detail in the Carbon Asset Exposure Review paper).

7. The proposed portfolio will have the following weightings:

Passive	**38.1%**	**Active**	**61.9%**
Global equities	31.7%	UK equities	20%
Emerging market equities	6.4%	Global equities	41.8%



The balance between active and passive equities

8. Further to the Equity Strategy Forward plan, Mercers, the Fund's independent advisor and officers in consultation with the Chairman of the Pension Fund have considered the balance between passive and active equities in the portfolio.

9. The amount of outperformance the Fund wishes to target from active management is the key determinant to the active / passive split in the proposal. The BCPP active global equity fund is targeting 2% (net of fees), so the weighting contributes 1.3% targeted outperformance. This is a reasonable amount of outperformance to target, in our view.

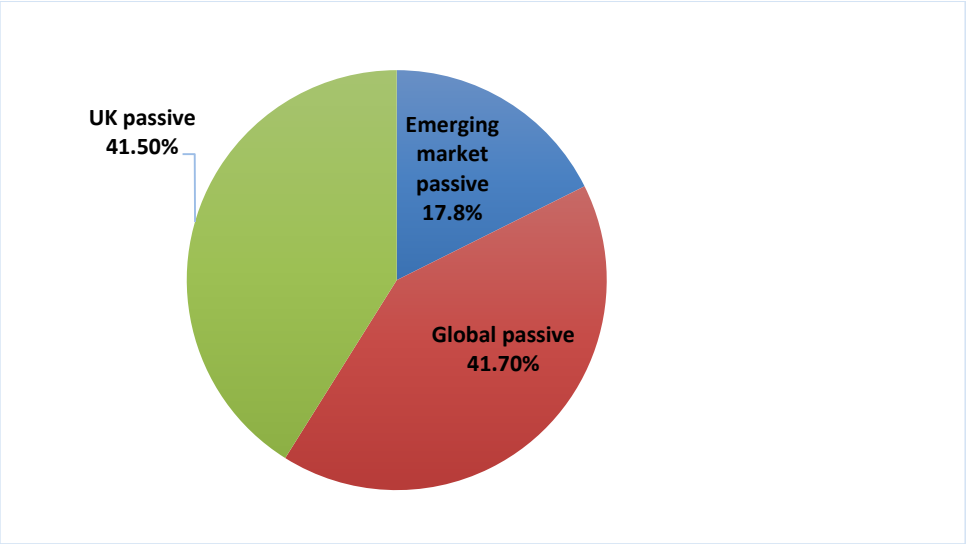
10. As shown earlier in this report, the market cap global benchmark is quite heavily weighted in the USA. This weighted approach is an inevitable consequence of all passive strategies. Access to active managers provides the Fund with some potential alpha to redress this. It is therefore proposed to retain the existing split of 62% active, 38% passive in the portfolio.

The balance in the passive equity portfolio

11. At its meeting on 9 February 2018, the Committee approved the recommendation of Mercer that an allocation should be made to the RAFI multi-factor index within the passive portfolio and also to consider whether an allocation should be made to a low carbon equity fund.

12. The current passive portfolio is managed by LGIM as is split as follows:

Passive portfolio	100%
Global equities	41.7%
UK equities	41.5%
Emerging market equities	16.8%



13. The recommendation for reducing the Fund's allocation to UK equities is supported by Mercer and our independent advisors and the argument was made in the previous section of this report.

14. Allocation to a global passive index through RAFI multi-factor (MF) allows the Fund to appropriately rebalance the portfolio and also allows the Fund to mitigate against some of the downsides to full market cap based passive investment. It is proposed to allocate 41.6% of the passive portfolio to RAFI MF.

15. It is further proposed that the Fund allocates a part of the passive portfolio to a low carbon global index.

16. Moving to a low carbon index can be made without materially effecting performance or contradicting the Fund's fiduciary responsibilities (see Mercer's background paper for further detail).

17. Low carbon indices are designed to track broad market indices but with lower carbon footprints; in some cases significantly lower.

18. Indices may take a broad market optimised, best-in-class by industry or exclusionary approach. Typically these indices tilt towards companies or industries with low carbon intensity and away carbon intensive areas.

19. Mercer recommends that the Fund invests in the MSCI Low Carbon Target index, which reduces the carbon footprint (relative to the MSCI World) by around 70%.

20. As is shown in the Carbon Asset Exposure Review report, the current portfolio has a carbon footprint around 15% lower than its corresponding weighted benchmark total.

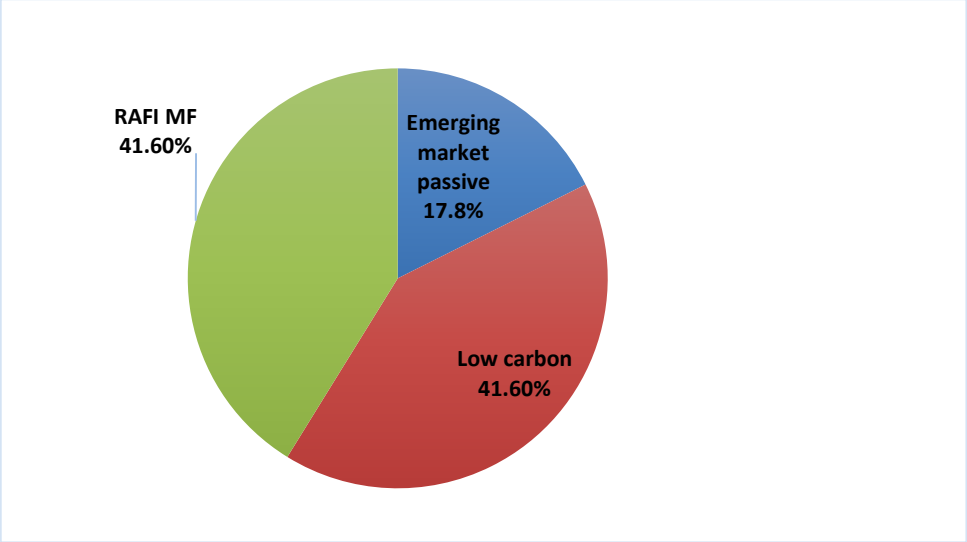
21. The proposed portfolio would result in an estimated decrease in overall carbon exposure of around a further 3% (although, the active global mandates in the future portfolio are still to be decided upon by BCPP).

22. In addition to the low carbon mandate, the RAFI MF also has a comparatively low carbon footprint.

23. It is proposed to allocate 41.6% of the passive portfolio to the low carbon mandate. This will all be managed through our existing passive manager, LGIM.

24. The proposed new passive portfolio is as follows:

Passive portfolio	**100%**
RAFI MF Global equities	41.6%
Low carbon Global equities	41.6%
Emerging market equities	16.8%



Currency hedge

25. The current level of currency hedging is approximately 50% of the overseas equity exposure. Mercer remain comfortable with this level of hedging, given it

offers some protection against negative currency moves, but keeps a commensurate amount of upside potential, should sterling weaken.

Costs

26. Overall the total management fee increases marginally, given the reduction in LGIM 'conventional' passive exposure and the introduction of the Low Carbon and RAFI Multi-Factor Index funds (20.82bps – 23.33bps).

27. The higher fees payable on these mandates is predominantly due to the index license fee, that the investment manager has to pay the index provider (a breakdown in costs is shown in the Mercer background paper).

28. The increase in cost is seen as justified as part of an overall to mitigate risk, seek improved future returns and reduce exposure to carbon in the portfolio. It should also be noted that the BCPP fees are yet to be confirmed and these should benefit from additional economies of scale.

The balance of the active global portfolio

29. The analysis of the equity portfolio shows alternative ways of benchmarking our global assets. An alternative to a Market Cap weighting, which shows a heavy bias to USA markets, is a weighting based on growth/GDP. However, a growth/GDP weighted benchmark does give a much higher allocation to emerging markets. The comparison is as follows:

Country	MSCI ACWI (weight)	MSCI ACWI GDP (weight)
USA	52.0%	26.5%
Japan	8.0%	7.3%
UK	5.8%	3.6%
France	3.7%	3.4%
China	3.6%	18.5%
Germany	3.2%	4.8%
Other	23.6%	35.9%
Total	**100.0%**	**100.0**

Source: MSCI, as 30th April 2018.

30. The Fund's Independent advisor has analysed this desired asset allocation and produced the following target allocation for consideration (the Independent Advisor background paper to this paper provides further detail):

% Benchmark Asset Category*	Old Asset Allocation	New Asset Allocation	Permitted Range	Benchmark
Equities	**59.8**	**59.8**	**+/- 5**	
UK	27.5 (29.5)	20	+/-4	FTSE All Share
Global Equity	28.5 (26.5)			MSCI ACWI
Emerging Equity	3.8			LGIM EME
Overseas Regional		39.8	+/-5	
UK (in global index)	2	0		
North America	18	18	+/-4	FTSE World N America
Europe ex UK	5	9.6	+/-2	FTSE Europe Ex-UK
Japan	2.5	3.0	+/-1	FTSE World Japan
Asia ex Japan	1	4.6	+/-2	FTSE Asia-Pacific ex Japan
Emerging Markets		4.6	+/-2	FTSE Emerging Markets

* Active and Passive allocations combined, benchmark look through.

31. BCPP are currently working to design the Global and Regional sub funds (see the National pooling update paper). It is proposed that officers, Mercer and the Fund's independent advisor work with BCPP to ensure that the transition is to either Global or Regional sub-fund that are not restricted to a Market Cap weighting, but, also do not over allocate to emerging markets. Progress on this will be brought to future Pension Fund Committee meetings.

Progress on the downside equity protection strategy (phase 3) and the significance of changes to the asset allocation

32. At its meeting of 14 March 2018 the committee resolved the following with regard to further progress in the downside protection strategy:
    - define the levels and triggers for downside equity protection for the European equities offside in stage two and UK equities in stage three of the strategy as follows:
        - an acceptable put spread between 70-90 and 75-90
        - a minimum upside call of 101%
        - the weighted basket of indices must be within 5% of the 28 November 2017 levels (as measured by Mercer/LGIM)
    - approve the extension of a downside equity protection strategy to also include UK and European equities, to be carried out by Mercer, subject to Section 151 officer, the Chairman of the Pension Fund Committee and Independent Advisor, agreeing the associated fees and within agreed levels and triggers.
    - agree to additional collateral required for this third stage to be generated through synthesizing some of the Fund's passive equity exposure.

33. Mercer have reviewed of the market level and equity upside triggers. As can be seen by the table below, both UK and European equities are onside following the market recovery since end March, and levels are more attractive for UK and Euro than the previous two phases:

Index	70-90 put spread*	101% call limit
EURO STOXX 50	101.7%	Onside
FTSE 100	101.4%	Onside

34. LGIM will synthesize £270m of UK equities (using futures and total return swaps) for Phase 3 implementation.

35. Assuming a change in the asset allocation is approved by the Pension Fund Committee, Mercer recommends hedging based on current holdings and rebalance to new regional mix as and when divestments are made.

36. At the point of the hedge being unwound and replaced the Fund would realise gains/losses based on UK equity market experience to date, and would then be setting the starting level for the global equity market protection for the remaining period to be based on prevailing global equity market levels and equity protection pricing.

37. In terms of whether the UK equities are held directly or in a BCPP wrapper, as long as they are UK equities there is no particular issue to worry about from a protection point of view (assuming BCPP provides information promptly at month-end and quarter-end to allow any rebalancing actions to be picked up).

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

39. There are risk related provisions detailed within this report and the Mercer annexes.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

40. There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

41. The Director of Finance (Section 151) is satisfied that the report provides a good platform for discussion within the pension fund committee for the future investment strategy of the pension fund.

EQUALITIES AND DIVERSITY

42. The consideration of the Fund's investment strategy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

44. The following next steps are planned:

- Further work by officers, Mercer and the Fund's independent advisor re implementing the changes to the investment strategy:
    - A project plan for changes to the passive portfolio can be started immediately and managed through LGIM;
    - Transition of the new allocation in active UK equity will be made to BCPP;
    - Further transition to the global/regional equity BCPP sub-funds will commence after work for officers, Mercer and the Independent Advisor, in consultation with BCPP, to consider the appropriate balance of the active global/regional element of the equity portfolio.
- Further work by officers and Mercer re implementing phase 3 of the equity protection strategy subject to Section 151 officer, the Chairman of the Pension Fund Committee and Independent Advisor, agreeing the associated fees and within agreed levels and triggers.
- Amend the investment strategy statement where appropriate.

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman.

Annexes:

Sources/background papers:
Mercer Report
MJ Hudson Report

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE**

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 an update on investment performance and the values of assets and liabilities.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the report.
2. Authorise the Power of Attorney for Deloitte (Taiwan) to act on the Surrey Fund behalf as a tax agent in Taiwan and where appropriate in facilitating the repatriation of funds.

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
All	Possible Rebalancing	The asset allocation is outside of the Fund's policy control limits, rebalancing options will be explored and reported to the next Pension Fund Committee meeting. The asset allocations at 31 March 2018 is shown in Annex 1.
Marathon	Taiwanese dollar repatriation	The Fund have appointed Deloitte (Taiwan) as their local tax agent to allow the repatriation of these assets with other Marathon holdings. The Pension Fund Committee is required to authorise the Power of Attorney for Deloitte (Taiwan) to act on its behalf as a tax agent and where appropriate in facilitating the repatriation of funds in Taiwan.
Various	Client meetings	Minutes from external fund manager meetings held on 15 May 2018 are included 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
10/01/2018	Proxy Insight Ltd	Information concerning proxy voting records for the Surrey Pension Fund	Proxy Voting Records as at 31/12/2017
14/02/2018	Acuris	Information concerning private equity and infrastructure investments	Summary of private equity portfolio as at 30/09/2017
22/02/2018	Proxy Insight Ltd	Information concerning proxy voting records for the Surrey Pension Fund	Proxy Voting Records as at 31/12/2017
13/03/2018	Pitchbook	Information concerning alternative assets of the pension fund	Summary of private equity portfolio as at 31/12/2017
13/03/2018	Evestment Alliance	Information regarding fund investments	Past committee papers and asset summary

3) Future Pension Fund Committee Meetings/Pension Fund AGM

The schedule of meetings for 2018 is as follows:

- 14 September 2018: Committee meeting hosted at County Hall
- 16 November 2018: Committee meeting hosted at County Hall
- 23 November 2018: Pension Fund AGM hosted at County Hall

4) Stock Lending

In the quarter to 31 March 2018, stock lending earned a net income for the Fund of £66,849.

5) Internally Managed Cash

The internally managed cash balance of the Fund was £89.5m as at 31 March 2018. As at 17 May 2018, the cash balance was £100.8m. Drawdown for property and private equity are expected over the coming months.

Report of the Head of Pensions

Financial and Performance Report

1. Funding Level

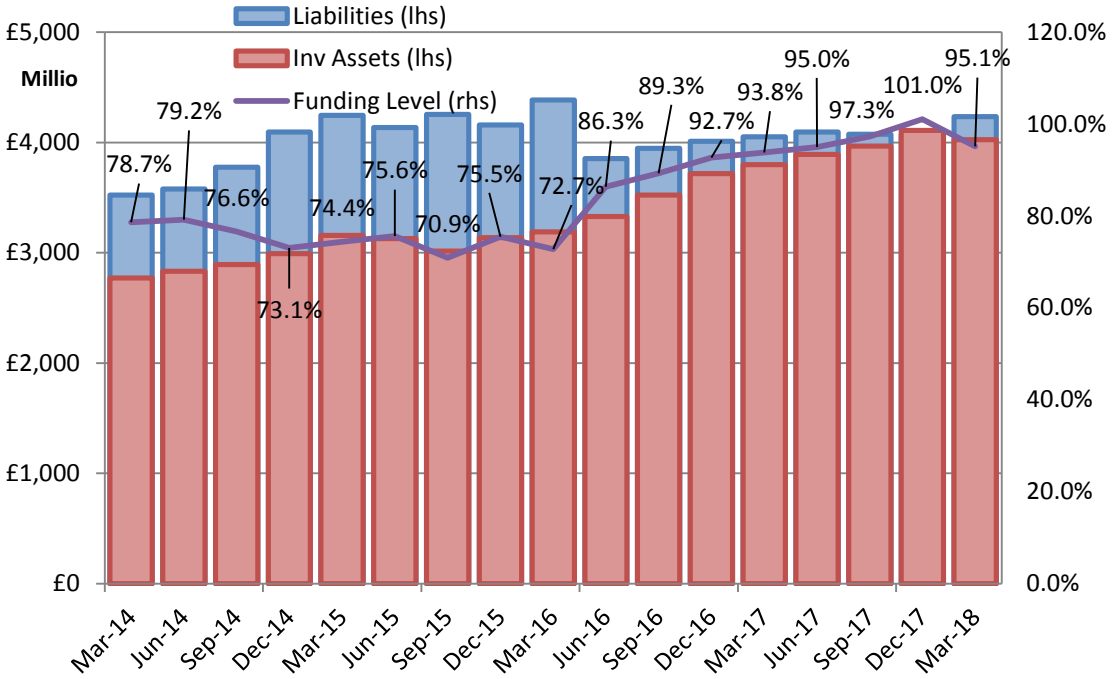
The actuary has been consulted and has set out an approximate funding position and the assumptions used for the funding position as at 31 March 2018.

The funding level has increased to approximately 95.0% as at 31 March 2018 (93.8% as at 31 March 2017) and is based on the formal 2016 valuation results, updated for market conditions at 31 March 2018 and actual fund returns to that date.

- A discount rate of 4.5%
- Pension payments increases of 2.3%
- Salary CPI inflation of 2.6%
- Actual fund returns for the period 1 January 2018 to 31 March 2018 of -2.4%

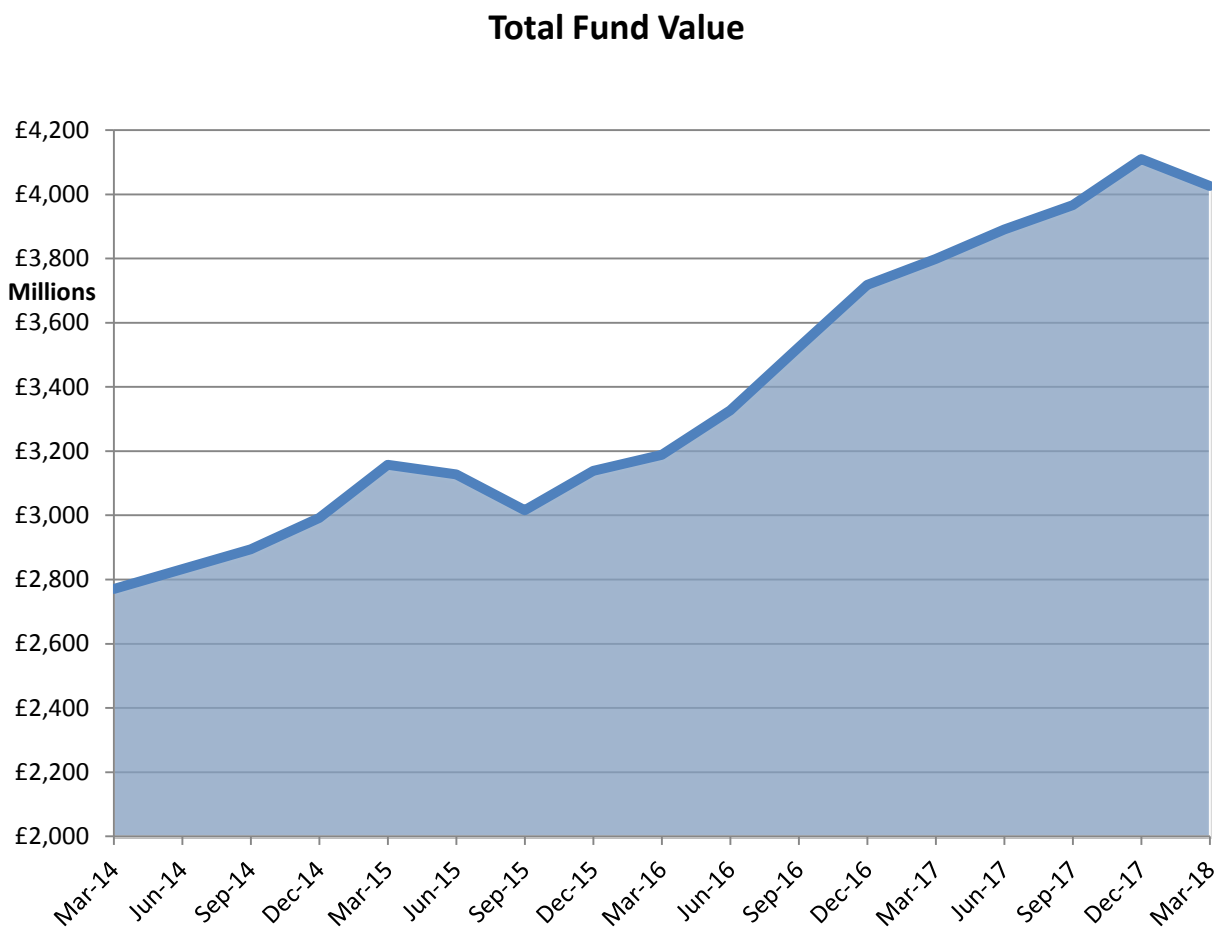
The funding level of the Surrey Pension Fund as at a latest date (24 May 2018) is estimated to be 100.5%. This is based on estimated assets of £4.280bn and liabilities of £4.260bn.

9


Liabilities (lhs)
Inv Assets (lhs)
Funding Level (rhs)
Millio
£5,000
£4,000
£3,000
£2,000
£1,000
£0
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
78.7%
79.2%
76.6%
73.1%
74.4%
75.6%
70.9%
75.5%
72.7%
86.3%
89.3%
92.7%
93.8%
95.0%
97.3%
101.0%
95.1%
Mar-14
Jun-14
Sep-14
Dec-14
Mar-15
Jun-15
Sep-15
Dec-15
Mar-16
Jun-16
Sep-16
Dec-16
Mar-17
Jun-17
Sep-17
Dec-17
Mar-18

2. Market Value

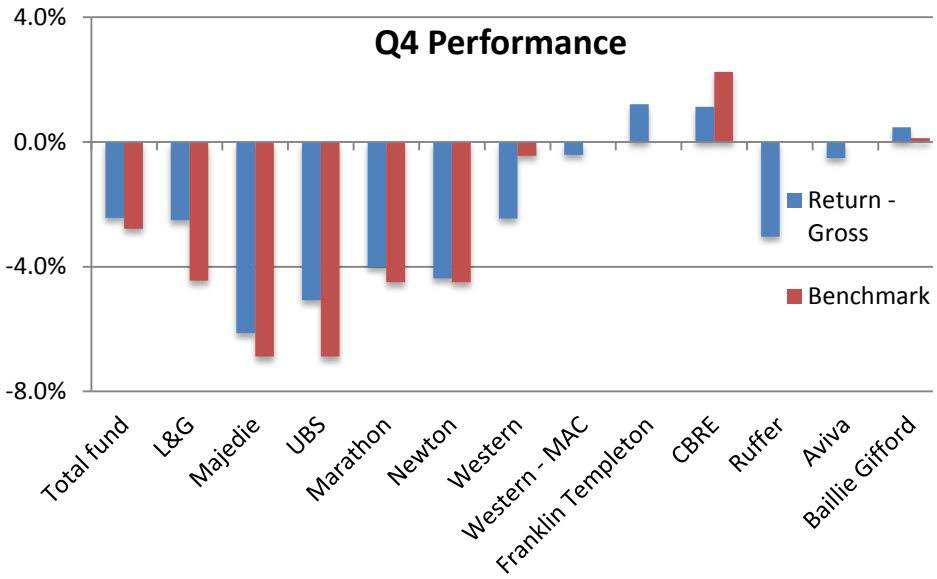
The value of the Fund was £4,025.6m at 31 March 2018 compared with £4,109.5m at 31 December 2017. The investment performance for the period was -2.0%.



9

3. Fund Performance - Summary of Quarterly Results (gross of investment fees)

Overall, the Fund returned -2.4% in Q4 2017/18, in comparison with the Fund's customised benchmark of -2.8%.



The table below shows manager performance for 2017/18 Q4 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

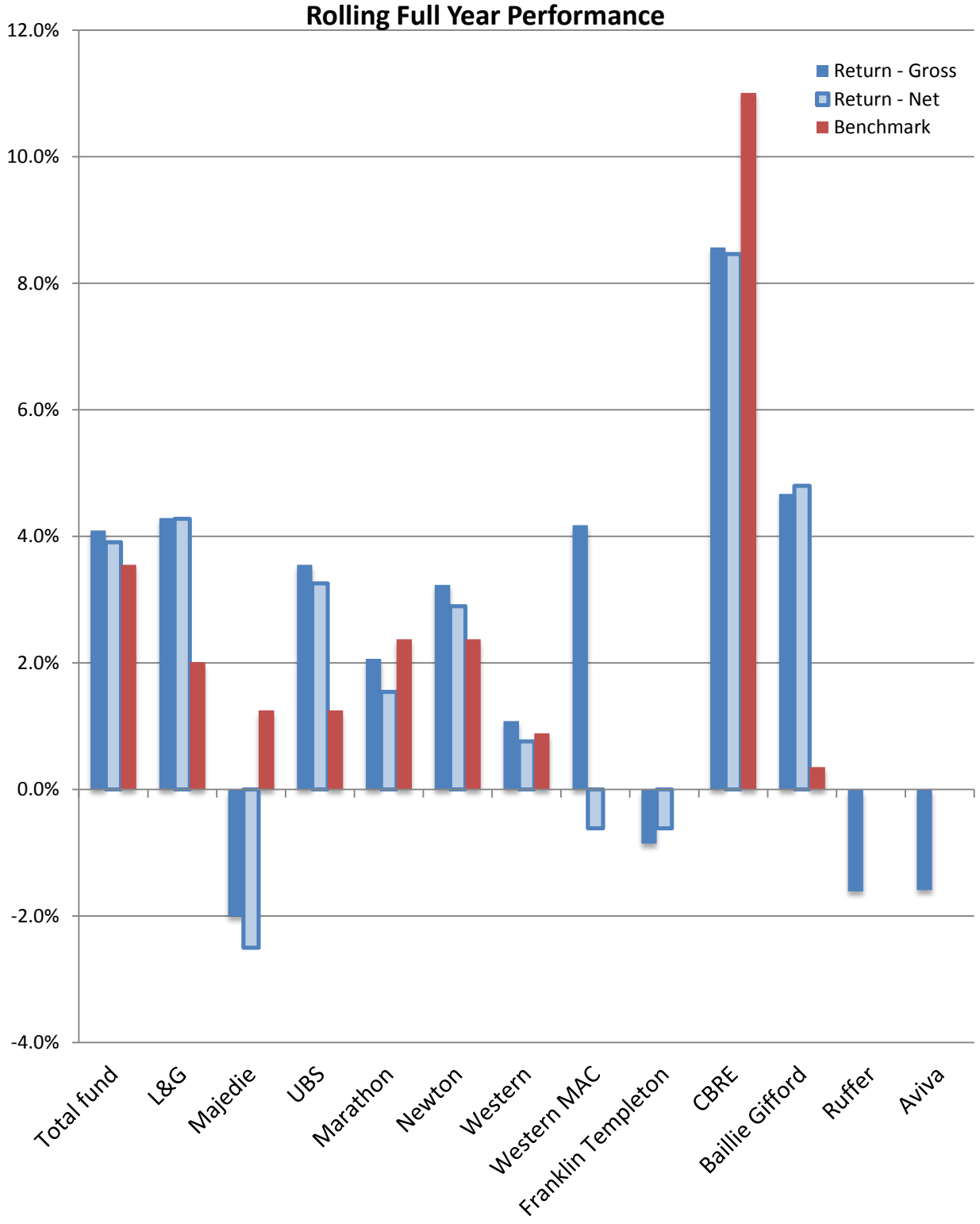
**The benchmark for this manager is under review with the custodian and manager. This will be confirmed for the next quarterly report.*

***Western Fixed Income Fund has transitioned fully into the MAC from 22 February 2018, so will no longer be reported from the next Quarterly report*

Manager	Gross of Fees Performance %	Benchmark %	Gross Performance Relative to Benchmark %
Total fund	-2.4%	-2.8%	0.3%
L&G	-2.5%	-4.4%	1.9%
Majedie	-6.1%	-6.9%	0.7%
UBS	-5.1%	-6.9%	1.8%
Marathon	-4.0%	-4.5%	0.5%
Newton	-4.4%	-4.5%	0.1%
Western**	-2.5%	-0.4%	-2.0%
Western – MAC*	-0.4%	-	-
Franklin Templeton*	1.2%	-	-
CBRE	1.1%	2.2%	-1.1%
Ruffer*	-3.0%	-	-
Aviva*	-0.5%	-	-
Baillie Gifford	0.5%	0.1%	0.4%

Summary of Full Year Investment Results (Gross and net of fees)

During the course of the previous 12 months to 31 March 2018, the Fund returned +3.9% net of investment fees against the customised fund benchmark of +3.6%.

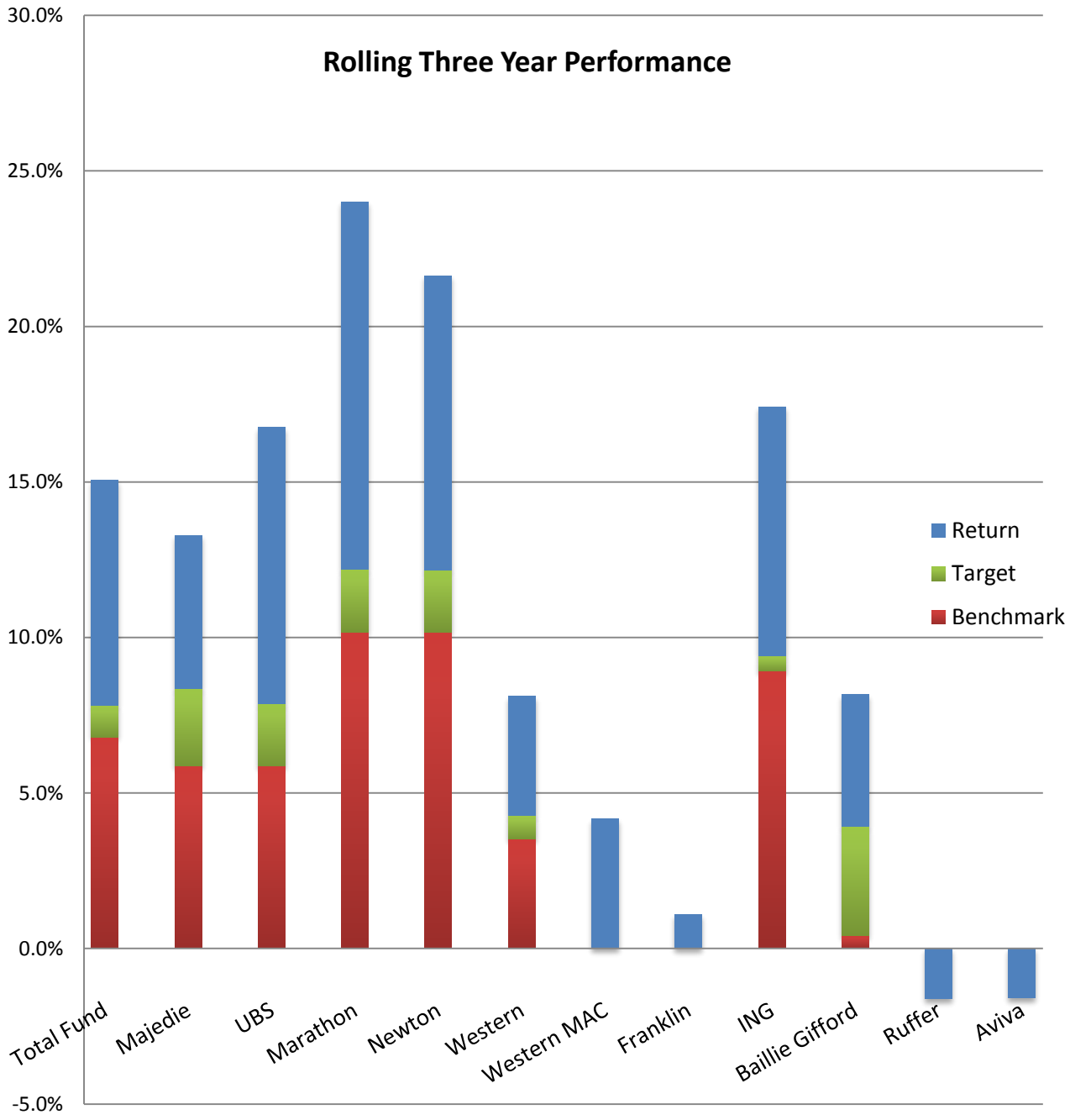


The table below shows manager performance for the year at 2017/18 Q4 (net/ gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Net of Fees Performance %	Benchmark %	Net Performance Relative to Benchmark %	Gross of Fees Performance %
Total fund	3.9%	3.6%	0.4%	4.1%
L&G	4.3%	2.0%	2.3%	4.3%
Majedie	-2.5%	1.2%	-3.8%	-2.0%
UBS	3.3%	1.2%	2.0%	3.5%
Marathon	1.5%	2.4%	-0.8%	2.1%
Newton	2.9%	2.4%	0.5%	3.2%
Western**	0.8%	0.9%	-0.1%	1.1%
Western MAC*	4.0%	-	-	4.2%
Franklin Templeton*	-0.6%	-	-	-0.9%
CBRE	8.5%	11.0%	-2.5%	8.6%
Baillie Gifford	0.0%	0.4%	4.4%	4.7%
Ruffer	0.0%	-	-	-1.6%
Aviva	-1.6%	-	-	-1.6%

**The benchmark for this manager is under review with the custodian and manager. This will be confirmed for the next quarterly report.*

Summary of Rolling Three Year Performance



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

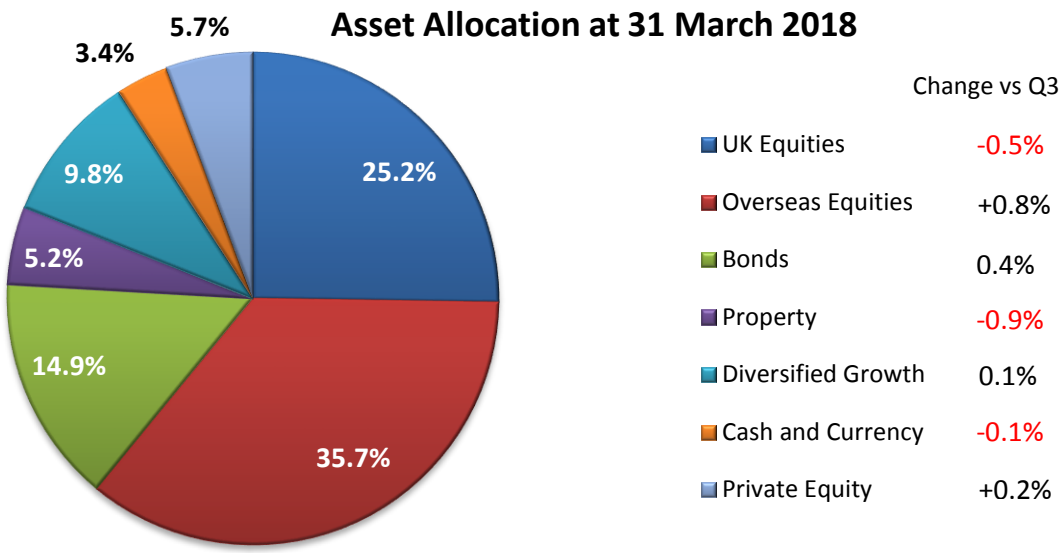
**The benchmark for this manager is under review with the custodian and manager. This will be confirmed for the next quarterly report.*

** The custodian is currently reconciling data relating to the 3 year rolling returns for this manager, a 1 year Gross returns had been assumed. *This will be updated for the next quarterly report.*

Manager	Performance %	Benchmark %	Target Above Benchmark %	Relative to Target %
Total Fund	7.3%	6.8%	1.0%	-0.5%
L&G	9.6%	8.7%	-	-
Majedie	4.9%	5.9%	2.5%	-3.4%
UBS	8.9%	5.9%	2.0%	1.0%
Marathon	11.8%	10.2%	2.0%	-0.4%
Newton	9.5%	10.2%	2.0%	-2.7%
Western	3.8%	3.5%	0.8%	-0.4%
Western MAC* **	0.0%	-	-	-
Franklin Templeton* **	1.1%	-	-	-
CBRE	8.0%	8.9%	0.5%	-1.4%
Baillie Gifford	4.3%	0.4%	3.5%	0.4%
Ruffer* **	0.0%	-	-	-
Aviva* **	0.0%	-	-	-

4. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at 31 March 2018.The table below compares the actual asset allocation as at 31 March 2018 against target asset weightings.

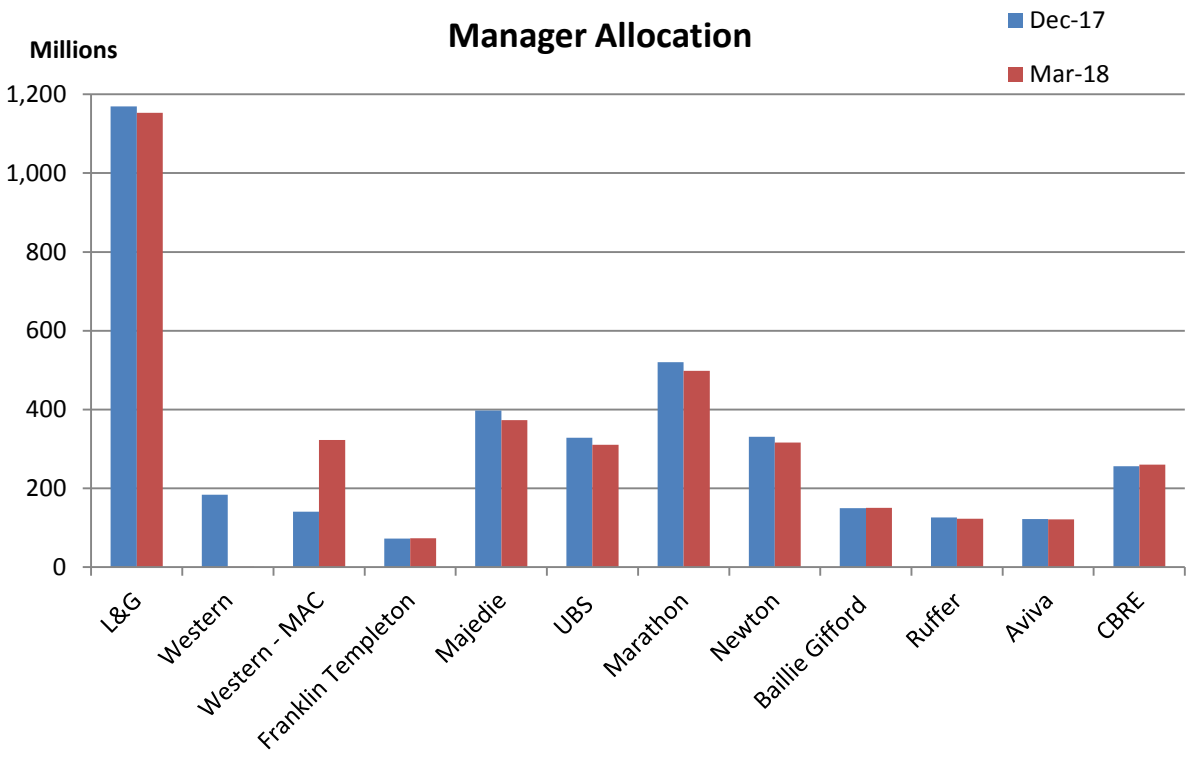


	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	322.4	8.0%	4.4
Investment Grade Credit	0.0	0.0%	5.3
Index Linked Gilts*	205.1	5.1%	5.5
Unconstrained	73.7	1.8%	2.4
Equities			
UK	1,016.3	25.2%	27.5
Overseas	1,437.9	35.7%	32.3
Property Unit Trusts	207.8	5.2%	6.2
Diversified growth	394.3	9.8%	11.4
Cash	137.5	3.4%	0.0
Currency hedge	1.3	0.0%	0.0
Private Equity	229.3	5.7%	5.0
TOTAL	**4,025.6**	**100.0**	**100.0**

**Index linked gilts include cash and equity options as part of the downside protection strategy*

5. Manager Allocation

The graph below shows the manager allocation as at the 31 March 2018 and 31 December 2017.



6. Manager Fees

The table below shows the current fee rate agreed for each Fund Manager as at 31 March 2018.

Manager	Current Manager Fee Rate (bps)	Additional Detail
L&G	28*	*Averaged across all LGIM Equity Portfolios
Majedie	35	Flat Rate
UBS	24	Flat Rate
Marathon	80*, 60**, 40***	*First £30m, **Second £30m, *** >£60m
Newton	25*, 20**	*First £100m, ** >£100m
Western	30*, 15** ***	*First £60m, **>£60m, ***This Fund has now fully transitioned into the Western MAC
Western MAC	30*	*On 1% of all assets
Franklin Templeton	40	Flat Rate
CBRE	40*	*For any client to have invested >$100m
Baillie Gifford	65	Flat Rate
Ruffer	75	Flat Rate
Aviva	64	Flat Rate

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:

- Officers to work with Mercer and the Independent Advisor and bring a recommendation for a portfolio rebalancing to the next Pension Fund Committee meeting.
- Officers to facilitate the provision of the Power of Attorney for Deloitte (Taiwan) to enable the repatriation of funds in Taiwan

---

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1: Asset Allocation Policy and Actual as at 31 March 2018
Annex 2: Minutes from external fund manager meetings held on 15 May 2018

Sources/background papers:
None

Asset Allocation Update

The table shows the actual managed asset allocation as at 31 March 2018.

	Category	Allocation Policy %	Allocation at 31/03/2018	Variance %
Equities		**63.0**	**66.1**	***3.1***
UK				
Legal and General	*Passive*	*10.0*	*10.4*	*0.4*
Majedie	*Concentrated Active*	*11.0*	*10.1*	*-0.9*
UBS	*Core Active*	*8.0*	*8.4*	*0.4*
Overseas				
Legal and General	*Passive*	*14.0*	*15.2*	*1.2*
Marathon	*Concentrated Active*	*12.0*	*13.5*	*1.5*
Newton	*Core Active*	*8.0*	*8.5*	*0.5*
Property		**6.5**	**7.0**	**0.5**
CBRE	*Core Active*	*6.5*	*7.0*	*0.5*
Alternatives		**12.0**	**10.7**	**-1.3**
Baillie Gifford	*Diversified growth*	*4.0*	*4.1*	*0.1*
Ruffer	*Diversified growth*	*4.0*	*3.3*	*-0.7*
Aviva	*Diversified growth*	*4.0*	*3.3*	*-0.7*
Bonds		**18.5**	**16.2**	**-2.3**
Index-linked gilts				
Legal and General	*Core Active*	*5.8*	*5.5*	*-0.3*
Investment grade credit				
*Western**	*Core Active*	*5.5*	*0.0*	*-5.5*
Total Return				
Franklin Templeton	*Unconstrained*	*2.6*	*2.0*	*-0.6*
Multi Asset Credit				
*Western**	*Unconstrained*	*4.6*	*8.7*	*4.1*
Total		**100.0**	**100.0**	**0.0**

*The underweighting in the Fund's holding in Western's Investment Grade Credit is a result of the transition of the whole fund into a Multi Asset Credit Portfolio

This page is intentionally left blank

MJ HUDSON Allenbridge

9

Surrey Manager Review Meeting

15th MAY 2018

9

Attendees:

Tim Evans, Neil Mason (Surrey) and Anthony Fletcher (MJ Hudson Allenbridge)

Majedie

James De Uphaugh (Fund Manager), James Mowat (Client Relationship)

Mandate Summary

UK equity mandate £360m seeking to achieve index +2.5% pa over rolling 3 years. Additional investment in the Majedie Tortoise Long / Short Equity Fund, £13m

Performance

The fund outperformed the negative market index returns in the latest quarter (1Q18) delivering -6.4% versus -6.9% but has lagged on a rolling 12 month period by 3.1%, -1.8 versus +1.2 for the FTSE All-Share Index. While the 3 year numbers have been dragged down by performance in 2017 the longer term performance remains excellent; since inception in Sept 2004 the fund is 3.3% pa ahead, delivering 11.1% pa versus 7.8% pa for the benchmark.

Over 2017, Majedie has probably been too defensive, they anticipated a sustained uptick in inflation and a larger impact from the change in US monetary policy. They may be proved right on this and their positioning clearly helped in the 1Q18. Stock selection has worked with positive contributions from underweight exposure to BAT and imperial Tobacco and overweight exposure to Tesco, Anglo American and Electrocomponents. Positions in Centrica, Barrick Gold and Saga have dragged down performance but the investment thesis remains reasonable.

Positioning

Majedie have stuck with their view that there is a high risk of policy mistakes as central banks seek to unwind QE in an uncertain economic environment. They believe that UK domestic exposure is attractive, with the largest active positions being food retailers (+8%) and telecoms (+6%); the main underweights are tobacco (-5%) and pharmaceuticals (-4%). The 1.3% overweight in Ryanair remains in the portfolio despite the imminent departure of Chris Reid (neither James nor Matthew own it); Chris believes the core business case is intact and that Ryanair will take market share from EasyJet.

Adviser view

No particular issues, Chris Reid, has decided to leave Majedie and return to Academia. It will be interesting to see if this has any implications for his stock picks in the overall portfolio. Majedie, because of their reputation in the investment community have been able to recruit experienced; *Mark Wharrier and Imran Sattar* as fund managers, but not direct replacements for Chris.

CBRE

Max Johnson (Client Relationship), Dhananjai (Fund Manager), Alex Bignell (Head of UK) and Nandika Sharma (Associate).

Mandate Summary

Property Fund-of-Funds with holdings valued at £258m in 29 underlying funds at 31st March 2018 seeking to achieve at least benchmark +0.5% pa over rolling 3 year periods.

Performance

On a 'Business Day 10' basis, returns for the first quarter of 2018 the portfolio return was +2.1% versus a benchmark of 2.0%. The 12 month returns were 9.9% which is broadly in line with the benchmark but 0.5% behind target. Over a rolling three year period the portfolio return was 8.5% pa compared to the target return of 8.6% pa. CBRE site currency movements as being the main driver of the difference in performance between the portfolio and the benchmark, detracting 0.6% over 3 months and 2% over 12 months.

Activity

The overseas exposure is now at 16% and will rise to 25% as they see better opportunities in overseas markets in 2018 / 19. The fund has £26m of new commitments with about £12 yet to be drawn. In addition the fund had made just over £2m of new purchases in the secondary market. Redemptions and return of capital over the last 12 month amounted to £24.5m. The portfolio comprises 29 holdings, with 6 in wind down.

Positioning

The largest overweight sector is "Other Commercial" which includes mainly defensive alternatives like student accommodation, healthcare, leisure and secure income (overweight 19%), the largest underweight is in Retail Warehousing (-10.5%). The fund is also underweight Offices in general and City financial in particular. While they are marginally overweight Shopping centres they are underweight Unit shops. After much research they have decided to introduce affordable housing into the asset mix, the main investment will be in Long Lease deals where they will have a higher confidence in contractual cash flows with inflation linking.

Adviser View

No current issues, while our lead Portfolio Manager, Dhananjai (DJ) is moving over to take the lead in "affordable Housing" he is not leaving the Firm and Alex Bignell, Head of UK will take over as lead PM. This is a well-diversified portfolio. Performance is in line with target over rolling 3 year periods. And the fund is continuing to increase its exposure to global property where it sees increased opportunities.

Baillie Gifford

James Squires (Fund Manager), Anthony Dickson (Client Relationship)

Mandate Summary

Diversified Growth Fund, £150m seeking to achieve base rates +3.5% pa net of fees over rolling 5 year periods

Performance

Over the twelve months to 31st March 2018 the Baillie Gifford approach delivered 4.7% versus 3.8% for the benchmark. In the 1st quarter of 2018 the fund delivered 0.5% compared to the benchmark return of 1.0%, net of fees; the rolling five-year return has dropped to 4.4% pa net of fees compared to the benchmark target of 3.9% pa. Since inception in May 2012, the return of 5.8% pa net is well ahead of the target of 4.0% pa (base rates +3.5% pa); volatility has also been very low at 3.9%.

In the year to March 2018, the main positives were listed equities (+3.3%), property (+1.0%), structured finance and emerging market debt (each +0.4%) with high yield, investment grade bond and private equity (+0.2% each), smaller positive contributions totalling 0.4%, came from other areas of investment; detractors were commodities, Insurance linked and active currency at (-0.1% each).

Activity

Over the year they have reduced investment grade credit, structured finance and high yield debt and added to commodities like Nickel, Silver and Oil. In emerging market debt they had a positon in Argentine T Bills which they have added to inn the recent crisis. In listed equities, they have no US exposure as it is too expensive and are changing the global mix to increase exposure to Japan, Europe and emerging equity. In terms of debt they like emerging markets, senior loans and property as defensive positions and are further hedging risks by playing the inflation break evens in the US and Japan. They are also short Korean won and Australian dollar versus the Japanese yen.

Positioning

9 The fund remains broadly diversified strategically, with just 21% in equities; the other exposures are to emerging market debt (18%) credit (16%), real assets (17%), government bonds (6%), absolute return hedges (7%), insurance linked securities (3%) and cash (8%). The high cash position reflects a decision to be positioned more defensively against a range of potential geo-political, economic and valuation shocks any of which could prompt very poor returns from risk assets as we saw in the first quarter of 2018; cash is the defensive buffer that provides liquidity to buy cheap assets if and when opportunities arise.

Adviser view

No issues. It is difficult to argue with the strategy, it has delivered "what it says on the can", as a core Diversified Growth Fund and has delivered very consistent returns from the outset.

Marathon

Graeme Neuff (Client Relationship), Neil Ostrer (Portfolio Manager)

Mandate Summary

Global equity mandate seeking to achieve MSCI ACWI +2% pa

Performance

The fund outperformed the benchmark return in the 1st quarter of 2018 returning -4.03% versus the benchmark return of -4.50%. Over the rolling 12 months the funds return was behind benchmark and target only delivering 2.16% versus 2.37%. Despite this recent poor performance the fund is 1.75% ahead over 3 years and while performance dips to +1.08% ahead over 5 years, in all other longer periods returns are in excess of benchmark and target return. Since inception (April 2004), the fund has delivered 11.53% pa net of fees compared to the benchmark return of 9.24%.

Activity

Marathon cited its stock selection and the regional allocation to Japan as the main drivers of the poor performance it saw in 2017. In light of this, they have decided that they have no skill in Asset Allocation and will stick to stock picking in future and regional asset allocation will be driven by the asset allocation weight of the given benchmark. Marathon's attribution analysis seems to bear witness to this, with allocation to cash, more than offsetting the positive contribution from stock selection over 1 year and producing a significant negative contribution over the more meaningful 3 year performance period. In order to help with succession planning they have recruited Simon Somerville to work with William Arah, Simon will take responsibility for 50% of the Japanese equity portfolio. They also believe that their conviction based, low turnover, bottom up stock selection process and long term capital cycle approach is not well suited to markets driven by momentum.

Positioning

The multi-manager process, with two or three managers for each regional 'sleeve', results in over 500 individual holdings; the multi-manager approach improves accountability and provides a succession
Planning. The portfolio is overweight in consumer staples (+9%) and cash (+4%) but it has reduced some of its key underweights, healthcare (-2%), energy (-4%) and utilities (-3%). Although the portfolio has a number of contrarian positions, such as Japan insurance and agriculture suppliers, it does not demonstrate value characteristics; relative to the index, the average P/E is higher (20.3x versus 18.8x) and the yield lower (2.2% versus 2.4%). The portfolio takes large active positions, particularly in not owning expensive stocks – current nil positions include Apple, Microsoft, Exxon, JP Morgan and Bank of America.

Adviser view

No current issues. I believe the decision to not take asset allocation decisions in future may turn out to be good for fund performance as demonstrated by the attribution analysis. However I believe close attention should be paid to how Simon and William work together on the Japanese sleeve. Marathon has in the past delivered consistent and superior returns based on a long term capital cycle approach, it also has a proven long-term track record and strength and depth in the team.

Aviva

Peter Fitzgerald (Fund Manager), Matthew Graham (Client Relationship)

Mandate Summary

Diversified Growth Fund, seeking cash +5% pa over rolling 3 year periods.

Performance

Unlike the other managers Aviva only presented performance data to the 30th April 2018 based on their Fund rather than for Surrey's investment. For the 12 month period the fund produced a total return of 1.04% gross or 0.19% net somewhat behind target! While it is still early days, gross returns have been modest since inception in September 2016 at cumulative total of +1.9%, as a result the strategy is well behind target. In 1q18 the fund produced a positive contribution from duration and inflation positioning and negative returns from equity, currency and volatility positioning.

Activity

The fund makes regular changes to its investment positions seeking returns from markets, opportunities and risk reduction strategies. In 2017 it increased its duration short and long inflation positions; and was forced by falling volatility to swap options for physical equity, all these positons were detrimental to performance. Positions that worked for the fund were implemented with insufficient conviction to make a significant positive contribution to overall performance.

Positioning

Aviva continues to expect US inflation to pick up and "normalise" and therefore expects government bond yields to rise in the US, UK and Europe. The fund is long US, European and short UK inflation. They expect global growth to remain synchronised and positive, so they are long European and emerging equity markets and long financials as a sector. A reasonably stable low volatility environment is supportive of carry trades in both higher yielding currency and bond markets so they are long a selection of emerging debt markets. Because they are expecting the US Fed to be more aggressive with rate hikes in 2018 and 2019 they are ready to implement interest rate volatility trades and pro US dollar currency positons.

Adviser view

I accept that 2017 was a difficult year for this kind of active strategy, falling volatility and a lack of dispersion would not have helped. But I do not believe Aviva are currently using the risk budget effectively enough to deliver the expected returns. Looking back at the fund's performance since inception, the only period where it delivered a reasonable performance came to an end in mid-2016. The fund since inception and even since Surrey's investment in September 2016 is well behind target. While I accept they may need more time and potentially a falling equity market to deliver their expected return and the kind of diversification benefits Surrey is looking for, there are other managers in this strategy area that appear thus far to be making a job of it.

Anthony Fletcher – Senior Adviser, MJ Hudson - Allenbridge

DISCLAIMER

9

This document is directed only at the person(s) identified on the front cover of this document on the basis of our investment advisory agreement. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it.

The information contained in this document is not an invitation, offer or agreement to subscribe, purchase or otherwise acquire any financial instrument

MJ Hudson Allenbridge is a trading name of MJ Hudson Allenbridge Holdings Limited (10232597), MJ Hudson Investment Advisers Limited (04533331), MJ Hudson Investment Consulting Limited (07435167), and MJ Hudson Investment Solutions Limited (10796384). All are registered in England and Wales. MJ Hudson Investment Advisers Limited (FRN 539747) and MJ Hudson Investment Consulting Limited (FRN 541971) are Appointed Representatives of MJ Hudson Advisers Limited (FRN 692447) which is Authorised and Regulated by the Financial Conduct Authority.

The Registered Office of MJ Hudson Allenbridge Holdings Limited is 8 Old Jewry, London EC2R 8DN.

MJ HUDSON Allenbridge

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **INVESTMENT STRATEGY STATEMENT**

SUMMARY OF ISSUE:

The pension fund is required to publish an investment strategy statement (ISS) as a result of new investment regulations. It is a statutory requirement that the Pension Fund Committee should approve and regularly review its ISS.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the latest Investment Strategy Statement as shown in Annex 1 and Core Beliefs Statement as shown in Annex 2.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must approve and review all working documents produced for the Pension Fund.

DETAILS:

1. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, as an LGPS administering authority, the Council must prepare and maintain a written investment strategy statement (ISS) 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.

Changes

2. The are no changes to the ISS.

Statement

3. The latest Investment Strategy Statement is shown as Annex 1 and Core Beliefs Statement is shown in Annex 2.

Monitoring and Review

4. The statement will be 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 has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

6. There are risk related provisions detailed within the ISS.

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 (Section 151) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the new ISS offers a clear structure, reflecting the current investment strategies and beliefs approved by the Pension Fund Committee.

LEGAL IMPLICATIONS – MONITORING OFFICER

9. The approval of an ISS is a statutory requirement.

EQUALITIES AND DIVERSITY

10. The approval of the ISS 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:

    - Continued review and approval of the statement by the Pension Fund Committee
    - Document to be kept under continuous review

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1: Investment Strategy Statement

Annex 2: Core Beliefs Statement

Sources/background papers:
None

This page is intentionally left blank

SURREY PENSION FUND

INVESTMENT STRATEGY STATEMENT

1. Introduction

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund ("the 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.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the Surrey Pension Fund Committee ("the Committee), which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Leaders;
- one representative from the external employers;
- one representative of the members of the Fund.

The 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 Committee meets on a quarterly basis.

Assisting, monitoring and scrutiny of the Fund 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.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund's compliance with the principles.

Key Investment Beliefs

The Fund's key investment beliefs are set out below:

(i) Investment Governance

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.

Investment consultants, independent advisors and Officers are a source of expertise and research to inform and assist Committee decisions.

The Fund should continuously monitor and improve its governance structure where relevant, through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.

There can be a first mover advantage in asset allocation and category selection (where considered appropriate), 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 Committee members to have a full understanding of the risk.

(ii) Long Term Approach

The strength of the respective 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 long-term view of investment strategy.

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.

Illiquidity and volatility are 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.

Participation in economic growth is a major source of long term equity return.

Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

(iii) Appropriate Investments

Allocations to asset classes other than equities and government bonds (e.g., Corporate Bonds, Private Equity, Diversified Growth Funds and Property) offer the Fund other forms of returns with different risk premia.

Diversification across asset classes and manager strategies that have relatively low correlations with each other will tend to reduce the volatility of the overall Fund return.

In general, allocations to bonds are made to achieve additional diversification.

(iv) Management Strategies

A well-balanced portfolio has an appropriate mix of passive and active investments.

Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

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, over the long term.

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.

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.

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.

Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

Objectives

The Committee seeks to ensure that the 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 robust 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 value of the Fund's liabilities.

iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term 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 combined portfolio benchmark over rolling three-year periods.

This statement will be reviewed by the Committee quarterly, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The Fund's benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

Asset class	Allocation %	Advisory ranges %	Role(s) within the strategy
Listed Equities	**59.8**	**56.8 – 62.8**	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	27.5		
Global Developed Markets Equity	28.5		
Emerging Markets	3.8		
Private Equity	**5.0**	**2.0-8.0**	Generate returns in excess of inflation, through exposure to companies that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Property	**6.2**	**3.2 - 9.2**	Generate returns in excess of inflation through exposure to UK and overseas property markets through income and capital appreciation, whilst providing some diversification away from equities and bonds.
Diversified Growth	**11.4**	**8.4 – 14.4**	Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.
Growth Fixed Income Assets	**12.1**	**9.1-15.1**	
Investment Grade Credit	5.3		Expected to provide a relatively low risk income stream and returns in excess of government bonds by investing in bonds issued by high quality companies.
Total Return	2.4		Offer diversified, unconstrained exposure to global fixed income markets.
Multi Asset Credit	4.4		Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.

Inflation Linked Gilts	**5.5**	**2.5-8.5**	
Index Linked Gilts	5.5		Low risk income stream with an explicit linkage to inflation.
Total	**100.0**		

Note: Full details of the asset allocation, including the investment managers and their respective performance benchmarks are included in Appendix B.

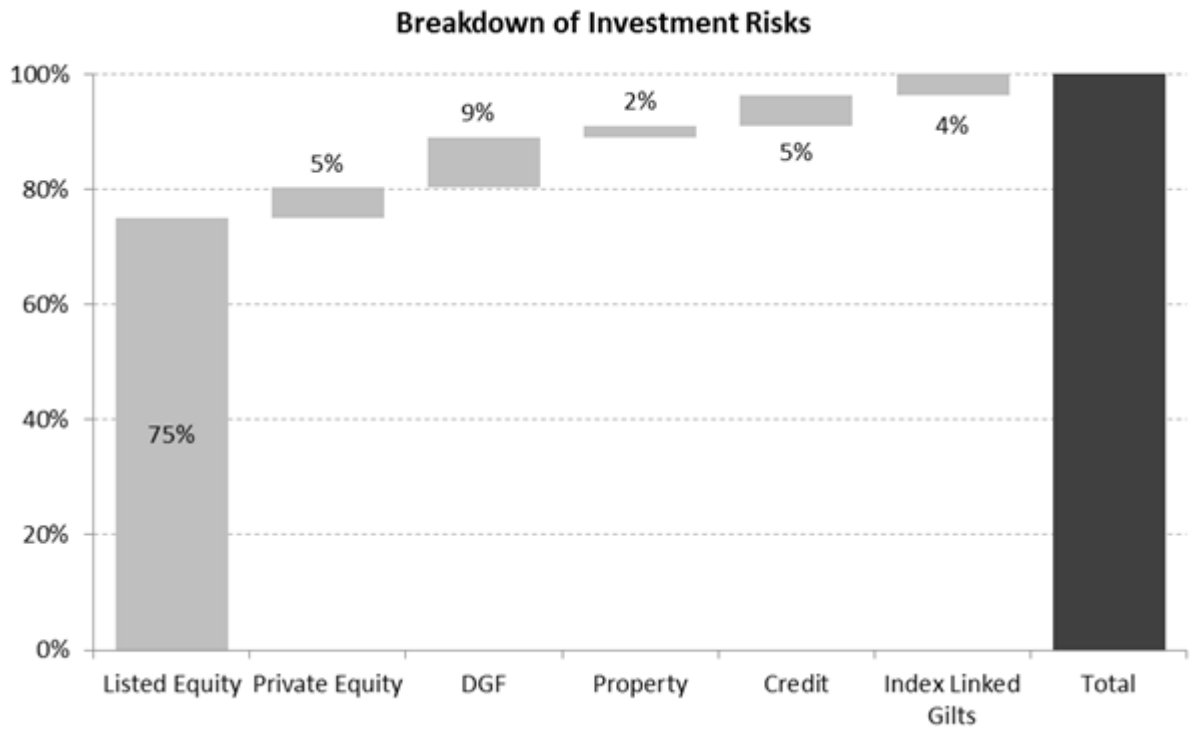
3. Risk measurement and management

There are a number of risks to which any investment is exposed. The 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 acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

In order to manage equity risk in particular, and given the improvement in the funding level over recent years, an Equity Protection Strategy (EPS) was implemented in December 2017 to help protect the improvement in the funding level from potential future falls in the equity markets. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to bridge a funding deficit due to equity market falls.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the Fund's volatility of returns.



Note: Credit risk encompasses the risks within Investment Grade Credit, Total Return Fixed Income and Multi Asset Credit. The chart excludes the risk associated with the change in value of the Fund's liabilities. The chart also does not allow for the impact of the EPS, which would be expected to materially reduce the equity-specific VaR (although it will remain the highest risk component at the total portfolio level).

The following risks are recognised and considered by the Committee:

Valuation risk: the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to unexpected increases in CPI, or if the assets do not deliver as expected.

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

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

Concentration risk: the Committee takes into consideration 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 Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the 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 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 hedge in place: 50% of its exposure to the US dollar, Euro and Yen within the liquid equity allocation. For other asset classes, currency hedging is reviewed on a case-by-case basis.

Cashflow risk: the Fund is cashflow positive, in that contributions are expected to exceed outgoings (outgoings are largely expected to be in the form of meeting benefit payments). Excess cashflows are used to rebalance the investment policy closer into line with the target. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

Governance: members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

Environmental, Social and Governance: the Committee wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the 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 Committee 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.

The full ESG policy of the Fund is outlined in Section 5.

4. Approach to asset pooling

In order to satisfy the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Surrey Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

Asset values total £35.9 billion, supporting 906,000 scheme members and 2,166 employers (data at 31 March 2015).

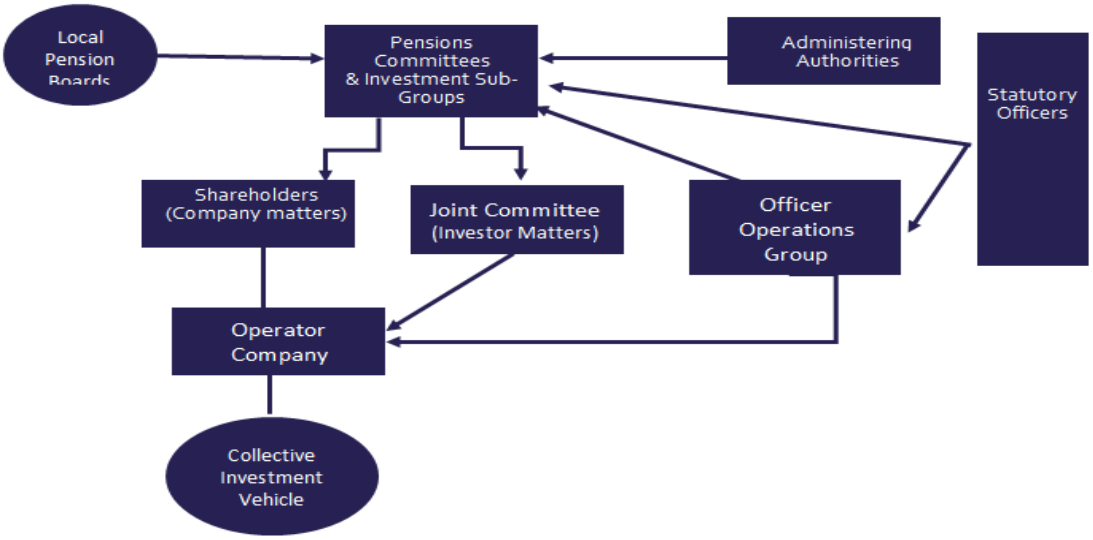
BCPP is a partnership of the following administering authorities:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The basis of the pooling will be in line with guidance issued by the Secretary of State and meeting the four criteria set out below:

a. Benefits of scale - a minimum asset size per pool of £25bn.
b. Strong governance and decision making
c. Reduced costs and value for money
d. Improved capacity to invest in infrastructure

The governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the BCPP Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited. Each Fund has an equal share in the company.

- A representative on the BCPP Joint Committee who will monitor and oversee the investment operations of BCPP Limited.

- Officer support to the representatives from the Officer Operations Group and the Statutory Officer Group.

The regulatory changes do not affect the sovereignty of the Surrey Pension Fund which will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited. The pooling of LGPS assets will have no impact on the pension entitlement of members of the fund (pensioners, current employees, and deferred members who are yet to draw their pension).

BCPP has been created by like-minded funds, established around key principals:

- one fund one vote, regardless of size, all Funds will be treated equally;
- equitable sharing of costs;
- to drive efficiencies and work effectively, partner funds must have a complementary investment ethos, risk appetite and investment strategy.

BCPP will have an internal team of investment managers, in addition to appointing external managers. Its role will be to implement the investment strategies of the partner funds, through a range of investment sub-funds, offering internally and externally managed solutions. It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool (e.g. existing private equity investments), they will continue to be managed at the Fund level. Whilst these assets are unlikely to be transferred, it is expected that once these investments are fully distributed, the proceeds will be reinvested into BCPP.

5. Environmental, social and corporate governance (ESG) policy

The Fund has no specific policy on investing or divesting investments wholly with regard to ESG issues. However external fund managers are expected to take into account ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection.

The Fund also holds expectations of its fund managers to hold companies to account reference the highest standards of behavior and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria.

The Fund aims to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles. Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor. 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. Responsibility for investment decisions is delegated by the Administering Authority to the Pension Fund Committee. The structure of the Committee, as set out in the opening section of this ISS, includes specific representative members for both employers within the Fund and the scheme membership.

6. Policy of the exercise of rights (including voting rights) attaching to investments

Stewardship Code Statement

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF. When this occurs, the Committee will typically take a minuted vote on the decision whether to participate in the proposed activity.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

The policy is reviewed at least annually in order to take account of regulatory developments. Controversial issues may be discussed at Committee meetings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Committee and employer member representatives at the Annual Meeting where members have an opportunity to ask specific questions.

In addition, quarterly reports of voting actions are posted on the Fund's website (**www.surreypensionfund.org**)

The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

Advice Taken

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment advisor (Mercer Limited), an independent advisor, the Director of Finance and the Strategic Finance Manager (Pension Fund and Treasury).

Appendix A: 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 Committee and Local Pension Board are supported in their decision making/assisting roles by the Director of Finance and the Pension Fund and Treasury Manager.

Members of the both Boards 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 the Committee on a quarterly basis. Fund managers present to the officers or the 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 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 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.

Appendix B: Investment Manager Performance Targets and Benchmarks

Manager	Portfolio	Allocation (%)	Benchmark Inde	Performance Target
UBS	UK Equities	7.6	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	10.4	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
Marathon	Global Equities	11.4	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Newton	Global Equities	7.6	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Various*	Private Equity	5.0	MSCI World Index	+5% p.a. (net of fees) over the life of the contract
CBRE	Property	6.2	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	3.8	UK Base Rate	+3.5% p.a. (net of fees) over rolling 3-year periods
Ruffer	Diversified Growth	3.8	-	First objective is not to lose money o a rolling 12 month basis. Second objective is to outperform cash and inflation on a consistent basis.
Aviva	Diversified Growth	3.8	UK Base Rate	+5.0% p.a. (gross of fees) over rolling 3-year periods
Western	Investment Grade Credit Multi Asset Credit	5.3 4.4	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	2.4	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	28.3	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 CN - AAA- AA-A Bonds – All Stocks Index Index-Linked Gilts		Portfolio of single stock funds structured by reference to Fund liabilities	
Internal	Cash		LIBID 7-day rate	LIBID 7 day rate

*See Appendix C

Appendix C: Private Equity

The table below outlines details on the Fund's private equity commitments. 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 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.

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
Darwin Property Fund	£	2017	40.0
Capital Dynamics LGPS CPAV	£	2016	24.0
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
Standard Life SOF III	$	2016	20.0
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
GSAM Vintage Fund VII	$	2016	50.0
GSAM West Street Infrastructure	$	2017	20.0
Pantheon Global Infrastructure Fund III	$	2017	60.0

US Funds Capital Dynamics US Solar Fund	$	2011	25.0

Annex 2

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 Committee 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 Committee 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

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **CASHFLOW ANALYSIS**

SUMMARY OF ISSUE:

A cash-flow analysis allows the Fund to ascertain a projection as to when benefit payments may exceed income. This information can influence both the investment and funding strategy.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the cash-flow position for quarters three and four.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must approve and review all working documents produced for the Pension Fund.

DETAILS:

Cash-flows for quarters three-four 2017/18 (1 October 2017 – 31 March 2018)

1. In simple terms, Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.

2. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund.

3. The half-yearly (quarters three-four) cash-flow for the Surrey Pension Fund shows positive cash flow of £4,197,716 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow

Three (1 Oct 2017 – 31 Dec 2017)	£40,536,859	£35,573,873	£4,962,986
Four (1 Jan 2018 – 31 Dec 2018)	£48,069,984	£38,909,282	£9,160,702
		Total net cash-flow	**£4,197,716**

4. The increase in Net cash flow is due to the following factors:

   i. At the financial year end income management team performed reconciliation of contribution balance whereby they allocated cash in to appropriate months which was sitting in the our holding account and which had not been done in the previous quarters.
   ii. Another reason for high increase was due to some employers paying the deficit contribution at the year-end.

5. An indication of the current membership trends is shown by movements in membership over quarters three-four of 2017/18, compared to the position at the 2016 valuation (as taken from statistics provided by the pension administration team):

Period	**Active members**	**Deferred members**	**Pension members**	**Total members**
2016 valuation (31 Mar 2016)	33,404	33,200	23,243	89,847
Quarter three 2017/18 (1 Oct 2017 – 31 Dec 2017)	33,970	36,200	24,811	94,981
Quarter four 2017/18 (1 Jan 2018 – 31 Mar 2018)	34,557	36,119	25,043	95,719

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

7. There are risk related provisions detailed within the Hymans report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

8. There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

9. The Director of Finance (Section 151) is satisfied that all material, financial and business issues and possibility of risks have been considered.

LEGAL IMPLICATIONS – MONITORING OFFICER

10. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

11. Cash-flow analysis does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13. The following next steps are planned:

    - A cash-flow analysis update to be provided to the Committee twice annually. The next report being produced for the 14 September 2018 meeting.

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman.

Annexes:

Sources/background papers:
None

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **PENSION FUND INTERNALLY MANAGED CASH STRATEGY**

SUMMARY OF ISSUE:

There is a large amount of unutilised cash in the pension fund account which is earning negligible returns. This cash could be better utilised investing through fund managers to yield greater return. The strategy below discusses this issue in detail.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the Pension Fund Internally Managed Cash Strategy
2. Reviews this strategy on quarterly basis.

REASON FOR RECOMMENDATIONS:

To maximise the return on unutilised cash in the pension fund account. In future this paper will be included in investment strategy.

DETAILS:

Introduction

1. Treasury management can be defined as management of cash flows, banking, investment and its borrowing, whilst maintaining effective control of the risks associated with those activities and pursuit of the optimum performance or return consistent with those risks.

2. The treasury Policy statement has been prepared for adoption by the Surrey County Council Pension Fund. The Statement will be the key document for the operation and review of the treasury management function within the Fund.

3. The council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which covers whole range of treasury management issues.

4. However, this code has not been universally adopted by Local Government Pension Scheme (LGPS) Funds because the specialised nature of pension fund monies does not lend itself easily to the Code. This is especially so since

the Fund has no borrowing powers. However, the Fund adopts the relevant key recommendations of CIPFA's "Treasury Management in the Public Services: Code of Practice".

5. It should be noted that separate treasury management strategy applies to the Surrey County Council.

6. The strategy is constantly monitored and if deemed necessary may be replaced by a revised management strategy statement, should there be changes to legislation, a large unexpected change in interest rates, changes to underlying investment market conditions and money market liquidity.

Cash Investment Priorities

7. The Pension Fund's cash investment priorities are:

   - Availability of cash to meet monthly payroll, investment commitments and other payment requirements, and;
   - The liquidity of its investment

8. The investment strategy sets the maximum level of fund that can be held in cash or cash equivalent, not exceeding £20m. The pension fund will aim to keep the working cash balance held (for day to day requirements) to a minimum, recognising that Cash must be available when required to fund commitments and making payments.

9. The fund aims to achieve the optimum return consistent with minimising risk, the risk appetite of this fund is low in order to give priority to security of its cash investments. Furthermore, within our current strategy the interest received from the MMF and local authorities' yields negligible return on excess funds, however, investing through fund manager is likely to result in much greater return.

Local context

10. On 31st March 2018, the pension fund held £29.5m in money market fund and lent £60m to local authorities. Table 1 below shows Income and expenditure in 2017/18.

Table 1: Income and Expenditure 2017/18

	Income £000	Expenditure £000	Surplus £000
Apr-17	20,504	13,039	7,465
May-17	18,200	15,891	2,309
Jun-17	16,277	13,292	2,985
Jul-17	17,746	12,040	5,706
Aug-17	14,028	14,876	848
Sep-17	14,665	13,882	783
Oct-17	13,005	2,843	162
Nov-17	15,995	12,977	3,018
Dec-17	16,812	16,115	697
Jan-18	18,821	15,164	3,657
Feb-18	15,889	13,962	1,927
Mar-18	19,015	13,194	5,821
	200,957	**167,275**	**33,682**

Investment and Counterparty Choice

11. Surrey LGPS will seek advice on its investment policy from its investment consultant and independent investment advisor, who advises the Committee on all aspects of investing the fund.

12. Subject to priorities as stated above, the investment of any funds that are not needed immediately must be invested using the following strategy:

13. The pension fund manager is to review the cash balance on quarterly basis. The maximum level of fund held in money market fund should not exceed £20m, however, should the excess funds increase to £25m, the utilisation of excess of £5m would require discussion with investment consultants to decide the most suitable option.

14. The investment may include temporary lending to other councils (not exceeding 3 months) or investing via fund managers.

15. It is recognised that on occasions, due to unforeseeable circumstances, an extension may be necessary to this cash limit. However, this will require approval from the Chair and vice chairman.

Roles and Responsibilities

16. It is the Treasury's responsibility to implement and monitor the strategy and limit once set. The Treasurer should report upon any material divergence from the strategy and recommend revisions if and when required.

17. The Authority should approve the Annual Investment Strategy annually and before the start of the financial year.

18. The section 151 Officer will review and monitor compliance with treasury management strategy on regular basis.

19. The Fund will ensure that it has adequate cash resources to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its business objectives and within the policy of the Pensions Committee.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

21. There are risk related provisions detailed within the Hymans report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

22. This strategy will create greater value for money from existing funds.

DIRECTOR OF FINANCE COMMENTARY

23. The Director of Finance (Section 151) is satisfied that all material, financial and business issues and possibility of risks have been considered.

LEGAL IMPLICATIONS – MONITORING OFFICER

24. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

25. Management strategy does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

1. The following next steps are planned:

    - Strategy will be kept under review

Contact Officer:
Neil Mason (Head of Pensions)

Consulted:
Pension Fund Committee Chairman.

Sources/background papers:
None

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **LOCAL BOARD REPORT**

SUMMARY OF ISSUE:

This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 23 April 2018 that need to be brought to the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Consider the recommendations from the Local Pension Board in regard to the Administration Performance Report.

2. Consider the recommendations from the Local Pension Board in regard to the Risk Registers.

3. Consider if there are any reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk management.

LOCAL PENSION BOARD MEETINGS

1. The most recent Local Board meeting was on 23 April 2018.

2. This next Local Board meetings are scheduled as follows:

   26 July 2018

   23 October 2018

THE ADMINISTRATION PERFORMANCE REPORT (APR)

Background

3. At the Pension Fund Committee meeting of 15 September 2017, the Pension Fund Committee (Committee) approved a new Administration Performance Report (APR) to replace the existing Key Performance Indicators (KPR) from quarter 3 of 2017/18.

4. At the Pension Fund Committee meeting of 10 November 2017, the Committee agreed that future administrations statistics reports be presented to the Committee after the full APR has been scrutinised by the Local Board. To avoid unnecessary duplication it was agreed that this report be in the form of a summarised report of the APR and will include any relevant Board recommendations.

APR Summarised report

5. The APR measures member and employer caseloads against performance levels, with red, amber and green ratings. A green rating indicates the tolerable performance level has been met. An amber rating indicates that performance levels were below tolerable by 5% or less. A red rating indicates that performance levels were below tolerable by more than 5%.

6. The Quarter performance shows that were improvements in all categories that previously recorded less than 100%.The deferred benefits (45%), refunds (84%), LGPS transfers-out quotations (inter-funds 91%), non LGPS transfer-out quotations (90%) and non-LGPS transfer-out payments (92%) were the only areas showing less than 95% compliance.

7. The board was advised that that deferred benefits had been perceived as having lower priority in the past and arrears had built-up; however, this was being addressed by robotic process automation (RPA also known as “robotics”).

8. It was noted that it would be desirable to further improve the refund figure (84%) and increasing the tolerable figure of 90% was discussed.

Local Board recommendations

9. After review at its meeting of 18 January 2018, the Local Board recommended there be a further review of the appropriateness of current “performance aspiration” and “tolerable” performance standard; however, officers are of the view that 100% is the only appropriate aspiration.

FURTHER ADMINISTRATION AND GOVERNANCE ITEMS

Administration items

10. Commissioning training for the Board was discussed. It was advised that the LGA Trustee training modules have been withdrawn pending revision but a number of alternative providers / benefit consultants can offer similar products. It was noted that the LGA can provide bespoke training on a range of topics at a day rate but the board felt investment training would be particularly useful and potential providers were discussed.

11. The Board reiterated its concern about the numbers of employers who had not completed policies on the exercise of discretion. Officers explained that they were exploring a range of options, including engaging an external contractor to perform an exercise, and they agreed to submit a report at the next meeting.

12. The board asked how the administrators identify and monitor members who are in danger of breaching the annual / lifetime allowance and incurring a tax charge and officers agreed to report back at the next meeting.

13. The board asked whether officers had made any progress in identifying potential AVC providers and the latter advised that they had made preliminary investigations and agreed to give a report at the next meeting.

14. The GMP reconciliation project; the importance has been elevated and the Chairman asked for a report at the next meeting. The Chairman expressed concern that the stage 3 contractor had been appointed at such a late stage (it was subsequently announced that JLT was the successful applicant).

15. Administration improvement plan; the Pensions Operations Manager delivered a report and the board asked for firm dates for when outstanding actions will be complete.

16. Pension Administration Complaints; only one case overstepped the service level agreement and that was due to its complexity. The lessons learned from complaints are being addressed by updating procedures and improving documents (particularly standard forms).

17. GDPR; a paper was presented on the salient features of GDPR and the board noted that GDPR will come into force on 25th May 2018 and asked for a report on its implementation at the next meeting.

18. CIPFA Benchmarking Report; The board observed that there were extended gaps in the report and the partial omissions included actuarial costs, non-pension administration IT costs and the statistics for quotations and actual leavers. They noted that no information was provided on sickness absence and industry standard performance indicators which were covered on pages 24, 25 and 26. The board proposed that gender pay inequality should be added to future reports.

    Administration performance report; deferred benefit processing was identified as an issue which the Pensions Administration Team is addressing by means of robotics. Refunds were identified as another area that could be improved and the board asked for a report on them at the next meeting so that they can consider whether the “tolerable” level should be raised to 90% (it was reported as 84%).

19. Administration developments; the Head of Business Operations reported on the administration function and the drive to recruit to replace recent resignations / retirements. He reported that there were two strong candidates for the role of Head of Pensions Administration.

20. Risk Register; the Board recommends to the Pension Fund Committee that that risks (1) price inflation higher than expected, (2) pensioners living longer, (3) pay increases greater than anticipated and (5) increased risk to global financial stability should be should be changed from treat to tolerate as nothing constructive can be done to mitigate them. The Board also recommended that officers add GDPR related risks to the register. The risk registers are shown as Annexes 1 and 2.

21. Border to Coast; the Head of Pensions delivered a (restricted) initial report on how initial costs will be apportioned, the status of the partnership and fielded questions from the board.

22. Any other business; it was notes that the opt-out rate was 10% and the board heard evidence that take up of the 50-50 scheme among modest earners was very low and it heard anecdotal evidence that a number of members who had opted-out for financial reasons were unaware of the option. The board asked officers to report back on the profile of 50-50 take up and asked for proposals to publicise it.

Governance items

23. The Local Pension Board discussed the matter of pension member representation as observers on the Border to Coast Pensions Partnership (BCPP) Board, and were supportive of this being implemented. It was subsequently reported that the Scheme Advisory Board is due to issue guidance on this matter. In addition, the BCPP Joint Committee on 24th March 2017 noted that this should be the subject of a future discussion. The Local board asked for information on the approach taken by other pools.

CONSULTATION:

24. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

26. The performance of the Pensions Administration function does present potential financial and value for money implications to the Pension Fund. The monitoring of these implications is discussed within the report.

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

27. The Director of Finance (Section 151) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

28. A Local Pension Board is a requirement under the Public Service Pensions Act 2013. 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 there is no 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: receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman.

Annexes:
Annex 1: Fund risk register
Annex 2: Administration risk register

Sources/background papers:

This page is intentionally left blank

ANNEX 1

Risk Group	Risk Ref.	Previous	Risk Description	Impact: Fund	Impact: Employers	Impact: Reputation	Impact: Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Funding	1	1	Price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%	4	4	4	12	4	**48**	TREAT- 1) The discount rate used for the 2016 actuarial valuation will be derived from CPI inflation so the value of Fund liabilities will be calculated with reference to CPI. 2) The fund holds investment in index-linked bonds within a liability driven investment portfolio to mitigate risk. 3) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Committee on 13 February 2015. Future trigger points for leverage will provide liability protection against inflation risk with the full protection framework in place.	4	**48**
Funding	2	2	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	**45**	TREAT- 1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer and postcode specific.	5	**45**
Funding	3	3	Pay increases are significantly more than anticipated for employers within the Fund.	4	4	3	11	4	**44**	TREAT- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.	4	**44**
Funding	4	4	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	4	3	3	10	4	**40**	TREAT- 1) Active investment strategy and asset allocation monitoring from Committee officers and consultants. 2) 2017/18 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	5	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	**40**	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**
Investment	6	7	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 £3.9m	4	4	4	12	3	**36**	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	**24**
Financial	7	8	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	**36**	TOLERATE - 1) Policies and 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 SAS70 or similar (statement of internal controls).	2	**24**
Operational	8	9	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	**33**	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager.	2	**22**
Investment	9	10	Significant volatility and negative sentiment in investment markets following the outcome of the US presidential election.	4	3	3	10	2	**20**	TREAT- 1) Continued dialogue with managers as to the management of increasing political risk in developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2016 valuation.	2	**20**
Investment	10	11	Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	**30**	TREAT- 1) Proportion of asset allocation made up of equities, bonds, property funds, diversified growth funds and private equity, limiting exposure to one asset category. 2) The investment strategy is 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 a measure over CPI over gilts is regarded as achievable over the long term when compared with historical data.	2	**20**
Funding	11	13	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	**27**	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	2	**18**
Governance	12	15	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	**27**	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/FSS/Governance statement and that appropriate advice is sought.	2	**18**
Investment	13	16	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and its after effects	3	3	2	8	3	**24**	TREAT- 1) Officers to consult and engage with advisors. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.	2	**16**
Operational	14	18	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	**20**	TREAT-1) Review ISS 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	15	19	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within time scales	1	2	4	7	3	**21**	TREAT- 1) Officers consult and engage with DCLG, LGPS Advisory Board, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Future secondment of Surrey officers onto pooling project teams.	2	**14**
Operational	16	20	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	**21**	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**
Operational	17	22	Failure to hold personal data securely	1	1	4	6	3	**18**	TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin records are locked daily in a secure safe. 4) SCC IT data security policy adhered to.	2	**12**
Funding	18	23	Impact of government policy on the employer workforce	3	2	1	6	3	**18**	TREAT- 1) Hymans Robertson use prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.	2	**12**
Governance	19	24	Changes to LGPS regulations	3	2	1	6	3	**18**	TREAT-1) Fundamental change to LGPS regulations implemented from 1 April 2014. 2) Impact on contributions and cashflows will considered during the 2016 valuation process. 3) Fund will respond to consultations. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored.	2	**12**
Governance	20	25	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	4	1	1	6	4	**24**	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee 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 Committee members to take the test.	2	**12**
Operational	21	26	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	**18**	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed.	2	**12**
Operational	22	27	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	**18**	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Regular meetings and conversations with Northern Trust take place. 3) Actuarial and investment consultancies are provided by two different providers.	2	**12**

Risk Group	Risk Ref.	Previous	Risk Description	Impact: Fund	Impact: Employers	Impact: Reputation	Impact: Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Governance 13	23	28	That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious.	3	2	4	9	1	**9**	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	24	29	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	4	1	4	9	2	**18**	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	**9**
Operational	25	30	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	**18**	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**6**
Governance	26	31	Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	1	4	6	1	**6**	TOLERATE -1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board.	1	**6**
Financial	27	32	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	**12**	TOLERATE - 1) Lending limits with approved banks and other counterparties are set at prudent levels 2) The pension fund treasury management strategy is based on that of SCC.	1	**6**

Administration Risk Register 2017/18 Quarter 4

Risk Ref.	Risk Description	Risk Owner	Inherent Risk					
			Impact					Total risk score
			Fin	Service	Rep'n	Total	Likely	
A1	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	JB/NM	4	1	3	8	3	**24**
A2	Lack of process ownership leads to ineffective processes and errors.	JB	1	3	2	6	3	**18**
A3	Failure to follow up on outstanding issues results in inefficiency and damaged reputation.	JB	2	2	3	7	3	**21**
A4	Lack of capability of the admin system leads to inefficiency and disruption..	JB	2	2	1	5	2	**10**
A5	Poor reconciliation process leads to incorrect contributions.	NM/JS	2	3	3	8	4	**32**
A6	Lack of guidance and process notes leads to inefficiency and errors	JB	1	4	2	7	3	**21**
A7	Unstructured training leads to under developed workforce resulting in inefficiency.	JB/NM	1	4	3	8	3	**24**
A8	Conflicting priorities (Orbis, SCCvsSPF, Pensions pooling) leads to lack of overall strategy, confusion and missed opportunities.	JB/NM	2	2	3	7	4	**28**
A9	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	JB/NM	1	2	4	7	3	**21**

13

A10	Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance.	JB	2	3	2	7	3	**21**
A11	Failure to get on top of the backlog leads to resource issues and management distractions.	JB	1	3	4	8	4	**32**
A12	Failure to identify GMP liability leads to ongoing costs for the pension fund	JB	3	2	3	8	4	**32**
A13	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	JB/NM	3	3	3	9	3	**27**
A14	Lack of productivity leads to impaired performance.	JB	2	3	2	7	4	**28**
A15	Failure to continuously improve leads to inefficiency and missed opportunities.	JB	2	2	2	6	3	**18**
A16	Rise in ill health retirements impact employer organisations	NM	3	1	3	7	2	**14**
A17	Rise in discretionary ill health retirements claims adversely effecting self-insurance costs	JB/NM	2	1	2	5	2	**10**
A18	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	JB/NM	3	4	2	9	3	**27**

Annex 2

Control actions	Action by whom	Res Impact Fin	Service	Rep'n
TREAT 1) Update and enforce admin strategy to assure employer reporting compliance 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and Pension Committee members are able to interrogate data to ensure accuracy.	JB/NM	3	1	3
TREAT 1) Require transparent workflow reporting with identification of process ownerhip to be reported to the Local Pension Board (the Board)		1	2	2
TREAT 1) Include monitoring of task follow-up times as part of the revised service standards in the Administration Strategy		1	1	2
TOLERATE 1) Ensure system efficiency is included in the annual improvement review.		2	2	1
TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process		2	2	1
TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and administration teams		1	2	2
TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Orbis		1	2	2
TOLERATE 1) Establish transparent lines of communication between Orbis partnership leads and local service areas 2) Ongoing monitoring from the Pension Fund Committee and Local Pension Board		2	2	3
TREAT 1) The fund has generally good internal controls with regard to the management of the fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.		1	2	4

13	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 Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.		2	3	2
	TREAT 1) Backlog to be identified as a "Project" as part of the Service Specification between the Fund and Orbis 2) Backlog to be included in revised Performance Statistics reported to and scrutinised by the Committee and Board		1	3	4
	TREAT 1) GMP to be identified as a "Project" as part of the Service Specification between the Fund and Orbis 2) Stage 1 reconciliation reviews has been completed. 3) Acquila Heywoods have been appointed to carry out an intermim stage 2 review		3	2	3
	TREAT 1) Disaster recover plan in place as part of the Service Specification between the Fund and Orbis 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms should ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance		3	3	3
	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff		2	3	2
	TREAT: 1) Annual customer feedback survey to be carried out. 2) Quarterly complaints/praise feedback to be reported to and scrutinised by the Committee and Board 3) Implementation and monitoring of an annual Continous Improvement Plan as part of the Service Specification between the Fund and Orbis		2	2	2
	TREAT 1) Implement self-insurance across employers within the fund		3	1	3
	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations		2	1	2
	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. 5) Risk categorisation of employers implemented as part of 2016 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	JB/NM	3	4	2

sidual risk				
Total	Likely	Total risk score	Reviewed on	Changes made during review
7	2	14	Mar-18	Unchanged
5	2	10	Mar-18	Unchanged
4	2	8	Mar-18	Unchanged
5	2	10	Mar-18	Unchanged
5	2	10	Mar-18	Unchanged
5	2	10	Mar-18	Unchanged
5	2	10	Mar-18	Unchanged
7	2	14	Mar-18	Likelihood reduced from 4 to 2 in **Residual Risk** due to the inclusion of 2) Ongoing monitoring from the Pension Fund Committee and Local Pension Board. Total **Residual Risk** reduced from 28 to 14.
7	2	14	Mar-18	Unchanged

13

7	2	**14**	Mar-18	Unchanged
8	2	**16**	Mar-18	Unchanged
8	2	**16**	Mar-18	Service risk increased from 1 to 2 in Inherent and Residual Risk. Total Inherenl Risk increased from 28 to 32 and total Residual Risk increased from 14 to 16.
9	1	**9**	Mar-18	Unchanged
7	3	**21**	Mar-18	Unchanged
6	2	**12**	Mar-18	Unchanged
7	1	**7**	Mar-18	Unchanged
5	1	**5**	Mar-18	Unchanged
9	2	**18**	Mar-18	Unchanged

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 JUNE 2018**

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 2017/18 (1 January 2018 to 31 March 2018).

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 and Annex 2 shows the Fund's latest approved responsible investment and stewardship (and share voting) policy.

Meetings Voted: Q4 2017/18

4 Table 1: Meetings Voted below shows that 17 meetings were voted in total, comprising entirely AGMs.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Court	SGM	Total
UK and Ireland	5	-	-	-	-	5
Asia and Oceania	1	-	-	-	-	1
North America	5	-	-	-	-	5
Europe	2	-	-	-	-	2
Japan	4	-	-	-	-	4
Total	17	-	-	-	-	17

Resolutions

5 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. During Q4, 237 resolutions were voted, with the bulk of these in UK and Ireland.

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Court	SGM	Total
UK & Ireland	90	-	-	-	-	90
North America	66	-	-	-	-	66
Asia & Oceania	3	-	-	-	-	3
Europe	35	-	-	-	-	35
Japan	43	-	-	-	-	43
Total	237	-	-	-	-	237

6 The higher number of meetings reflects the earliest of the AGMs for companies with financial years ending on 31 December 2017.

Table 3: Meetings Voted per Month (October to December)

Event	Oct	Nov	Dec	Total
AGM	2	7	8	17
EGM	-	-	-	-
GM	-	-	-	-
Court	-	-	-	-
SGM	-	-	-	-
Total	2	7	8	17

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.

8 Table 4 shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the quarter. Surrey voted against management on 13.9% of the resolutions for which votes were cast during Q4.

9 Remuneration and Board resolutions accounted for the majority of all resolutions to be voted on with 11 voted against. Of the 9 remuneration resolutions voted against, 1 resolution sought to approve remuneration policy, and 1 resolution sought to approve the limit on aggregate remuneration payable.
Surrey voted against Remuneration resolutions in 44.0% of cases.

10 55.6% of Shareholder Rights-related resolutions were voted against, all 5 were resolutions to approve 14-day notice periods for ordinary general meetings (other than AGMs).

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Board	143	11	7.7%
Capital	28	2	7.1%
Remuneration	25	11	44%
Audit & Reporting	27	2	7.4%
Shareholder Rights	9	5	55.6%
Sustainability	3	1	33.3%
Corporate Actions	1	-	0%
Other	1	1	100%
Total	237	33	13.9%

Shareholder Proposed Resolutions

11 Five resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions often 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 put pressure on a company, by highlighting an issue and potentially garnering public support for their cause. The flipside danger is the possibility of lack of shareholder support from other shareholders.

12 The proposal at Costco Wholesale Group to remove supermajority voting provisions from the Bylaws and replace them with a simple majority vote

standard was successful. The proposal to amend the By-laws relating to proxy access at Apple Inc was defeated but did receive a significant level of shareholder support (31.8%).

13 Two resolutions received marginal shareholder support and one resolution was a counter-proposal to the election of a member of the Supervisory Board at a German company. As the management proposal to elect the member was successful, the counter-proposal was not voted upon.

Remuneration

14 Votes against remuneration resolutions in Q4 reflected the principles advocated in Surrey's policy. 11 distinct resolutions informed Surrey's remuneration voting and the chief concerns as measured by the number of resolutions associated with remuneration issues were:

- **Bonus Caps:** where the upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 3 of the remuneration resolutions opposed by the fund;
- **Alignment:** where there is misalignment between the incentive scheme performance measures and key performance indicators used by the company. This was a factor in 3 of remuneration resolutions opposed by the fund;
- **Manifest Remuneration Assessment Grade:** In 4 resolutions opposed, the company had received a low Manifest Remuneration Assessment Grade.
- **LTIP Caps:** LTIP awards set at the maximum level was a factor in 2 resolutions opposed by the fund.
- **LTIP Vesting Period:** In 2 resolutions opposed by the fund, the LTIP vesting period was noted to be below three years.
- **Excessive Severance Period:** Severance provisions with a value exceeding 12 months' salary was a factor in 2 resolutions opposed by the fund.

15 All remaining concerns featured in only one resolutions opposed during Q4. These concerns included no individualised remuneration disclosures; no bonus cap and/or LTIP limit set or disclosed; disclosure concerns regarding bonus performance measures; and the payment of an annual bonus despite a loss being declared.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration – Report	10	9
Remuneration – Policy (Overall)	3	1
Remuneration - Amount (Total, Collective)	3	1
Remuneration – Other	3	-
Remuneration - Policy (All-employee Share Plans)	1	-
Remuneration - Policy (Long-term Incentives)	5	-
Total	25	11

Monitoring and Review

16 The share voting policy is kept under constant review.

CONSULTATION:

17 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:

18 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

19 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

20 The Director of Finance (Section 151) 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 on a regular basis.

LEGAL IMPLICATIONS – MONITORING OFFICER

21 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

22 The approval of a share voting policy will not require an equality analysis, as the initiative is not a major policy, project or function.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

24 The following next steps are planned:

- Share voting policy be kept under review

Contact Officer:
Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1: List of abbreviations
Annex 2: Latest approved Responsible Investment and Stewardship Policy

Sources/background papers:
None

Annex 1

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.

This page is intentionally left blank

Annex 2

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 lead 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.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

16

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

16

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

16

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

16

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

16

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

16

Document is Restricted

This page is intentionally left blank