

Notice of Meeting

Surrey Pension Fund Committee

**Date & time**

Friday, 16
November 2018 at
9.30 am

Place

Committee Room C,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact

Sharmina Ullah
Room 122, County Hall
Tel 020 8213 2838

Chief Executive

Joanna Killian



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[@SCCdemocracy](https://twitter.com/SCCdemocracy)

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

Elected Members

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

Co-opted Members:

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

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [14 SEPTEMBER 2018]

(Pages 1
- 14)

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 (*Friday 9 November 2018*).
2. The deadline for public questions is seven days before the meeting (*Thursday 8 November 2018*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 PENSION FUND COMMITTEE FORWARD PLAN

(Pages
15 - 16)

Purpose of the report: The Committee to review its forward work programme.

- 6 LOCAL BOARD REPORT** (Pages 17 - 22)
- 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 October 2018 that need to be brought to the attention of the Pension Fund Committee.
- 7 CORPORATE GOVERNANCE SHARE VOTING** (Pages 23 - 36)
- Purpose of the report:** This report provides a summary of the Fund's share voting process in Q2 of 2018/19 (1 July 2018 to 30 September 2018).
- 8 COST EFFECTIVE MEASUREMENT BENCHMARKING REVIEW** (Pages 37 - 40)
- Purpose of the report:** The Pension Fund Committee must approve and review all working documents produced for the Pension Fund.
- 9 CASHFLOW ANALYSIS** (Pages 41 - 44)
- 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.
- 10 INVESTMENT STRATEGY STATEMENT** (Pages 45 - 48)
- 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 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.

PART TWO – PRIVATE

- 12 INVESTMENT MANAGER ISSUES AND PERFORMANCE ASSET/LIABILITIES UPDATE** (Pages 49 - 80)
- 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.

- 13 MULTIPLE EMPLOYER INVESTMENT STRATEGIES** (Pages 81 - 92)
- Purpose of the report:** This paper informs the Committee of the analysis required to ascertain if tailored investment strategies are appropriate for the Surrey Fund.
- 14 BORDER TO COAST PENSIONS PARTNERSHIP: POOLING UPDATE** (Pages 93 - 142)
- Purpose of the report:** The Pension Fund Committee must be kept apprised of the progress made by the Officer Operations Group (OOG), Joint Committee and BCPP Shareholder Board in the drive to create a full functioning asset pool.
- 15 INFRASTRUCTURE MANAGER SELECTION** (Pages 143 - 170)
- Purpose of the report:** At its meeting of 14 September 2018, the Pension Fund Committee approved the recommendation of the Fund's investment consultant, Mercer, to invest a further £30-40m in new private equity fund with its defined characteristics.
- The Committee further authorised officers to work with Mercer and the independent advisor to research the market for appropriate private equity providers with these defined characteristics and bring a further recommendation to the pension fund committee.
- This paper provides a recommendation for the selection of an Infrastructure manager which most closely meets the defined characteristics.
- 16 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.
- 17 DATE OF NEXT MEETING**
- The next meeting of the Surrey Pension Fund Committee will be on Friday 8 February 2019.

Joanna Killian
Chief Executive
Published: Wednesday 7 November 2018

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MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 14 September 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 on 16 November 2018.

Elected Members:

*Present

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

In attendance

Nick Harrison, Chairman of Surrey Local Pension Board

44/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Councillor Tony Elias.

The Chairman welcomed Councillor Ruth Mitchell the new borough/district representative on the Committee.

45/18 MINUTES OF THE PREVIOUS MEETING: 8 JUNE 2018 [Item 2]

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

46/18 DECLARATIONS OF INTEREST [Item 3]

There were none.

- The Committee received a presentation from the Local Authority Pension Fund Forum on corporate governance and corporate social responsibility.

47/18 QUESTIONS AND PETITIONS [Item 4]

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

48/18 ACTION TRACKER AND FORWARD PLAN [Item 5]**Declarations of interest:**

None

Witnesses:

Neil Mason, Head of Pensions
Sharmina Ullah, Democratic Services Assistant

Resolved:

Members noted and approved the action tracker and forward plan.

49/18 INVESTMENT MANAGER ISSUES, PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 6]**Declarations of interest:**

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Chairman agreed to take this item into Part 2 and exclude the public under Section 100(A) of the Local Government Act 1972, 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.
2. Officers summarised the recommendations and the Committee agreed to share them in Part 1.
3. It was highlighted that the global equity mandates in particular the global equity portfolio had become overweight (£75m) due to strong returns. Officers brought forward recommendations to rebalance the equity holdings.
4. Officers assured the Committee rebalancing the portfolio was a risk management exercise and would reduce exposure in line with the ongoing strategy.
5. It was highlighted that although the report indicated under performance amongst some fund managers this was quarter one and performance had gradually improved for quarter three.

Resolved:

The Pension Fund Committee;

1. Noted the report
2. Authorised officers to rebalance the equity holdings by disinvesting £50m from Marathon and £25m from Newton, and investing the £75m proceeds into Western MAC portfolio.
3. Authorised officers to invest £20m of the current surplus internally managed cash into the MAC fund managed by Western. In combination with the above, this will bring that fund broadly into line with its target.
4. Authorised officers to top-up the allocation from current surplus internally managed cash Baillie Gifford to bring it in line with its target. (c£10m).
5. Noted the changes in the Asset Allocation Update (Investment Manager Issues – Annex 1) to now include 5% Private Equity Allocation Policy, in line with ISS.
- 6.

50/18 PRIVATE EQUITY INVESTMENT: PERFORMANCE REVIEW [Item 7]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Chairman agreed to take this item into Part 2 and exclude the public under Section 100(A) of the Local Government Act 1972, 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.
2. Officers summarised the recommendations and the Committee agreed to share them in Part 1.
3. The Head of Pensions advised the Committee that to ensure that the Fund remained consistent to its target asset allocation of 5% to private equity, regular investments had to be considered.
4. It was highlighted that Mercer had produced a report recommending a theme of private equity for new investment and suggested a list of defined characteristics that would be desirable.
5. It was noted that future allocations would be made through the Border to Coast Partnership however in the meantime officers including the Fund's advisors supported an additional commitment to a new fund during 2018.

6. It was explained that a new commitment was time sensitive and Members were asked to delegate the selection of an appropriate strategy to the Chairman, Officers and advisors, with an update to be provided at the Committee's next meeting on 16 November 2018.
7. The Committee reviewed the fund status of fund managers and asked officers to explain the life cycle of investments. Officers clarified the following terms;
 - Value creation – all monies drawn
 - Investing – monies still being drawn
 - Distributing – monies fully drawn and being returned
 - Fully realised – monies fully returned
8. The Chairman advised that fund managers were monitored and were recently interviewed with the exception of Livingbridge and HgCapital.

Resolved:

The Pension Fund Committee;

1. Noted the Fund's Private Equity holdings, respective funds investment performance and review from the Fund's investment consultant and independent investment adviser.
2. Agreed the Fund continue to drawdowns of the existing private equity schemes, and consider new opportunities to the Pension Fund Committee for approval as and when they realise.
3. Approved the recommendations of the Fund's investment consultant, Mercer, to invest a further £30-£40m in new private equity fund with its defined characteristics.
4. Approved for officers to work with Mercer and the independent advisor to research the market for appropriate private equity providers with these defined characteristics and bring a further recommendation to the Pension Fund Committee.

51/18 CORPORATE GOVERNANCE SHARE VOTING [Item 8]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee were provided with a summary of the Fund's share voting proves in Q1 of 2018/19 (1 April 2018 to 30 June 2018).

2. The report also included a class action against BHP who is a firm Surrey had invested in.

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee noted the report.

52/18 CASHFLOW ANALYSIS [Item 9]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee received a cash-flow analysis for quarters four (2017/18) to quarter one (2018/19) (1 January 2018 – 30 June 2018).
2. It was noted that the Surrey Pension Fund showed positive cash flow.

Actions/ further information to be provided:

None

Resolved:

The Committee noted the cash-flow position for quarters four and one.

53/18 VALUATION REPORT 2019 [Item 10]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Gemma Sefton, Hymans Robertson

Key points raised during the discussion:

1. The Committee welcomed the new Fund actuary representative from Hymans Robertson and thanked the former Fund actuary Barry McKay for his contribution.

2. It was noted that the next triennial valuation was scheduled for 31 March 2019 and Hymans had produced a draft project plan with 6 months still available to refine it.
3. The Committee received a presentation on the investment strategy and were asked to consider moving from one investment strategy for all employers to multiple strategies to better suit groups of similar employers.
4. It was highlighted that this approach would produce better funding outcomes for employers, reduce risk to the fund, increase flexibility for setting funding plans, keep pace with other Funds in LGPS and would meet the increasing needs of employers.
5. Hymans Robertson informed the Committee that Cheshire had completed one full cycle with this approach and it had worked well.
6. Members were advised that although extra costs were involved in this complex work, assurance was given that these costs provided long term value.
7. It was noted that there was no significant implications as there would be no material change for a long period of time.
8. To support further understanding the Chairman asked officers to explain the current strategy and the proposed strategy in an update report for a future meeting.

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee to receive an update report including a summary on the existing strategy and the proposed way forward.

54/18 GOVERNANCE REVIEW [Item 11]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. It was highlighted that there have been several major changes within the LGPS and that these changes required a review of the governance of the Fund.

2. The Committee noted that three sections of the proposed scope of the governance review; Overview, Background and Review.
3. Under the Review section Members asked officers to consider a revision to 'Decisions' to include 'prudent'.
4. The Committee agreed that the Surrey Local Pension Board could monitor and review the progress of this work.

Actions/ further information to be provided:

None

Resolved:

The Committee agreed for officers to undertake a governance review and procure specialist governance advisors to assist with this review.

55/18 ANNUAL REPORT/ STATEMENT OF ACCOUNTS [Item 12]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Mamon Zaman, Senior Accountant

Key points raised during the discussion:

1. The Committee noted the error reported under the membership section, officers were asked to amend David Mansfield political party to Conservatives.
2. Officers highlighted further discrepancies on page 159, 262 and 264 and tabled revised copies at the meeting.
3. Officers asked the Committee to consider using electronic copies of the Annual report/ Statement of Account at future meetings to support the Council's bid to reduce the reliance on paper.
4. The Committee agreed to add a recommendation to commend the Pension Fund team's performance this current year.

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee,

- a) Noted and approved the Annual Report for publication subject to audit approval.

- b) Noted the contents of the 'External Audit Findings for Surrey Pension Fund' Report which reviewed the Pension Fund Statement of Accounts 2017/18.
- c) Noted the Letter of Representation with regards to the Surrey Pension Fund Statement of Accounts.
- d) Recognised the good work carried out by the Pension Fund team under the Head of Pensions.

56/18 LOCAL PENSION BOARD REPORT [Item 13]

Declarations of interest:

None

Witnesses:

Nick Harrison, Chairman of the Surrey Local Pension Board
Clare Chamber, Pensions Service Delivery Manager

Key points raised during the discussion:

1. The Committee welcomed the new Pensions Service Delivery Manager to the meeting. The Local Pension Board Chairman congratulated the Chairman of the Committee on his appointment as the newly elected Vice-Chairman on the Border to Coast Pension Partnership (BCPP) Joint Committee.
2. The lack of resource and employer data concerns were highlighted as issues faced by the service. There was a discussion around how work was being carried out to address these issues.
3. It was noted that the Local Pension Board recommended a further review of the appropriateness of current "performance aspiration" and "tolerance" performance standard in an effort to introduce a target that would work best. The Pensions Service Delivery Manager highlighted that the service was also in the process of re-structuring teams to focus on improving these statistics.
4. The Board recommended that the new risk of change in Section 151 Officer should be added to the register.
5. There was a discussion around the Guaranteed Minimum Pension (GMP) reconciliation project and the Committee were recommended to obtain expert legal advice when deciding how to tackle returns.

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee,

- a) Considered the recommendations from the Local Pension Board in regards to the Administration Performance Report.
- b) Updated the Local Pension Board on the current position regarding pension member representation in the BCPP governance structure.
- c) Approved the recommendation of the Board that the new risk of change in Section 151 Officer should be added to the register.
- d) Concluded that there were no reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.

57/18 EXCLUSION OF THE PUBLIC [Item 14]

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

PART TWO – IN PRIVATE

58/18 NATIONAL POOLING UPDATE [Item 15]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key point raised during the discussion:

1. The Chairman agreed to take this item into Part 2 and exclude the public under Section 100(A) of the Local Government Act 1972, 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.
2. The Head of Pensions introduced the report by informing the Committee that the Border to Coast Pension Partnership (BCPP) had now launched and plans were underway to transition the Surrey Pension Fund portfolio of UK equity to the BCPP, subject to satisfying the “necessary conditions” outlined in Annex 1 attached to the report.
3. It was noted that a due diligence meeting would take place on 3 October with Surrey Pension Fund Officers, Mercer and the independent advisor.

4. Following the transition of the UK equity, the Head of Pension advised that the global mandate was the Committee's next area of significant review.
5. Members commented on paragraph 24 and asked the Head of Pensions to report on the information left out in error.

Resolved:

The Pension Fund Committee,

- a) Noted the report and progress made towards satisfying the "necessary conditions" of governance required to enable the transition of the UK equity portion of the Surrey Pension Fund portfolio to the BCPP.
- b) Reaffirmed the approval given at its meeting of 8 June 2018 to delegate authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the UK equity portion of the Surrey Pension Fund portfolio to the BCPP, assuming that the "necessary conditions" of governance have been satisfied.

59/18 PUBLICITY OF PART 2 ITEMS [Item 16]

The Committee agreed to share the recommendations of Part 2 items for public publication.

60/18 DATE OF NEXT MEETING [Item 17]

The Surrey Pension Fund Committee noted its next meeting to be held on 16 November 2018.

Meeting ended at: 12.42 pm

Chairman

Public questions received for 14 September 2018:

1. *Question submitted by Janice Baker:* Delighted that the SPF has started to decrease investments in fossil fuel, I still consider 3% to be only a small decline in the Fund's massive fossil fuel investment portfolio. Would the committee please indicate how wide its investigation into alternative types of investment has been, to what extent the alternatives were uncompetitive, and can we expect such investigation to broaden out further in the coming year?

RESPONSE

We understand that the 3% deduction you refer to in your question relates to the estimated decrease in overall carbon exposure brought about by commitments to a low carbon index tracker rather than a direct disinvestment in fossil fuel.

The Committee, with guidance from its investment consultant and independent advisor, is committed to investigate all viable investment options.

A current consideration is to commit a new investment to funds with a focus on sustainable or renewable energy.

2. *Question submitted by Richard Essex:* There is growing body of evidence to suggest that current engagement policies between asset owners, such as the Surrey Pension Fund, and fossil fuel companies are failing to avoid the real possibility of runaway climate change. In particular, engagement terms are largely favoured towards those fossil fuel incumbents.

As a result, is it not the Fiduciary Duty of the Surrey Pension Fund to now divest from fossil fuels?

Surely Fiduciary Duty is not just about providing a monetary pension for members but fundamentally about contributing towards a healthy, stable planet in which those pensions can be enjoyed!

Please comment

RESPONSE

The Surrey Fund's approach to the issue of climate change is incorporated in its Investment Strategy Statement within the regulatory and legal context. This includes our ESG policy and the adoption of the Responsible Investment Policy (RIP) of Border to Coast Pensions Partnership (BCPP). The RIP of BCPP explicitly states the following approach to climate change:

- Assess (its) portfolios in relation to climate change risk where practicable
- Incorporate climate considerations into the investment decision making process
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with TCFD recommendations
- Encourage companies to adapt their business strategy in alignment with a low carbon economy

In establishing these policies, both the Surrey Pension Fund Committee and BCPP have regard to the views of the Local Authority Pension Fund Forum and it remains our belief that the approach to the challenge of climate change is nuanced and that a tactic of divestment alone is a blunt tool that deprives investors of leverage to influence companies.

The Surrey Fund is now deep in the process of transitioning its assets in to BCPP, an asset pool comprised of 12 partner LGPS pension funds. BCPP has recently become a member of the Local Authority Pension Fund Forum (LAPFF) as well as a signatory to Climate Action 100+, and supporter of the Task Force on Climate-related Financial Disclosures and 30% Club Investor Group.

As part of achieving its objective to make a difference to long-term investment outcomes for its Partner Funds, BCPP has appointed Robeco, the international asset manager, to perform its voting and engagement services. Robeco is an experienced partner with similar values to work with to ensure active ownership across all its investments, both internally and externally managed.

Robeco is engaging with Exxon, Shell, Total and BP and collaborating with other large investors through the Climate Action 100+ initiative.

The Surrey Pension Fund supports engagement rather than divestment. We believe that divestment removes the chance to influence and change behaviour by selling to disinterested shareholders. Engagement requires time, as trust needs to be built with companies and relationships developed to get access to the relevant decision makers within a company. In this view we are entirely consistent with BCPP and the LAPFF and we have no plans to deviate from this approach.

However, in addition to engagement, the Pension Fund Committee recently commissioned an audit of the Fund's carbon footprint and also considered low carbon alternatives in its equity portfolio. A carbon footprint audit at the meeting of 8 June 2018, showed the Surrey Pension Fund to be, in some cases, significantly underweight in carbon related exposure when compared with its benchmarks. In addition to this the Committee agreed at this meeting to reduce its exposure to carbon related assets by moving approximately 17% (c£400m) of its current passive equity portfolio in to a low carbon fund and to reallocate its active portfolio from UK to global assets, further reducing the Fund's carbon exposure.

The question of tackling climate change in the wider ESG context continues to be on the agenda for the Pension Fund Committee, but, it is our firm belief that reduction in carbon should be through an integrated approach and that divestment alone, while offering some symbolic successes, at worst can divert campaigning and political attention away from the multiple causes of climate risk and remove potential allies from positions of shareholder influence. This is a critical time for engagement and holding companies to account, along with linking remuneration incentives to climate-related targets. The Surrey Pension Fund is of the belief that it is time to increase pressure on companies and get them to set concrete targets and that walking away is entirely counterproductive to the aim of tackling climate change.

The Surrey Pension Fund does not agree with your proposition that engagement is an ineffective tool in combating climate change and we are of the view that our current policy is entirely consistent with our fiduciary duty.

3. *Question submitted by Irene Ridgeon:* The UK Law Commission, in its 2014 report [The Fiduciary Duties of Investment Intermediaries](#), stated that ‘there is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material.’ In May 2018, Stanford University scientists calculated that, if the world's nations adhered to the Paris Climate Agreement, and temperatures only rose 2.5 percent, then global GDP would fall 15 percent and developed economies would be significantly affected. When will the Surrey Pension Fund committee be taking action to reduce the threat to the financial security of its members by withdrawing investment from the fossil fuel industry?

RESPONSE

Please refer to the answer given to the previous question. In the particular the following:

The Surrey Pension Fund supports engagement rather than divestment. We believe that divestment removes the chance to influence and change behaviour by selling to disinterested shareholders. Engagement requires time, as trust needs to be built with companies and relationships developed to get access to the relevant decision makers within a company. In this view we are entirely consistent with BCPP and the LAPFF and we have no plans to deviate from this approach.

However, in addition to engagement, the Pension Fund Committee recently commissioned an audit of the Fund's carbon footprint and also considered low carbon alternatives in its equity portfolio. A carbon footprint audit at the meeting of 8 June 2018, showed the Surrey Pension Fund to be, in some cases, significantly underweight in carbon related exposure when compared with its benchmarks. In addition to this the Committee agreed at this meeting to reduce its exposure to carbon related assets by moving approximately 17% (c£400m) of its current passive equity portfolio in to a low carbon fund and to reallocate its active portfolio from UK to global assets, further reducing the Fund's carbon exposure.

The question of tackling climate change in the wider ESG context continues to be on the agenda for the Pension Fund Committee, but, it is our firm belief that reduction in carbon should be through an integrated approach and that divestment alone, while offering some symbolic successes, at worst can divert campaigning and political attention away from the multiple causes of climate risk and remove potential allies from positions of shareholder influence. This is a critical time for engagement and holding companies to account, along with linking remuneration incentives to climate-related targets. The Surrey Pension Fund is of the belief that it is time to increase pressure on companies and get them to set concrete targets and that walking away is entirely counterproductive to the aim of tackling climate change.

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Surrey Pension Fund Committee Forward Plan

Date	Standing items	New items
16/11/2018	<ul style="list-style-type: none"> • National pooling update • Investment Manager Issues • Local Board update • Cash-flow analysis • Voting and class action update • Valuation update 	<ul style="list-style-type: none"> • Valuation update • Responsible Investment Policy Update (<i>contained within National pooling update</i>) • CEM performance analysis report • Investment strategy review update (global mandate (<i>contained within National pooling Update</i>)) • Investment strategy statement update • Multiple investment strategies
08/02/2019		<ul style="list-style-type: none"> • Business plan 2019/20 <p><i>Governance review observation</i></p>
07/06/2019		<ul style="list-style-type: none"> • Business plan 2018/19 outturn report
13/09/2019		<ul style="list-style-type: none"> • Annual report • Downside protection update

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 16 NOVEMBER 2018

LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER

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 October 2018 that need to be brought to the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- a) Approves the recommendations from the Local Pension Board.
- b) Concludes whether there are any reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.
- c) Endorses requesting a legal opinion on the ramifications of recovering overpaid guaranteed minimum pensions (GMPs).
- d) Approves 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).

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 October 2018 (minutes of this meeting are included as Annex 1).
2. The next Local Board meeting is scheduled for 17 January 2019.

Action tracker

3. The discretions exercise – the Board asked officers to draw the employing authorities' attention to this initiative at the annual general meeting and to check distribution list to ensure that all employing authorities have been contacted.
4. The Board asked officers to provide an update report on the internal audit.

-
5. Service improvement plan – the Board asked the Lead Pension Manager for bar charts to illustrate progress against agreed milestones.
 6. The Goldman Sachs investment Training was well received – but the board would like more training on investments and officers agreed to approach the council's partners to facilitate it. The Board is looking to enhance investment oversight and they asked officers to produce a summary of the investment strategy for the next meeting. Officers have investigated governance training and they have identified CIPFA as the preferred provider and they planning to arrange training for the Board early next year.
 7. The Joint Committee of the Border to Coast partnership has agreed to member participation in principle and is expected to ratify that decision at its meeting on 21st November. The Local Pension Board and the Pensions Committee will be able to make nominations should that come to pass.
 8. Administration update report; the Board felt that the figure of 27,000 help desk contacts seemed high and asked whether they included significant numbers of repeat callers. The Lead Pensions Manager said that the queries were generally “one and done” and the main queries concerned member self-service activation and log-in details, updating address details and asking for assistance with documents, option forms and general guidance. The Board asked whether significant numbers related to annual benefit statement queries and the Lead Pension Manager agreed that it was a factor.

Forward plan

9. Cyber security training has been added to forward plan.
10. Officers were asked to provide an item on annual benefit statements at the Board's meeting in April.

Accounts

11. The Board commended officers on the thoroughness of the Annual Report / Statement of accounts. Officers confirmed that statement of accounts had received an unqualified opinion.
12. The Board noted that contributions had fallen and administration costs had increased. The Head of Pensions noted that stricter reporting criteria had led to higher administration costs across the board.
13. The committee noted the report.

Administration update report.

14. The Lead Pensions Manager gave an update on the data cleansing exercise. Officers recommended revising the KPIs because the figures do not reflect the

true picture and they understate the volume of work that the Pension Section handles. The Board discussed the merits of changing the KPIs and instructed officers to produce two sets of Administration Performance Report figures for January's meeting; one set prepared on the existing basis and the other on the new one. The Local Pension Board will consider the two sets of figures and make a recommendation to the Pensions Committee if they decide that the new method is more accurate.

15. The Lead Pension Manager reported on GMP reconciliation and he will provide another update in January. The question of recovering overpayments of pension (because GMPs have not been applied) is complicated and officers were asked to obtain a legal opinion and to distribute copies of The LGA guidance to the Local Pension Board and the Pension Section.
16. The Lead Pension Manager provided an update of the implementation of robotics. He advised the Board that it was still a work in progress as the calculation routines were heavily reliant on the quality of the data provided.

Pension Administration statistics

17. Local Pension Board expressed concern about the deterioration in the performance figures.
18. Lead Pension Manager warned that the figures were unlikely to improve until April's meeting when the changes that have been made would start to take effect. The Board noted comments in the report about the suitability of the current figures and wanted reassurance that they would have oversight of any changes in the method of reporting them. Officers suggested presenting two sets of performance figures, one prepared on the old basis and the other on the new so that the Board could digest the differences and make a recommendation to the Pension Committee, if appropriate.

Risk Register

19. The Board asked whether officers could identify specific economic risks, such as price inflation, in the risk register.
20. Board asked officers to include a risk on the register for the Section 151 Officer as the post is currently held by an interim.
21. There was a discussion about recharging strain costs and officers agreed to report on the issue at the next meeting.
22. There was a general discussion about the risk of price inflation and the actuary commented that (hopefully) asset values would increase proportionately, but the Board asked whether it was possible to do more to mitigate risk? The actuary opined that trying to lock in existing investment returns risked making future accrual more expensive and, therefore, recommended a balanced approach.

Annual benefit statements

23. The Local Pension Board considered the ABS figures and decided to report active members (5% non-compliance) and deferred benefits (37% non-compliance) to the Pension Regulator.

Presentation by the new actuary

24. Gemma Sefton gave a presentation on the Surrey Pension Fund 2019 outlook.

Review of IDRPs

25. The Board asked why two decisions concerning late transfers-in had not been made properly. Officers explained that there were two problems; officers with experience of the procedure had left the authority and the schedule of officers with delegated authority was not up to date. Officers informed the Board that the adjudicator (the person who hears IDRPs) has advised the Pension Section that an officer with delegated responsibility must draft a formal reply, alerting the member to their right of appeal, and the list of officers with delegated responsibility must be updated as it has suffered attrition over the last year.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

28. 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

29. The Section 151 officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

30. 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

31. 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

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

WHAT HAPPENS NEXT

33. The following next steps are planned: receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

Contact Officer:

John Smith, Senior Advisor, Email: john.smith1@surreycc.gov.uk

Consulted:

Pension Fund Committee Chairman.

Annexes: None

Sources/background papers:

1. Quarter 2APR
2. Risk Register.

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SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 16 NOVEMBER 2018****LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER****SUBJECT: CORPORATE GOVERNANCE SHARE VOTING****SUMMARY OF ISSUE:**

This report provides a summary of the Fund's share voting process in Q2 of 2018/19 (1 July 2018 to 30 September 2018).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- a) 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: Q2 2018/19

- 4 Table 1: Meetings Voted below shows that 19 meetings were voted in total, comprising 16 AGMs and three other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Court	SGM	Total
UK and Ireland	14	-	2	-	-	14
North America	1	-	-	-	-	2
Japan	1	-	-	-	-	1
Total	16	-	2	0	1	19

Resolutions

- 5 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. During Q2, 309 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	269	-	12	-	-	281
North America	12	-	-	-	3	15
Japan	13	-	-	-	-	13
Total	294	-	12	-	-	309

- 6 The table shows the majority of the meetings were held in May, reflecting the relatively condensed AGM season for UK and North American companies.

Table 3: Meetings Voted per Month (July to September)

Event	July	Aug	Sept	Total
AGM	10	1	5	16
EGM	-	-	-	-
GM	2	-	-	2
Court	-	-	-	-
SGM	-	-	1	1
Total	12	1	6	19

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 20.7% of the resolutions for which votes were cast during Q2.
- 9 A higher proportion of Remuneration resolutions were voted against management. Of the 15 resolutions voted against, all sought remuneration report approvals. Surrey voted against Remuneration resolutions in 71.4% of cases.
- 10 70.3% of Shareholder Rights-related resolutions were voted against, 13 out of 14 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	149	11	4.4%
Capital	65	12	18.5%
Remuneration	21	15	71.4%
Audit & Reporting	43	3	7%
Shareholder Rights	19	17	73.7%
Sustainability	10	8	80%
Corporate Actions	2	1	50%
Total	309	64	20.7%

Shareholder Proposed Resolutions

- 11 Surrey did not vote on any resolutions proposed by shareholders during Q2. In 2018 Q1 Surrey voted on 30 shareholder proposed resolutions and in 2017 Q2 Surrey voted on one shareholder proposed resolution.

Remuneration

- 12 Votes against remuneration resolutions in Q2 reflected the principles advocated in Surrey's policy. 19 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:** The upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 11 of the remuneration resolutions opposed by the fund;

- **Alignment:** There was misalignment between incentive scheme performance measures and the key performance indicators used by a company. This was a factor in 10 of the remuneration resolutions opposed by the fund.
 - **Remuneration Committee:** The independence of the remuneration committee was a factor in 3 of the remuneration resolutions opposed by the fund.
- 13 All remaining concerns featured in less than three resolutions opposed during Q2. These concerns included; the quantum of awards; performance period duration; termination provisions; recruitment awards; and various disclosure concerns.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration – Report	15	15
Remuneration - Policy (Long-term incentives)	1	-
Remuneration – Non-executive	1	-
Remuneration - Policy (Overall)	1	-
Remuneration - Policy (All-employee Share plans)	2	-
Remuneration – other	1	-
Total	21	15

Monitoring and Review

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

CONSULTATION:

- 15 The Chairman of the Pension Fund has been consulted on the current position and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

- 18 The Acting Section 151 Officer 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

19 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

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

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

22 The following next steps are planned:

- Share voting policy be kept under review

Contact Officer:

Ayaz Malik, Pensions Accountant/Advisor. Email: ayaz.malik@surreycc.gov.uk
Tel: 020 8541 9705

Consulted:

Pension Fund Committee Chairman

Annexes:

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

Sources/background papers:

None

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AGM

An Annual General Meeting of shareholders, normally required by law.

EGM

An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extraordinary nature. Such business may require a special quorum or approval level.

GM

A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the issuer in question.

OGM

An Ordinary General Meeting of shareholders, which is a meeting at which ordinary business is to be conducted (i.e. business which does not require a special quorum or approval level).

Court

A meeting of shareholders which is convened by a Court as opposed to by management. This is often used in the UK in order to effect a scheme of arrangement during a corporate transaction.

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Responsible Investment and Stewardship Policy

1 Introduction

- 1.1 Surrey Pension Fund (the Fund) aims to be an informed and responsible long term shareholder of the companies in which it invests. The Fund has a commitment to encourage responsible corporate behaviour, which is based upon the belief that active oversight and stewardship of companies encourages good long term value and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries.
- 1.2 The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.
- 1.3 The fund complies with the Myners Principles of investment management and the UK Stewardship Code, the seven principles of which are shown below at section 5.
- 1.4 The Fund will review its Responsible Investment and Stewardship Policy annually. The Fund's officers will carry out this review and propose any changes to the Pension Fund Board for consideration.

2 Scope

- 2.1 The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, we will focus our attention on the quality of our major asset holdings, i.e., UK, EU, US, Far East and emerging markets assets.
- 2.2 The Fund supports the 'comply or explain' principles of The United Kingdom Corporate Governance Code (the Code), and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.
- 2.3 Corporate governance principles and standards vary from market to market, and so the Fund's voting policy allows for some flexibility and discretion with due consideration to local circumstances.

3 General Principles

- 3.1 In general, the Fund aims to support corporate management in their stewardship role. This document sets out the Fund's high level voting principles and the circumstances where the Fund may override support for company management proposals. In general, where the Fund cannot support management, it will positively abstain or withhold a vote but, in certain cases, reserves the right to vote against company management.
- 3.2 In ordinary circumstances, the Fund delegates individual corporate engagement activity to its investment managers. The Fund will, however, consider engaging on a collective basis with other investors on issues of mutual interest.

4 Voting Policy

4.1 Audit & Accountability

The audit and financial reporting process affords investors significant protections by ensuring that management has effective internal controls and financial reporting systems.

Auditor independence may be compromised if the same firm has audited the company for a long time, or where the firm earns significant fees from non audit services. In order to help maintain auditor objectivity, we would expect companies to consider submitting the audit function to periodic tender, and to disclose their policy on tendering, including when the audit was last put to tender and when the incumbent audit firm was appointed.

- **Approval of Financial Statements**

Where there is a qualified audit statement; where there is uncertainty about the future viability of the business; where there is a restatement of annual results made in the previous year (apart from where adapting to new regulations); or where there are concerns of fundamental significance, the Fund will consider approval on a case by case basis.

- **Removal of Auditors**

Surrey Pension Fund will normally vote with management on proposals for the removal of auditors, unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case by case basis.

- **Extra Financial Reporting**

Companies should have regard to the environmental and societal risks and impacts of their operations as these can have a material impact on shareholder returns over a variety of time horizons. We believe that it is good management practice to assess and report on material “Extra Financial” risks associated with the governance of environmental and sustainability issues. Where we consider that disclosure on these risks is inadequate, the Fund will withhold its vote on the annual report or a suitable alternative resolution, where available, such as the sustainability report.

4.2 The Board & Committees

- **Nomination & Succession Planning**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should have plans in place for orderly succession and the policies relating to this should be disclosed in the Company’s annual report.

- **Committee Independence**

Audit, Remuneration and Nomination committees are key components of effective governance for companies. These committees should be composed entirely of independent non-executive directors; the Fund may therefore abstain from a director’s election if they are an executive or non-independent director on the Remuneration Committee.

Committees should be composed of individuals with adequate professional understanding of the matters to be resolved. This is particularly the case for the audit and risk committee. The fund may choose to abstain where there is insufficient evidence of appropriate competencies.

- **Separation of Chairman & Chief Executive Officer (CEO)**

The Fund believes the roles of Chairman and CEO should be separate. There may be individual circumstances where it is necessary to combine the roles for a specified purpose or over a period of time, in which case we will take account of the explanations provided. In all other circumstances, the Fund will abstain on the election of the Chairman.

- **Board Balance and Diversity**

Companies should seek to ensure that their boards are balanced for appropriate skills, competence and experience. Diversity of gender and experience are equally important and we expect to see clear disclosure from companies about their efforts to address gender imbalance and, in particular, how they aim to reach at least 30% female representation.

- **Notice Periods**

Evidence of reward for failure has led to shareholder concerns over the length of notice periods for directors which have been used in the past to inform severance pay levels. Where the terms of executive pay policy allow overly generous severance pay on early termination of an executive contract, the fund may choose to register concern via an abstention vote.

Director notice periods are significantly important. Where an executive director's notice period exceeds twelve months or where severance pay exceeds an equivalent of twelve months, the Fund may abstain from voting.

- **Removal of Directors**

Where there is a proposal to remove a director, the Fund will vote against it unless the proposal has Board support and it is uncontested by the individual concerned. Where the proposal is contested by the individual concerned, the Fund will consider its position on a case by case basis.

4.3 Executive Remuneration

Executive remuneration should be determined by a formal procedure which is independent of the executives in question. The remuneration committee, in addition to demonstrating independent membership, should have written terms of reference and receive independent advice which is wholly separate from other corporate activities, for example, audit or HR.

There should be comprehensive, transparent and comprehensible disclosure of directors pay and policy. Policy in particular should fully explain the aims and objectives of reward strategies in the context of corporate objectives.

- **Approval of Long Term Incentive Schemes**

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long term shareholder value, avoiding reward for results over the short term. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions, and to introduce objective performance conditions related to the company's long-term strategy. Discretionary share options and other long term incentive plans can, subject to appropriate safeguards, be acceptable elements of a director's remuneration.

The Fund will vote in favour of executive reward plans when:

- The company has a remuneration structure that encourages participation across the workforce.
- There is a capital commitment on the part of executive participants at the inception of the scheme.
- Where the exercise of options or the vesting of shares for executive participants is based on performance targets which reflect outstanding and sustainable performance and which are insulated from a particular treatment in the accounts or general market factors.
- Where disclosure is adequate to enable the assessment of rewards under the scheme and the cost to the company.
- Where the performance period for any long term scheme is five years or more.
- Where the participants are not eligible for multiple share-based incentives.
- Where the scheme does not have the potential to involve the issuing of shares which will unduly dilute existing holdings or involve a change in control of the company.

The Fund will abstain from supporting an all employee share scheme where non-executives are also permitted to participate.

4.4 Shareholders' Rights and Capital Structures

Surrey will consider resolutions relating to shareholder rights on a case by case basis. The following outlines the principles that we expect our companies to adhere to:

- **Pre-emption right for issues of new capital**

The Fund does not support resolutions that are inconsistent with rules of the Pre-emption Group.

- **“One Share One Vote”**

The Fund does not support issues of shares with restricted or differential voting rights, nor any action which effectively restricts the voting rights of shares held by it.

- **Share Repurchases**

The Fund will normally vote in favour of an authority for share repurchases, provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources. Companies should adopt equitable financial treatment for all shareholders. The Fund therefore supports measures that limit the company's ability to buy back shares from a particular shareholder at higher than market prices.

- **Controlling Shareholder**

Where a controlling shareholder is present on the share register, it is important that minority investors understand fully the nature of the rights held by that shareholder. Minority investors expect a formal relationship agreement to be in place and for this agreement to be fully disclosed to all shareholders.

4.5 Mergers and Acquisitions (M&A)

Support will be given to mergers and acquisitions that enhance shareholder returns in the longer term and encourage companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual Board members.

Due to the investment implications of M&A activity, the fund will liaise with its portfolio managers prior to making a final voting decision in support of takeovers.

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the Board. This includes anti-takeover measures.

4.6 Article Changes

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights, or do not reflect generally accepted good governance practices.

4.7 Political & Charitable Donations

The fund recognises that some legitimate business related expenditure, such as marketing or sponsorship, may be construed as political under the terms of current legislation in some markets. Where authority for political expenditure fails to distinguish the amounts involved, or the period covered, or the amounts or period are considered excessive, the fund will not support the authority.

In addition the Fund considers that making of donations to political parties is not an appropriate use of shareholders' fund and so will vote against any authority to make such donations.

Charitable donations are acceptable if they are reasonable and further the company's wider corporate social responsibilities. The Fund encourages the issue of a policy statement by companies relating to such donations and full disclosure of the amounts given to the main beneficiaries.

4.8 Shareholder Resolutions

All such proposals will be reviewed on a case by case basis. We will generally support requests for improved corporate disclosure, notably relating to sustainability reporting. In other circumstances the fund will generally vote against shareholder resolutions not supported by management.

4.9 Other Business

Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider issues on a case by case basis. Schemes of arrangement, significant transactions and bundled resolutions are also considered on a case by case basis.

Where a resolution is proposed to allow for any other business to be conducted at the meeting without prior shareholder notification, the Fund will not support such resolutions.

5 The Principles of the UK Stewardship Code

In order to conform with the principles of the UK Stewardship Code, institutional investors, such as the Surrey County Council Pension Fund, should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.

5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

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

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 16 NOVEMBER 2018

LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER

SUBJECT: CEM BENCHMARKING REVIEW



RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- a) Note 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.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Background

1. As part of the Fund's transition to Border to Coast (BCPP), Surrey Pension Fund has signed up to benchmark against other funds to compare different areas of performance, such as returns, asset mix, cost, risk, etc.

The Company chosen to carry out this benchmarking exercise is Cost Effective Measurement (CEM) Benchmarking. They specialise in benchmarking cost and performance of investments and providing insights into best practices. This is then compared against a custom peer group in addition to a collection of other funds.

Methodology

2. CEM's main performance comparisons are with other funds within the LGPS universe, which includes the partner funds within BCPP. The average asset worth of these funds is £5bn. This report provides insight into the level of inherent risk within the portfolio, what may have caused costs to change over time and assessing whether value for money has been achieved.

The information is based on survey returns provided by the Fund for the last 5 years ending March 2018, as well as information provided directly from Fund Managers. The report is currently in draft form pending data submissions from

other LGPS funds (which could affect the results).

Findings

3. Investment return

It is important to note that having returns above or below peers does not necessarily reflect positively or negatively on the Fund. Each fund has a different set of priorities, funding position, risk appetite, etc. Each therefore has a different asset mix and this largely drives the total return. In this respect, return comparisons are interesting and provide context for the cost comparison, but they need to be interpreted with caution. The analysis breaks the Fund's total returns down into its two most important constituent parts and compares each.

- The strategic asset mix return is the return the Fund could have earned passively by indexing its investments in line with its strategic asset allocation. In effect, this is the return from decision making by the Committee about asset mix. It is typically the most important 'driver' of total returns. This part of the total return will be the responsibility of the Committee after pooling is complete.
- Net value added is the value created, after costs, through the implementation of the Committee's investment strategy and in particular by active management decisions, including tactical asset allocation, manager selection, stock selection, etc. This part of the total return will be the responsibility of BCPP after pooling is complete.

5 year returns	Surrey Pension Fund	LGPS Median	Global Median
Strategic asset mix return	8.0%	8.6%	7.6%
Net value added	0.2%	0.1%	0.2%
Total net return*	8.2%	8.6%	7.9%

*The LGPS and global median total return is not the sum of the median strategic asset mix return and median net value added (hence the numbers do not add in the columns)

There are two important observations here:

- The Fund's strategic asset mix return was lower than LGPS peers reflecting the Fund's lower risk mix of assets (i.e., a lower weighting to more volatile assets). Less risk typically means more stability in contribution levels.
- Over the 5 years, the Fund's active management decisions were rewarded to a greater extent than other LGPS funds.

4. Investment Costs Comparison

The Fund's Investment Costs were compared against a peer group of LGPS Funds and non-LGPS funds excluding partners in BCPP, with a median size of £4bn. The Investment Costs are specifically those costs attributed to fund managers, as well as oversight and custodial costs.

The Fund's overall investment costs of 47.5bps were lower than the benchmark 50.2bps. The benchmark reflects what the peers would pay to manage the Fund's assets. The saving of 2.7 bps (£1m) relative to benchmark is made up of paying less in manager, oversight and custody fees by -5.9bps (-£2.3m), which is offset by a higher cost implementation style. The Fund differed from its peers in this area by approximately +£1.3m, as a result of having external managers rather than internal, more partnerships/ fund of funds held within private equity, but also holding more passive assets (cheaper) rather than active (more expensive).

Reasons for Investment Cost Differences relative to benchmark			Excess Cost/ Savings (-)	
			£000s	bps
1. Higher cost implementation style				
More passive management vs. higher cost active			-1,508	-3.9
More external management vs. lower cost internal			941	2.4
More partnerships for private assets (vs. funds)			510	1.3
More fund of funds			1,373	3.5
Less overlays			-55	-0.1
			1,261	3.3
2. Paying less than peers for similar services				
External investment management costs	The Fund	Peer Median		
Stock - Global	25.8 bp	44.3 bp	-1,482	-3.8
Diversified Private Equity – Fund of fund - top-layer base fees	57.0 bp	101.4 bp	-753	-1.9
Fixed Income - Global	11.4 bp	25.1 bp	-368	-0.9
Global Total Absolute Asset	64.5 bp	56.7 bp	306	0.8
All other differences			-50	-0.1
Oversight, custodial and other costs			56	0.1
			-2,292	-5.9
Total savings			-1,031	-2.7

5. Cost changes over the years

The investment costs of The Fund decreased from 53.9bps in 2013/14 to 47.5bps in 2017/18, which amounts to £1.4m. The majority of these changes were as a result of paying lower fees for Stock/ Fixed Income (-7.3bps), lower base fees for Private Equity (-2.9bps), offset by higher performance fees paid to Private Equity Managers (+3.8bps).

CONSULTATION:

6. The Chairman of the Pension Fund has been consulted and fully supports the conclusions of the report.

RISK MANAGEMENT AND IMPLICATIONS:

7. Continue to benchmark with partners within BCPP as the Fund transitions more of its assets

8. Benchmark future assets that have transitioned into BCPP, to ensure expected cost savings are being achieved, in addition to competitive return on investment assets

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

10. The Section 151 Officer 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 CEM Benchmarking Review analysis does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14. The following next steps are planned:
- Implementation of the recommendation.

Contact Officer:

Mamon Zaman, Senior Accountant. Email: mamon.zaman@surreycc.gov.uk
Tel: 020 8213 2738

Consulted:

Pension Fund Committee Chairman

Annexes: None

Sources/background papers: CEM Benchmarking Review

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 16 NOVEMBER 2018

LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER

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:

- a) Note the cash-flow position for quarters one and two.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Cash-flows for quarters One - Two (2018/19) (1 April 2018 – 30 September 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 one-two) cash-flow for the Surrey Pension Fund shows positive cash flow of £4,112,114 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
One (1 Apr 2018 – 30 Jun 2018)	£34,266,600	£39,320,471	(£5,053,871)
Two (1 Jul 2018 – 30 Sep 2018)	£46,267,037	£37,101,052	9,165,985
		Closing cash-flow	£4,112,114

4. The quarter two contributions are significantly higher than those in the quarter one. As at the start of a new financial year, the employers are generally slow in paying. However, as the year progresses, the cash flows are expected to increase.
5. An indication of the current membership trends is shown by movements in membership over quarters four-one, 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 one 2018/19 (1 Apr 2018 – 30 Jun 2018)	35,321	36,406	25,345	97,072
Quarter two 2018/19 (1 Jul 2018 – 30 Sept 2018)	33,920	31,860	25,629	91,409

6. Quarter two total members are lower than those in the quarter one, the main difference relates to deferred members. This is because these have been moved to a No Liability status due to the members being transferred out, either internally or externally.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

8. The Fund will keep the cash-flow position under review and ensure the investment strategy remains consistent and appropriate.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

10. The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered.

LEGAL IMPLICATIONS – MONITORING OFFICER

11. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

12. 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

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

WHAT HAPPENS NEXT

14. 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 16 November 2018 meeting.

Contact Officer:

Ayaz Malik, Pensions Accountant/Advisor. Email: ayaz.malik@surreycc.gov.uk
Tel: 020 8541 9705

Consulted:

Pension Fund Committee Chairman.

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 16 NOVEMBER 2018

LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER

SUBJECT: INVESTMENT STRATEGY STATEMENT



SUMMARY OF ISSUE:

The pension fund is required to publish an investment strategy statement (ISS) as a result of 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. Approve the changes to the Investment Strategy Statement as shown in paragraph 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 ISS is 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 (pages 4, 14 and 15);
 - The change in allocation from investment grade bonds to multi-asset credit (pages 4, 5, 14 and 15);
 - The inclusion of the following statement (pages 5 and 6) to allow the automatic use of cashflows to rebalance the portfolio back to the target asset allocation:

“Cashflows into and out of the Fund will be used to rebalance the portfolio back towards the target investment strategy stated above where possible (a pragmatic view will be taken with respect to illiquid assets such as private

equity and property). The rebalancing process has been delegated to Officers, although the Committee has discretion to exclude certain mandates from the rebalancing at its discretion.”

- Changes in the Private Equity Manager list on page 19. The following funds have now been removed due to reaching the end of their fund life; HG Capital MUST 3, HG Capital MUST 4, ISIS II and ISIS III. ISIS IV has been renamed Livingbridge 4 LP and ISIS Growth Fund has been renamed Livingbridge Enterprise 1 LP.

Statement

3. The latest Investment Strategy Statement is shown as Annex 1.

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 Section 151 officer 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 changes to the statement by the Pension Fund Committee.

Contact Officer:

Neil Mason, Head of Pensions. Email: neil.mason@surreycc.gov.uk Tel: 020 8213 2739

Consulted:

Pension Fund Committee Chairman

Annexes:

None

Sources/background papers:

Investment Strategy Statement

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