

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 16 November 2018 at Conference room 1, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

*present

- * Tim Evans (Chairman)
- * Mr Ben Carasco (Vice-Chairman)
- Ayesha Azad
- * John Beckett
- * Mr David Mansfield
- * Hazel Watson
- * Borough Councillor Ruth Mitchell
- * District Councillor Tony Elias

Co-opted Members:

- * Margaret Janes, Employers
- * Philip Walker, Employees

In attendance

- * Nick Harrison, Local Pension Board Chairman

61/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Ayesha Azad.

62/18 MINUTES OF THE PREVIOUS MEETING [14 SEPTEMBER 2018] [Item 2]

It was noted that Philip Walker and Margaret Janes were present at the last meeting on 14 September 2018.

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

63/18 DECLARATIONS OF INTEREST [Item 3]

There were none.

64/18 QUESTIONS AND PETITIONS [Item 4]

1. The Committee received three public questions from members of the public and responses were tabled at the meeting (attached as Annex 1).
2. Supplementary questions were submitted and it was noted that a response would be provided in writing after the meeting.

Meeting was adjourned at 09.50am due to disruptive behaviour

65/18 PENSION FUND COMMITTEE FORWARD PLAN [Item 5]

Meeting resumed at 10.20am

Resolved:

The Committee reviewed its Forward Plan.

66/18 LOCAL BOARD REPORT [Item 6]

Declarations of interest:

None

Witnesses:

Nick Harrison, Chairman, Local Pension Board

Michael Mann, Pensions Lead Manager

Key points raised during the discussion:

1. The Committee received a summary of key highlights from the Local Pension Board Chairman from its meeting of 23 October 2018.
2. It was noted that the Pensions AGM scheduled on 23 November 2018 would be a good opportunity to remind employers of the discretions exercise.
3. The Pensions Lead Manager acknowledged concerns regarding the poor performance against the key performance indicators and assured the Committee that the service would improve with the recently recruited nine new starters in place.
4. It was noted that the Pension Administration team were working towards tackling missing addresses for members of the Fund and were writing to National Insurance to recover them.
5. The Committee raised concerns with the 37% non-compliance in relation to annual benefit statement and requested the Pensions Lead Manager to provide further data on this issue.
6. There was a discussion around guaranteed minimum pension (GMP) and the Pensions Lead Manager agreed to consider gender equalisation going forward and clarifying whether the GMP exercise included transfers.

Actions/ further information to be provided:

The Pension Lead Manager to provide more information on non-compliance statistics with annual benefit statements.

The Pension Lead Manager to clarify whether GMP exercise includes transfer members.

Resolved:

The Pension Fund Committee;

- a) Approved the recommendations from the Local Pension Board.
- b) Concluded there was no reviews as to the compliance of particular cases, projects or processes that the Local Pension Fund Board should undertake.
- c) Endorsed requesting a legal opinion on the ramifications of recovering overpaid guaranteed minimum pensions (GMPs).

Approved the addition of a risk for interim / replacement Section 151 Officer, with a moderate risk score of 8 (due to the number of experienced supporting officers in the Finance Management Team).

67/18 CORPORATE GOVERNANCE SHARE VOTING [Item 7]

Declarations of interest:

None

Witnesses:

Ayaz Malik, Pensions Accountant Advisor

Key points raised during the discussion:

1. There was a discussion around bonus caps and it was noted that there was a wide range of policies that accepted multiple of salary within the Fund.
2. The Board requested further information from Manifest on what the impact of the Fund's share voting was.

Actions/ further information to be provided:

The Board to receive further information on the impact of share voting from Manifest.

Resolved:

The Pension Fund Committee noted the report.

68/18 COST EFFECTIVE MEASUREMENT BENCHMARKING REVIEW [Item 8]

Declarations of interest:

None

Witnesses:

Mamon Zaman, Senior Accountant

Key points raised during the discussion:

1. It was highlighted that the Cost Effective Measurement (CEM) benchmarking review was a lengthy report and once finalised would be available to the Committee.

David Mansfield left the meeting at 11am

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee noted the main findings of the report; the Fund's Net Value added, as a result of its investment strategy and active management decisions, was higher than other LGPS Funds by +0.1%. The Fund's overall investment costs in 2017/18 were lower than the peer benchmark by approximately -£1m. The Fund also made cumulative savings in investment costs from 2013/14 to 2017/18, of approximately -£1.4m.

69/18 CASHFLOW ANALYSIS [Item 9]

Declarations of interest:

None

Witnesses:

Ayaz Malik, Pension Accountant Advisor
Neil Mason, Head of Pensions

Key points raised during the discussion:

1. It was noted that the half-yearly (quarters one and two) cash flow for the Surrey Pension Fund showed positive cash flow of £4,112,114.
2. It was highlighted that the figures demonstrating the membership trends for quarter one 2018/19 were not an accurate representation of membership movement.
3. The Head of Pensions indicated that the Committee would receive an update report on cash-flow analysis with the Actuary's input at its next meeting.

Actions/ further information to be provided:

The Committee to receive revised figures for the statistics provided by the Pensions Administration team on current membership trends.

Resolved:

The Pension Fund Committee noted the cash-flow position for quarters one and two.

70/18 INVESTMENT STRATEGY STATEMENT [Item 10]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee noted that the Investment Strategy Statement (ISS) was amended to take account of the following:
 - The changes in asset allocation and regional weighting approved by the Pension Fund Committee through the equity review;
 - The change in allocation from investment grade bonds to multi-asset credit,
 - The inclusion of a statement to allow the automatic use of cash-flows to rebalance the portfolio back to the target asset allocation.
 - Changes in the Private Equity Manager list on, due to reaching the end of their fund life, the following funds had been removed; HG Capital MUST 3, HG Capital MUST 4, ISIS II and ISIS III.
 - ISIS IV had been renamed Livingbridge 4 LP and ISIS Growth Fund had been renamed Livingbridge Enterprise 1LP.

2. It was noted that the latest ISS would be available online.

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee approved the changes to the Investment Strategy Statement.

71/18 EXCLUSION OF THE PUBLIC [Item 11]

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.

PART TWO – IN PRIVATE

**72/18 INVESTMENT MANAGER ISSUES AND PERFORMANCE
ASSET/LIABILITIES UPDATE [Item 12]**

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Committee noted the three stages of the equity transitions based on the 30 September valuations.
2. It was highlighted that the overall target allocation of LGIM remained the same, therefore there was no need for transfers between managers for Phase 1.
3. It was noted that phase 2 would be relatively simple. The Fund's Investment consultant Mercer, recommended that the entire holding in UBS be transferred to the new fund as it would be one of the underlying managers for the BCPP.
4. The Committee were informed that the final stage of the transfer would involve transitioning the remaining active equities to BCPP and this would bring the Fund into line with the target geographic split agreed by the Committee.
5. The Committee discussed the following managers in turn:
 - Marathon was the largest global equity manager and was now operating under a new strategy. The Committee agreed it would be useful to view the results per the new strategy to monitor the effectiveness.
 - Majedie would no longer be a manager for the Surrey Pension Fund due to its transition to the BCPP.
 - Newton had previously struggled however showed improvement in the last 12 months. Despite improvement were under review until confidence was restored.
6. It was highlighted that Surrey Pension Fund gross returns compared to other funds were higher due to its equity allocation and protection was in place ahead of the valuation next year.

Actions/ further information to be provided:

None

Resolved:

The Pension Committee noted the main findings of the report; the funding level of the Fund remained at 97.5% while the Fund's investment performance for the quarter ending 30 September 2018 was +1%.

73/18 MULTIPLE EMPLOYER INVESTMENT STRATEGIES [Item 13]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee agreed for officers to carry out initial work, allowing the Fund to establish whether tailored strategies would be appropriate for the Fund and suggested that it would be good practice to review other LGPS strategies to get a wider spread of understanding.

Actions/ further information to be provided:

None

Resolved:

The Committee approved for officers and the Fund actuary to undertake the initial work (stage 1 and 2) at a cost of £11,500, to ascertain the appropriateness of tailored strategies for the Surrey Fund.

74/18 BORDER TO COAST PENSIONS PARTNERSHIP: POOLING UPDATE [Item 14]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

John Harrison, Interim Chief Investment Officer, Border to Coast Pension Partnership

Steve Turner, Partner, Mercer

Key points raised during the discussion:

1. The Interim Chief Investment Officer informed the Committee that the main element of the report was to show that the process of due diligence had been carried out to ensure the necessary conditions of governance have been satisfied.
2. There was a discussion around transition costs to the BCPP UK Equity Alpha Fund and the Head of Pensions explained these costs would be

recouped after 3 to 4 years and a full analysis of savings and costs would be undertaken once the Post Transition Report has been received.

3. It was highlighted that the transition of the Surrey Pension Fund UK equity to BCPP would take place cautiously to ensure the market does not set its prices against the Fund.
4. The Committee agreed to carry forward the recommendation to “approve the delegation of authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of the officers and Fund advisors and assuming that the “necessary conditions” have been satisfied” to its meeting in February.

Tony Elias left the meeting @12.35pm

5. The Head of Pensions was asked by the Committee to replace ‘alternatives’ with ‘sleeves’ to ensure consistency in the report.
6. The Committee discussed the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool and were advised by the Interim Chief Investment Officer that funds had the choice to transition their whole fund allocation into the pool to be managed fully by the BCPP or chose to remain in control.

Actions/ further information to be provided:

1. Officers to carry forward the recommendation to “approve the delegation of authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of the officers and Fund advisors and assuming that the “necessary conditions” have been satisfied to the Committee’s meeting in February 2019.

Resolved:

The Pension Fund Committee,

- a) Noted that compliance with the “necessary conditions” of governance for the BCPP UK Alpha fund was met on 15 October 2018 and that the transition of the UK equity portion of the Surrey Pension Fund portfolio to the BCPP has commenced.
- b) Approved in principle, the transition of the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of officers and Fund advisors and assuming that the “necessary conditions” of governance have been satisfied.

- c) Approved (subject to meeting “necessary conditions” prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation to Private Equity within the BCPP Alternatives investment proposition.

75/18 INFRASTRUCTURE MANAGER SELECTION [Item 15]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer

Key points raised during the discussion:

1. It was noted that although the Surrey Pension Fund had fully committed to the Border to Coast Pension Partnership, the Fund had to ensure it remained consistent to its target allocation of 5% to private equity and provide further portfolio diversification into infrastructure.
2. The Fund's investment consultant, Mercer, considered a number of managers and short-listed two funds; Blackrock and Glenmont against the desirable characteristics the Fund approved at its meeting on 14 September 2018.
3. It was noted that the manager recommended by Mercer was Glenmont due to its high rating, that it invests exclusively in clean energy, its LGPS familiarity and that its strategy was currently raising capital and has begun drawing money down.
4. The Head of Pensions assured the Committee going forward the process for informing the public that the Surrey Pension Fund were investing in fossil fuel free companies would be improved i.e. releasing press statements and making sure responses were clear.

Actions/ further information to be provided:

None

Resolved:

The Committee agreed to commit £40m to the Glenmont – Clean Energy Fund Europe III.

76/18 PUBLICITY OF PART 2 ITEMS [Item 16]

The Committee agreed that the Part 2 items remain confidential and restricted from the public. It was further agreed that future reporting should avoid the use of sensitive information where possible.

77/18 DATE OF NEXT MEETING [Item 17]

The Committee noted its next public meeting to take place on 8 February 2018.

Meeting ended at: 1.00 pm

Chairman