Notice of Meeting

Surrey Pension Fund Committee

Date & time
Friday, 7 June 2019
at 10.00 am

Place
Ashcombe Suite,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact
Ben Cullimore
Room 122, County Hall
Tel 020 8213 2782

Chief Executive
Joanna Killian

We're on Twitter:
@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 Ben Cullimore on 020 8213 2782.

Elected Members
Mr Tim Evans (Chairman), Mr Ben Carasco (Vice-Chairman), Ms Charlotte Morley, Mr John Beckett (Ewell), Mr David Mansfield and Mrs Hazel Watson

Co-opted Members:
Borough Councillor Ruth Mitchell (Hersham), District Councillor Tony Elias (Bletchingley and Nutfield), Margaret Janes (Employers) and Philip Walker (Employees)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any apologies for absence and apologies.

2 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.

3 MINUTES OF THE PREVIOUS MEETING: 8 FEBRUARY 2019 (Pages 1 - 12)

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

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 (3 June 2019).
2. The deadline for public questions is seven days before the meeting (31 May 2019).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 FORWARD PLAN (Pages 13 - 14)

The Committee is asked to review its forward plan.

6 COMPANY ENGAGEMENT & VOTING (Pages 15 - 68)

This report is a summary of various Environmental Social and Governance (ESG) issues that the Local Authority Pension Fund Forum (LAPFF), Robeco and Surrey Pension Fund have been involved in, for the attention of the Pension Fund Committee.

7 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 the Schedule 12A of the Act.

8 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE (Pages 69 - 102)

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

9 INVESTMENT STRATEGY REVIEW (Pages 103 - 162)

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

10 2019 VALUATION ASSUMPTIONS (Pages 163 - 180)

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

11 BORDER TO COAST UPDATE (Pages 181 - 200)

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

12 PUBLICITY OF PART 2 ITEMS

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

13 GOVERNANCE REVIEW (Pages 201 - 254)

As part of the governance and oversight of the Pension Fund, a regular review and update to the governance framework, policies and procedures is essential to ensure that the Fund is compliant with latest legislation, regulations and good practice.

At its meeting of 14 September 2018, the Pension Fund Committee agreed to commission a review of the fund governance. This was carried out by Hymans Robertson.

This report provides details of this review, which includes the definition of a mission statement for the Fund and key strategic objectives in investments, funding, governance and delivery.

14 PENSION FUND ACCOUNTS 2018/19 (Pages 255 - 302)

This report presents the unaudited financial statements of the Pension Fund for the year ended 31 March 2019, in light of Surrey County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) will then audit the Accounts, with the Fund aiming for an unqualified opinion.

15 LOCAL PENSION BOARD REPORT (Pages 303 - 310)

This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 25 April 2019 that need to be brought to the attention of the Pension Fund Committee.

16 ADMINISTRATION MONITORING REPORT (Pages 311 - 314)

This report is for information purposes and to note and is in response to the concerns raised by the Local Pension Board and Pension Fund Committee and the recent Internal Audit Report regarding the Pension Administration Service.

17 PENSION FUND BUSINESS PLAN 2018/19: OUTTURN REPORT (Pages 315 - 324)

The 2001 Myners Report (later confirmed by the CIPFA/Myners Principles) recommended that local authority pension funds approve an annual business plan in respect of the objectives required for the ensuing year.

Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints. This report sets out the outturn of the annual business plan for 2018/19.

18 MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) – STATUTORY GUIDANCE ON ASSET POOLING (Pages 325 - 348)

The Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) consultation on proposed changes to the current statutory investment pooling guidance.

19 CASHFLOW ANALYSIS (Pages 349 - 352)

A cashflow 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.

20 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Committee will be on 13 September 2019.

Joanna Killian
Chief Executive
Published: Thursday, 30 May 2019

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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

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

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

Thank you for your co-operation.

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MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 8 February 2019 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

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

Co-opted Members:

* Mr Tony Elias, Borough/District Representative
* Borough Councillor Ruth Mitchell, Hersham Village
* Margaret Janes, Employers
  Philip Walker, Employees

In attendance

*Graham Ellwood, Vice-Chairman of the Local Pension Board

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

Apologies were received from Philip Walker (Employee representative).

2/19 MINUTES OF THE PREVIOUS MEETING: 16 NOVEMBER 2018 [Item 2]

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

3/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/19 QUESTIONS AND PETITIONS [Item 4]

Six questions were received from members of the public. Responses to these can be found as an annex to these minutes.

Supplementary questions were asked from three members of the public and it was agreed that a response to the supplementary question from Pat Smith would be provided outside of the meeting.

It was agreed that responses to submitted questions would be provided in advance of public meetings going forward.

5/19 PENSION FUND COMMITTEE FORWARD PLAN [Item 5]

Resolved:

The Committee reviewed its Forward Plan.

6/19 COMPANY ENGAGEMENT AND VOTING [Item 6]

Declarations of interest:

None.

Witnesses:

Jane Firth, Head of Responsible Investment, Border to Coast Pension Partnership
Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee were informed that a resolution had been passed with BP shareholders in line with responsible investment and that a review of governance processes was being undertaken before further co-resolution with other funds would be put forward.
2. There was a discussion around the impact of responsible investment and voting by shareholders if this was undertaken as a group through Border to Coast. It was explained that this would make a substantial difference and that by appointing Robeco there was much better access to chairmen and chief executive officers. Committee Members were also informed that the Surrey Pension Fund were part of a sub-group which would look at climate change going forward.
3. The Board requested further detail on share voting and resolutions made on behalf of the Surrey Pension Fund be included in future update reports.

Actions/ further information to be provided:

The Board to receive further detail on share voting and resolutions made in future reports to the Committee.

Resolved:

1. That the main findings of the report; the outcomes achieved for quarter ending 30 September 2018 by Robeco and LAPFF, by engaging with multinational companies on various Environmental, Social and Governance Issues (ESG) were noted by the Committee.
2. That the findings from Surrey Pension Fund's share voting process for the quarter ending 31 December 2018 were noted.

7/19 LOCAL BOARD REPORT [Item 7]

Declarations of interest:

None.

Witnesses:

Graham Ellwood, Vice-Chairman, Local Pension Board
Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee received a summary of key highlights from the Local Pension Board Vice-Chairman from its meeting of 17 January 2019.

2. It was noted that serious administration errors had been identified and that a four year strategic plan had now been put in place.

3. The Committee were reminded that the Assistant Director for Business Operations had responsibility for the administration of pensions and that he was working with the Surrey Pension Fund to resolve the identified issues.

4. The Committee raised concerns that the data quality administration errors could have a financial impact and were informed that the Head of Pensions was not aware of an impact on the Pension Fund, but that the Fund had lodged a query with the Fund actuary, who will be able to provide clarity going forward with their assumptions.

5. Members of the Committee queried how the profound weaknesses had not been detected sooner and were informed that the establishment of the Local Pension Board had been a key factor in identifying these working alongside Internal Audit.

6. It was requested that a detailed report be presented to the June meeting of the Surrey Pension Fund.

Actions/ further information to be provided:

A report with further detail on the identified issues be presented to the next meeting of the Surrey Pension Fund Committee in June 2019.

Resolved:

That the Pension Fund Committee;

1. Noted the report and particularly issues with pensions administration.

2. Approved the following changes to the Fund risk register:

   - Amendments to the following risks, chiefly to reflect updates in regards to Border to Coast:

   - 1-2, 4-8, 11, 13-15, 17-20, 23-24, 27.

     The addition of the following risks:

- Transition of assets to BCPP be included as risk number 29, with a total risk of 40 (Red) and net risk of 10 (Green).
- The HM Treasury and Scheme Advisory Board cost management process has an implied increase in employer contributions be included as risk number 30, with a total risk of 28 (Amber) and net risk of 7 (Green).
- Impact of the Pension Services Manager leaving the council be included as risk of 31, with total inherent risk of 21 (Amber) and Residual risk of 7 (Green).
- Failure to deliver accurate and effective pension administration be included as risk of 32, with total inherent risk of 36 (Red) and Residual risk of 18 (Amber).

3. Concluded that a detailed report from the Local Pension Board be presented at the next meeting of the Surrey Pension Fund Committee in June 2019.

8/19 TRAINING POLICY [Item 8]

Declarations of interest:

None.

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. Members of the Committee welcomed the Training Policy and requested that details of seminars taking place should be circulated to the Committee and should also be fed into the training plan.

Action/ further information to be provided:

None.

Resolved:

That the Pension Fund Committee:

1. Approved the training policy and agreed that all members should prioritise attendance at training events wherever practicable.

2. That training is reviewed on an annual basis.

9/19 CASHFLOW ANALYSIS [Item 9]

Declarations of interest:

None.

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. Members of the Committee were informed that there would be a report from the actuary at the next meeting of the Surrey Pension Fund Committee and that following this this information may be reported annually rather than quarterly.

2. It was noted that there was an error in the submitted report and that the report related to quarters two and three.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the cash-flow position for quarters two and three which confirmed that no further action was required and no changes to the Investment Strategy would be required.

10/19 INVESTMENT STRATEGY STATEMENT [Item 10]

Declarations of interest:

None.

Witnesses:

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

Key points raised during the discussion:

1. Committee Members noted the changes to be made to the Investment Strategy Statement and queried whether the format of this could be reviewed to avoid this having to be approved as frequently as it was currently.

2. It was confirmed that the Strategy must be approved annually by the Committee however the format of this could be reviewed so that it would be a broad statement of the areas that the Surrey Pension Fund invests in. It was agreed that this would be reviewed going forward.

Further action/ information to be provided:

That the format and content of the Investment Strategy Statement be reviewed.

Resolved:

That the Pension Fund Committee approved the following changes to the ISS that have been made following the Pension Fund Committee meeting of 16 November 2018:

1. The changes to job titles and frequency of Local Board meetings.
2. The change in the Environmental, Social and Governance (ESG) policy to support and, where relevant, comply with the Border to Coast Pension Partnership (BCPP) Responsible Investment Policy. The BCPP Responsible Investment Policy was revised in November 2018 and is reproduced as Appendix C in the amended ISS.
3. The change in the Policy of the exercise of rights (including voting rights) attaching to investments to support the BCPP Corporate Governance and Voting Guidelines. The BCPP Corporate Governance and Voting Guidelines were revised in November 2018 and are reproduced as Appendix D in the amended ISS.
4. Addition of Glennmont Clean Energy Fund Europe III to the list of Private Equity Managers.
5. Inclusion of UK Base Rate as benchmark for Ruffer, and inclusion of Fund's target return of +3% (gross of fees) over 3 year rolling periods against UK Base Rate.

11/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE ASSET/LIABILITIES UPDATE [Item 11]

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 were pleased to note that the equity protection policy was working exactly as expected. It was also noted that quarter four had been the worst in ten years however the markets had now rebounded. Members queried how well the investments had recovered since quarter four and the longer term impact of this and were informed that some headway had been made against any losses.

2. The Committee queried what impact Brexit would have on the Fund's investments and were informed that there were no concerns from an asset perspective.

3. It was noted that the Fund's Investment consultant Mercer, felt that the Surrey Pension Fund was in a good position and the Independent Advisor reflected that the markets may not be stable however it should not be as volatile as in quarter four.

Actions/ further information to be provided:

None.

Resolved:

That the funding level as at 31 December 2018 was 93.3%. That the Fund's investment performance for the quarter ending 31 December 2018 was -3.4%.

12/19 EXCLUSION OF THE PUBLIC [Item 12]

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

13/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE ASSET/LIABILITIES UPDATE [Item 13]

Declarations of interest:

None.

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Fletcher, Independent Advisor
Daniel Booth, Chief Investment Officer, Border to Coast Pension Partnership

Key points raised during the discussion:

1. The Committee were provided with an update on the performance of diversified growth funds and a discussion around whether a move out of this area would be supported took place.

2. The Independent Advisor provided an update on the performance of individual investment managers and Members were disappointed to note the performance of Aviva.

3. It was noted that the recent transfer to Border to Coast Pension Partnership (BCPP) had gone well during a difficult time and Committee Members were informed that a range of alternative investment options were being created by Border to Coast that the Surrey Pension Fund would be able to invest in going forward.

4. The equity protection strategy was discussed and it was confirmed that this would be formally reviewed at the Pension Fund Committee meeting in September 2019.

Further action/ information to be provided:

None.

Resolved:

That the funding level as at 31 December 2018 was 93.3% and that the Fund's investment performance for the quarter ending 31 December 2018 was -3.4%.

14/19 NATIONAL POOLING UPDATE [Item 14]

Declarations of interest:

None.

Witnesses:

Neil Mason, Head of Pensions
Daniel Booth, Chief Investment Officer, Border to Coast Pension Partnership
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Chief Investment Officer provided an overview of the Border to Coast Pension Partnership (BCPP) and the equity funds that will be available to the Surrey Pension Fund.

2. There was a discussion around the plan for transitioning further funds to BCPP and the Committee were informed that the next available transition would take place in July or September and that further information regarding this would be presented at the June 2019 meeting of the Surrey Pension Fund Committee.

3. It was noted that at its meeting of 16 November 2018, the Committee had approved 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 officer and Fund Adviseros and assuming that the "necessary conditions" of governance have been

satisfied and that the Committee had also 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. It was confirmed that any additional allocations would be undertaken in line with the Surrey Pension Fund's local strategies.

4. Members of the Committee queried whether the pooling had derived any savings to date and were informed that it was too early to tell but that there had been savings in basis points and performance fees no longer had to be paid. It was noted that the pooling arrangement had also allowed access to more experienced areas of equity.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the pooling update report.

15/19 PUBLICITY OF PART 2 ITEMS [Item 15]

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.

16/19 DATE OF NEXT MEETING [Item 16]

The Committee noted that the next public meeting is due to take place on 7 June 2019.

Meeting ended at: 12.45pm

Chairman

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SURREY PENSION FUND COMMITTEE – 8 FEBRUARY 2019

PROCEDURAL MATTERS – QUESTIONS

1. Question submitted by Chris Neill

As a Surrey resident concerned about climate change, I was shocked to discover that the Surrey Pension Fund has £145 million invested directly in the fossil fuel industry. At a time of serious climate emergency I find this very difficult to understand. It seems quite irrational. Please would you explain why you are persisting with such investments and in particular how you reconcile this approach with your responsibilities as public servants.

2. Question submitted by Stephen McDonald

150 species become extinct every single day as a resultant of our society's continued use of fossil fuels. This is just one statistic among many others that warn us of the rapidly approaching break down of our earth's ecosystems with the consequential horrendous effect it will have on our children and grandchildren.

The United Nations have told the world to make immediate and massive reductions in our FF usage, but the SPF still have well over £ 100 million invested in them, even after over three years of lobbying. We must take heed of what the UN says or, quite seriously, our world will be lost.

My passionate ask of you is please, for the sake of our future, why will you not take urgent steps to take all direct funds out of fossil fuels?

3. Question submitted by Pat Smith

The Universities Superannuation Scheme recently wrote, in response to a member's question:

- *The Ombudsman is saying that the benefit of members is generally their financial interest, but they are also recognizing that the interest is represented by members' views and moral issues. Thus,* ***the Ombudsman itself is recognizing that the strict financial approach to fiduciary duty is not a dogma****, and I agree with you that it could be leveraged to ask for a survey of members concerning climate change, cluster bombs, tobacco, etc.*
    -
    - *I think that climate change (and other env-social issues with a long term material impact) may be leveraged to show that* ***USS is not taking into consideration the interest of future members but only the short term return for current members****.*
    - *But I believe that first and foremost* ***it's the case to dismantle the myth of fiduciary duty as purely financial,*** *which I think is already happening with the latest intervention of the law commission.*

How do you plan to change your interpretation of fiduciary duty and move towards rapid divestment from the fossil fuel industry?

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4. Question submitted by Jonathan Roberts

The Surrey Pension Fund, in response to previous questions, has stated it supports engagement rather than divestment as a means to addressing climate change. Please could you provide details of the engagement strategy being pursued with Exxon, Shell, Total and BP with respect to the urgent climate crisis? What are your goals for this engagement process, what assessment has been made of their progress towards these goals and what action will you take if these goals are not met?

5. Question submitted by Jay Ginn

Since the fiduciary duty allows consideration of social and environmental issues as well as attention to performance and risk to members pensions, and given that financial experts have highlighted the risk of fossil fuel investments becoming stranded assets, as well as preventing the UK meeting its agreed carbon emission target, will the SCC now urgently commit to divestment from fossil fuels?

Engagement with oil companies has brought only trivial change, and I believe the majority of scheme members would support such divestment.

6. Question submitted by Leonard Beighton

In their recent statement the trustees said that consideration is given to environmental, social and governance issues 'where ever appropriate'. When is it not appropriate to take account of the catastrophic damage to the world's eco-systems which climate change will bring unless every effort to limit it is taken? Do the trustees accept that disinvestment from fossil fuel companies need not affect the financial performance of the fund and hence would not only meet the relevant ESG issues but be consistent with their fiduciary responsibilities.

COMBINED RESPONSE TO QUESTIONS RECEIVED:

Thank you for your questions, as set out in previous responses to public questions to this Committee, the Surrey Pension Fund's approach to the issue of climate change and engagement is set out in its Investment Strategy Statement which can be found, alongside other key policy documents, on the Surrey Pension Fund's website http://www.surreypensionfund.org/client-area/news/the-surrey-pension-fund-and-esg-issues/

The Surrey Pension Fund Committee regularly reviews its Investment Strategy Statement and an update to this is due to be considered and approved at the meeting today.

As questions on this matter have been asked at several other Surrey Pension Fund Committee meetings, I would also refer you back to the formal responses previously provided to public questions at these meetings.

Mr Tim Evans
Chairman of the Surrey Pension Fund Committee
8 February 2019

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Surrey Pension Fund Committee Forward Plan

Date	Standing items • National pooling update • Investment Manager Issues • Local board update • Cash-flow analysis • Voting and class action update • Engagement update	New items
07/06/2019		• Business plan 2018/19 outturn report • Governance review • Revised Business plan 2019/20 • Cash-flow modelling • Confirmation of global equity transition • Alternatives specification • Valuation update • Investment strategy statement update • MHCLG Consultation • Administration monitoring report • Pension Fund Accounts
13/09/2019		• Annual report • Downside protection update
15/11/2019		• CEM performance analysis report • FSS

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **COMPANY ENGAGEMENT & VOTING**

SUMMARY OF ISSUE:

This report is a summary of various Environmental Social & Governance (ESG) issues that the LAPFF, Robeco and Surrey Pension Fund have been involved in, for the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the main findings of the report, the outcomes achieved for quarter ending 31 December 2018 by Robeco/ LAPFF, by engaging with multinational companies on various Environmental, Social and Governance Issues (ESG)

2. Notes the findings from Surrey Pension Fund's share voting process for the quarter ending 31 March 2019

3. Notes the ESG outcomes achieved by Fund Managers

4. Reaffirms focus on ESG issues and the Fund's policy on engagement

REASON FOR RECOMMENDATIONS:

In accordance with the Fund's Investment Strategy Statement, The Pension Fund Committee must review and approve all working documents produced for the Pension Fund.

DETAILS:

Background

1. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including Border to Coast Pensions Partnership (BCPP). Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

2. Robeco is an international asset manager, also carrying out independent research on various ESG issues, which can contribute to a company's investment strategy. By providing regular sustainability reports, it reinforces the fact that good corporate governance and social responsibility can enhance the long-term risk-return profiles of our investment portfolios.

Robeco has been appointed to provide voting and engagement services on behalf of BCPP.

3. 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 is strengthened by the advice of a consultant skilled in this particular field.

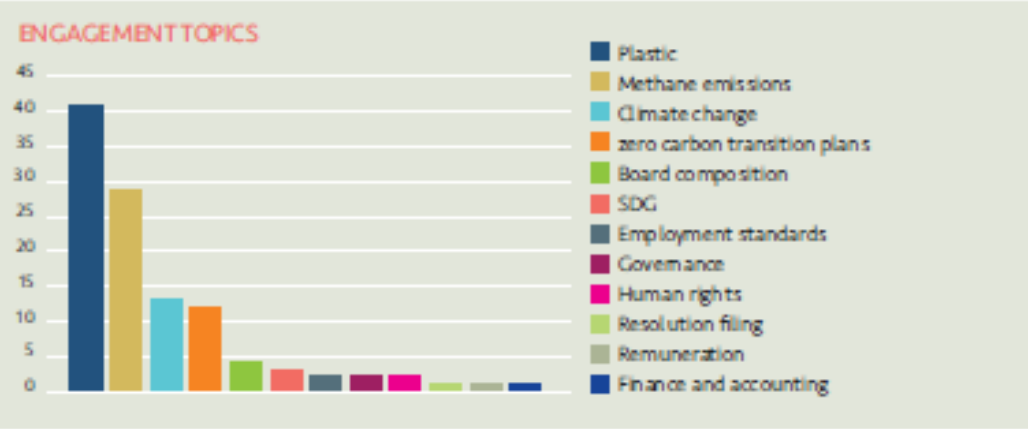
4. The Surrey Pension Fund has been with Minerva Analytics (formerly Manifest) since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva Analytics has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS).

BP Shareholder Resolution

5. Surrey Pension Fund, along with 57 other investors, co-filed the Climate Action 100+ shareholder resolution at BP (Annex 3). Seven of the co-filers are among BP's top 20 individual investors. The resolution directs BP to include in its Strategic Report, a strategy in line with the Paris Agreement (Annex 4), along with annual progress reporting.

Outcomes Achieved through Company Engagement

The LAPFF had engaged with 95 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 31 December 2018.



LAPFF Engagement Outcomes

6. Royal Dutch Shell – Published a joint statement with Climate Action 100+ lead investors on its commitment to reduce the Net Carbon Footprint by half by 2050. Milestones include linking targets to remuneration as well as alignment with the Taskforce for Climate Related Financial Disclosures' (TCFD) recommendations.

7. ExxonMobil – The LAPFF co-filed a shareholder resolution as part of the Climate Action 100+ engagement. The resolution called for the company to disclose short, medium and long term greenhouse gas targets aligned with

the Paris Agreement.

8. National Grid – A meeting with National Grid co-ordinated by Climate Action 100+ provided encouraging news that the group will look at a 1.5 degree scenario.

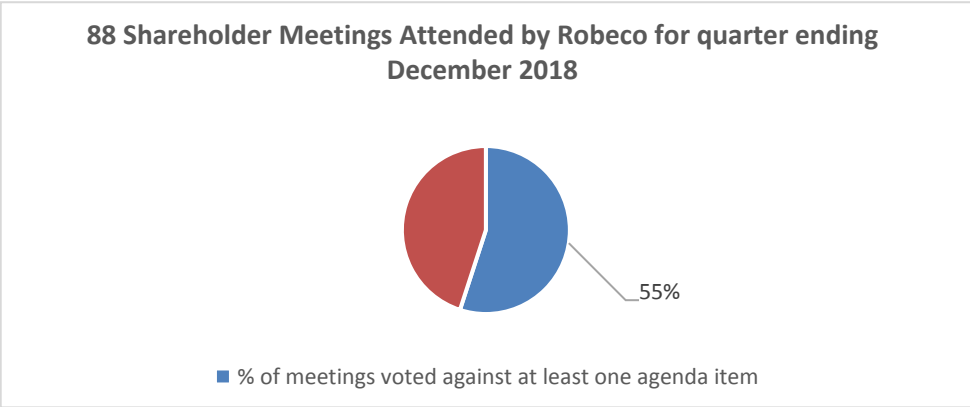
   LAPFF joined other Climate Action 100+ investors in writing to a number of utility companies, urging them to accelerate decarbonisation by setting out transition plans to net-zero carbon economy. Signatories also called on companies to support the development of ambitious climate policy and ensure that their trade associations are aligned with this objective.

9. Nestle - In November, the Forum participated in a collaborative call with Nestle to discuss the company's global packaging commitment and the related challenges of moving towards a more circular plastic economy.

10. PepsiCo – The Forum discussed with PepsiCo the issue of plastic packaging and pollution. The company discussed plans to solely use plastic that is biodegradable, compostable and recyclable by 2025.

Robeco Engagement Outcomes

Robeco had voted at 88 shareholder meetings, voting against at least one agenda item in 52% of cases during the quarter ending 31 December 2018.



Engagement on Climate Change and wellbeing in the Office Sector

<u>Reason for Engagement</u>

11. Robeco uses the Global Real Estate Sustainability Benchmark (GRESB) dynamic benchmark to engage with the companies in which we invest, aiming to improve the sustainability performance of the real estate sector. The benefits of sustainability in this industry include:

    - Reduced carbon emissions can lead to lower energy costs, where Landlords can then charge a premium for environmentally friendly buildings, leading to happier and healthier employees.

    - It would be easier to market such buildings, which tend to have higher occupancy rates. In a survey of 200 Canadian building owners, 38% of those reported that healthy buildings were worth at least 7% more than normal ones, while 46% said they were easier to lease out, and 28% said

that these buildings commanded higher rents. This indicates that Health and Wellbeing can be financially material to investments.

Engagement Outcome

12. All the companies under engagement have introduced employee satisfaction surveys. Most have implemented programs to improve satisfaction levels. Robeco will disclose the results in regular engagement updates.

Engagement on Food Security: How Investors can contribute to SDG2: Zero Hunger

Reason for Engagement

13. One of the most important factors contributing to food security is farm productivity. Food loss during crop cultivation and harvest presents an urgent challenge. Companies operating along the value chain have the ability to improve farming practices and productivity in developing countries.

Engagement Outcome

14. Robeco had identified sub-Saharan Africa, South and South East Asia as regions most vulnerable to food insecurity. Its research identified four main topics where a company can contribute to the agricultural industry:

- Product portfolio and innovation management. Fertilizers, pesticides and seeds are sold by integrated agrochemical companies. These products can potentially support farmers in food insecure regions.

- Pricing and intellectual property management. Agrochemical companies relying on direct revenue from seeds and waiving royalty fees can contribute to development of small farming.

- Incorporating public-private-partnerships into business models. Potential solution is that agrochemical firms could engage with smallholder farmers, both as customers and by including them directly in the product development and breeding process of seeds.

- More unilateral action between companies, NGOs, governments and academic bodies to improve food security in insecure regions

Border to Coast Pensions Partnership (BCPP)

Climate Change Working Party

15. Following the 2018 review of the Border to Coast Responsible Investment Policy, it was agreed to set up a working party to consider in depth the implications of climate change on its approach to investment. The objectives for the working Party were discussed, its scope and how best to collaborate.

16. The goals of the Climate Change Working Party over the next six months are shown below:

    - Improve understanding of climate change risks and opportunities

- Identify actions to improve investment outcomes. What does "good" look like in:

    - Risk analysis and integration into investment process
    - Engagement vs divestment / exclusion
    - Collaboration and influencing policy
    - Communication and education

- Develop a clear climate change strategy, including what we will and won't do, success metrics and a list of the instruments and portfolio activities we will put to work in the next 1-2 years

- Develop a plan to help Pensions Committees to consider and manage climate change as part of strategic asset allocation decision-making

17. The second session held in March looked at risk identification and monitoring. BCPP invited Aon to present their approach to climate change and scenario modelling at this second session. Aon's approach to scenario analysis differs from other methodologies as it also looks at the impact on a pension fund's liabilities. It is important for pension funds to know what the impact could be on its liabilities and funding levels.

    Recent and upcoming Climate Change sessions are summarised below:

    - 5 June: The Role of Managers in respect of climate change risk, with a presentation from LGIM

    - 23 July: Collaboration

    - 9 September: Communication and Update to RI policy

    <u>Investor mining and Tailings safety initiative</u>

18. Border to Coast has pledged its support to the Investor Mining & Tailings Safety Initiative. This calls for a new independent mine safety system to be implemented globally following the failure of a tailings dam, which burst on 25th January 2019 at the Córrego do Feijão Mine in Brumadinho, Brazil.

    Engagement Outcomes by Fund Managers

19. Baillie Gifford – Regularly engage with CRH, a global materials group that produces cement and other building materials. It is estimated that 5% of total carbon dioxide emissions are produced by cement industry. CRH's Business Strategy reflects this risk and incorporates reducing emissions into its KPIs, as well as director remuneration.

20. Western Asset Management – Vice Chairman met with Altria, questioning the significant increase in youth take-up on e-vapour products. Company gave example of where it has encouraged lower youth e-vapour consumption; removing most of the attractive sweet flavours (only kept menthol and mint), stopped shipping non-traditional flavours to retailers (can only be sold on internet) promoting a minimum age of 21 at the State and Federal government. They have also stopped advertising on social media.

21. LGIM – Requested to see detailed public clarification from Rio Tinto after it failed to put forward a shareholder resolution to disclose its policy on climate change. LGIM then had a follow up call pushing them to provide better disclosure in the future.

22. Ruffer – Met with the CEO of Wheaton Precious Metals to discuss its operations and the possibility of its mines collapsing. The CEO confirmed that none of its mines have the type of mining structure susceptible to collapse. There was further discussion on the possibility of increased regulation of mining activities in South America, taking into consideration the devastating impact a mine collapse can have on communities.

23. Franklin Templeton – Carries out scoring of ESG changes in countries of investment. Accompanied with economic analysis and scoring of Macro conditions, this enables them to price their assets accordingly.

24. Newton – Participated in a group engagement call with Colgate-Palmolive on how it can reduce its Scope 3 carbon emissions (product use and disposal) which accounts for 85% of its emissions. The company mentioned designing recyclable packaging, and also carrying out a water stress scenario analysis on its supply chain and the use of its products.

25. Aviva – Wrote to Burberry encouraging them to cease sourcing and using fur in their products. In June they met in person with the company and discussed the issue. They explained their approach and that this was under review. In September, Burberry announced they will begin phasing out the use of real fur products across all its ranges.

26. Majedie – Voted against various remuneration proposals over the quarter. An example being Telecom Italia's remuneration policy which includes the possibility of more than 24 months' severance payments, and also the potential to award discretionary bonuses.

Surrey Share Voting

27. The table below 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 19.2 % of the resolutions for which votes were cast during quarter ending 31 March 2019, compared to 4.13% by the Average Shareholder.

28. All resolutions in the Sustainability category were proposed by shareholders and related to various ESG issues. Surrey supported all three proposals. One management-proposed resolution was defeated, and one shareholder-proposed resolution was successful during the Quarter.

29. The resolution to approve the remuneration report at Lonmin plc was defeated receiving 73.82% dissent, Surrey voted against its adoption. A shareholder proposal requesting the Walgreens Boots Alliance Inc Board produce a report on governance measures related to opioids passed receiving majority shareholder support – Surrey supported its adoption.

Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	23	3	13.04%	1.82%
Board	138	18	13.04%	2.27%
Capital	18	2	11.11%	3.83%
Corporate Actions	2	0	0.00%	0.11%
Other	1	1	100.00%	-
Remuneration	25	10	40.00%	8.20%
Shareholder Rights	9	5	55.56%	12.32%
Sustainability	3	3	100.00%	7.14%
Total	219	42	19.18%	4.13%

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

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

DIRECTOR OF FINANCE COMMENTARY:

33. 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:

34. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

35. The Company Engagement Review does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS:

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

WHAT HAPPENS NEXT:

37. The Pension Fund continue to monitor the progress of the engagement work carried out by the LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

Contact Officer:
Mamon Zaman, Senior Accountant

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – LAPFF Quarterly Engagement Report
Annex 2 – Robeco Active Ownership Report
Annex 3 – IIGCC Climate Action 100+ 2019 BP Shareholder Resolution
Annex 4 – BP Shareholder Resolution

Sources/background papers:
Border to Coast Stewardship Quarterly Q1 2019
Border to Coast Climate Change Working Party – Bulletin 1 – 20-3-19
Baillie Gifford – Multi Asset Stewardship Report 0219
Western Asset Management – Surrey ESG Engagement Report
LGIM – Corporate Governance 2019
Ruffer – 2019 Q1 Stewardship Activities
Franklin & Templeton – A Differentiated Approach to ESG Apr 18
Aviva Investors Responsible Investment in Action

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2018

LAPFF raises the stakes and calls for a shareholder resolution at Ryanair

AGM attendance raises operational risk of joint ventures in relation to Samarco dam

Competition and Markets Authority final report devotes an appendix to LAPFF's 'expectations gap' on audit quality

Kingman Review recommends disbanding the FRC in line with LAPFF position

Affordability and climate risk strategy explored in meetings with construction firms and housebuilders

Regulatory and other challenges of plastic waste and pollution addressed with consumer goods and packaging companies

Executive Summary

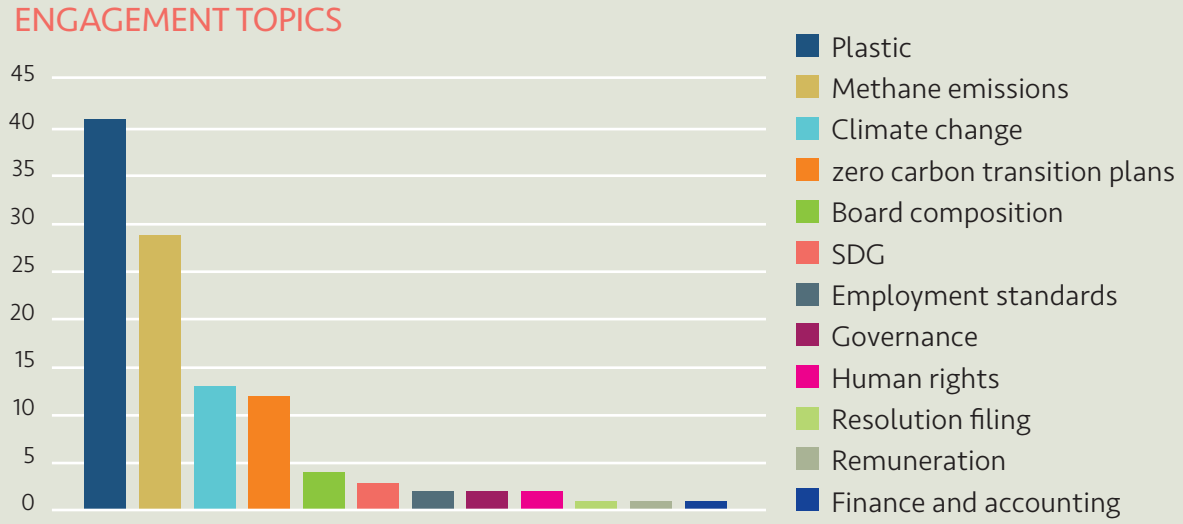
Concerned about the continuing human capital management and governance issues at Ryanair, the Forum announced a proposal to file a shareholder resolution ahead of the company's 2019 AGM, with the aim of replacing the current Chair David Bonderman, who has been on the board for 22 years, and ensuring that a coherent succession plan is in place for Chief Executive Michael O'Leary. Despite numerous efforts to meet with a Board member, Ryanair has not yet agreed to such a meeting.

The Forum also progressed work on the topic of plastics, joining a coalition of investors engaging with companies on the overall threats posed by plastic waste and pollution. The Forum met with two companies on this, as well as discussing the use of single-use plastic specifically. Additionally, the Forum co-signed a letter to a range of companies on reducing plastic pellet loss.

The quarter saw many engagements with Board members of housebuilders and construction companies on the topic of sustainable cities and climate risk management. Part of a broader topic of Sustainable Development Goals, these meetings sought to broaden the Forum's understanding of how these companies approach issues around planning and affordability, and seek assurance that tackling climate change is integral to the business strategy.

During this quarter, LAPFF engaged with 95 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.

Company Engagement



SOCIAL RISK

Michael O'Leary

Ryanair
In continuing attempts to meet with members of the **Ryanair** Board, Acting Chair Cllr Paul Doughty attended the AGM and reiterated a request to meeting, but this was not secured. Following a failure to listen to shareholders' concerns after almost 30% of voted against Mr Bonderman's re-election at the September AGM, LAPFF announced plans to file a shareholder resolution at the 2019 AGM that would recommend the Company replace Mr Bonderman and set out succession plans for Chief Executive Michael O'Leary.

Social Risks and Poor Management at BHP and Sports Direct
During the quarter, Cllr Paul Doughty attended **BHP Billiton's** AGM, where he inquired about operational risks of joint ventures, specifically in relation to the Samarco dam. While the company noted that a different approach to joint ventures would not have prevented Samarco, BHP learned a number of lessons from the tragedy. The Forum also met with community members affected by the Samarco dam collapse to listen to their personal experiences and to assess what additional issues can be raised with the company in the future.

At **Sports Direct's** AGM in December, Cllr Doughty inquired about the current acquisition strategy which might not be appropriate to create sufficient value for shareholders. The Forum questioned the company's reasoning behind acquiring struggling high street retailers House of Fraser and Evans Cycles, in light of Michael Ashely's comments that the 'high street is dying'. Sports Direct assured the Forum that all efforts will be paid to save the high street and shareholder assets will be protected. When asked about including an independent body in the selection process of a workers representative, the company did not comment.

Following a meeting with the Vice President of investor relations representative earlier this year, LAPFF wrote to the Lead Independent Director of **Motorola Solutions**, requesting a meeting to discuss the Company's human rights policy and due diligence processes relating to operation in the Occupied Palestinian Territories.

LAPFF continued to engage with companies on gender diversity through its membership in the 30% Club Investor Group, which currently has a focus of UK companies in the energy sector. The group is also reaching out to search firms to ensure that they fully embrace the voluntary code of conduct on diversity.

'Expectations Gap is a Red Herring': LAPFF Responds to Competition and Markets Authority
The LAPFF response to the Competition and Markets Authority (CMA) consultation on the UK audit market, submitted on 29 October 2018, highlighted the deficiencies of the Financial Reporting Council and the standards and inspection regimes under that. LAPFF received a very quick response from the enquiry and a meeting was held with the acting chair of LAPFF on 13 November. The officials met were very engaged on the issues, and given similar information from the investor coalition that LAPFF has been a member of, the subject of the legal opinions of George Bompas QC for LAPFF was discussed in detail.

The matter of the auditors' claim of an 'expectation gap' between what they are supposed to do and what the public expects them to do, came up. The final CMA report devoted an appendix chapter to the subject. It states that 'LAPFF described the expectations gap as a red herring. LAPFF argued that the audit quality problem is a result of the industry's misinterpretation of the existing legal framework. In short, if the existing regime was interpreted and applied properly, the expectation gap would disappear because the current legal framework should be robust enough to produce the quality outcomes stakeholders expect.'

The CMA report also made far reaching recommendations to reform the UK audit market. Firstly, separating the consulting parts of accounting firms from audit, a form of ring fencing. Secondly, requiring that FTSE 350 companies must have joint auditors, the second auditor not being one of the Big 4.

On the same day the Kingman Review reported on the future of the Financial Reporting Council. It recommends, in line with the LAPFF position, that the FRC is disbanded and replaced with a statutory body constituted by Parliament. The Review recommends this as the Auditing, Reporting and Governance Authority.

Governance at Housebuilders and Glencore
With the aim of gaining a better understanding of companies' approach to the Sustainable Development Goals, in particular the goal on sustainable cities and communities, LAPFF met with a number of housebuilders and construction companies. At a meeting with the Chair of **Persimmon**, Roger Devlin, LAPFF Vice Chair Cllr Doug McMurdo asked about issues around planning and the Help to Buy scheme. On climate risk management, the Company expressed interest in measuring Scope 3 emissions. The Forum was also interested to hear the company's plan to repair its damaged reputation over executive payouts, following opposition from 49% of shareholders on remuneration for Chief Executive, Jeff Fairburn.

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At a meeting on the same topic with Kevin Beeston, the Chair of **Taylor Wimpey**, Cllr McMurdo inquired about the sustainability of the Help to Buy scheme and the company's relationship with central government. The company then discussed climate risk management and assured LAPFF that science-based targets will be set. Diversity across the business was also a topic of discussion. The overall approach to sustainable cities and other development goals was also raised with the chief executive of **Barratt Developments**, David Thomas. The meeting discussed standards for homes, noting the board's focus on climate risk, which includes adaptation measures taken in siting for flooding as well as the need for science-based targets.

Along with other investors, including Sarasin and Church Commissioners, LAPFF met with Tony Hayward, the Chair of **Glencore** to ensure that the company has appropriate measures in place to deal with bribery and corruption. Investors present were also proposing that the company undergoes an independent review of its internal controls, to which Glencore committed to.

LAPFF also expressed its concern over **Amazon's** lack of meaningful engagement with its shareholders, despite concerns related to management of of certain environmental, social and governance matters. In a collaborative letter to the company, signatories noted their interest in filing a resolution if no response is received.

At **Rio Tinto's** ESG Forum hosted by the Chair, the Board as well as senior management, company representatives discussed the importance of incorporating ESG in business strategy and communicating about potential issues with shareholders. During a Q&A, investors engaged on a range of topics including relationship with employees and unions, fatality rate and joint ventures, as well as climate-related financial disclosure and climate change competence at Board level.

ENVIRONMENTAL AND CARBON RISK

Tackling Climate Risk at Oil and Gas Companies
One of the big stories of the quarter, was **Royal Dutch Shell** publishing a joint statement with Climate Action 100+ lead investors, setting out its corporate strategy to implement its commitment made in 2018 which was to reduce the *Net Carbon Footprint* of its energy products by around half by 2050. Specific milestones include targets linked to remuneration, annual reporting on the progress, alignment with the TCFD recommendations and review of trade association memberships. Acting Chair Cllr Paul Doughty attended Shell's 'Board Day' in December. The Chair Chad Holliday was in attendance along with the Chairs of the Audit, Remuneration and CSR Committees and described various attributes of the board members that make them effective for Shell. Cllr Doughty asked Mr Holliday how environmental, social and governance standards can be respected through non-operated joint ventures in which Shell is involved. Cllr Doughty used the example of a recent communication by IndustriALL expressing concern about working conditions for contract workers at Shell operations.

An 'eight on eight' meeting of **BP** executives and 'Climate Action 100+' investors continued long-term regular engagement with the company. Discussions aimed to tease out further details on the company's strategy for the transition to a low carbon economy, including more information on target setting over the short, medium and long-term; ensuring capex on oil and gas development is aligned with the Paris agreement and provision of information on emissions associated with the production and use of the company's products.

The focus on the oil and gas companies does not diminish, and in December, under a tight time-frame, funds were offered the opportunity to co-file a shareholder resolution to **ExxonMobil** as part of Climate Action 100+ engagement. The resolution called for the company to disclose short, medium and long-term greenhouse gas targets aligned the Paris Climate Agreement.

Along with a group of 61 investors, the Forum asked 30 companies to declare their support for continued US Environmental Protection Agency (EPA) regulation of methane emissions and to oppose the elimination of direct regulation of methane emissions. Natural gas is almost entirely methane which is 87 times more potent in global heating than carbon dioxide over a twenty year period. If emissions from gas production, storage and delivery exceed 2% of gas produced, there is no climate benefit compared to coal. The participating investors believe that

rolling back current methane regulation would be a threat to long-term viability of the oil and gas sector.

Utilities and clean energy

A meeting with **National Grid** co-ordinated by Climate Action 100+ provided encouraging news that the group will look at a 1.5 degree scenario. Cllr Robert Chapman asked about the most positive areas of 'value change' for shareholders. In the response, the decarbonisation of transport was cited, with further information provided on the timescale for the role out of charging points around the UK's motorway system. The different market forces at work in the UK and US businesses are very apparent. National Grid works closely with consumers in its US operations where Massachusetts, New York and Rode Island have each adopted targets mandating an 80% reduction in CO_2 emissions by 2050 across their entire economies. The Group is working in a number of areas to progress this including energy efficiency, micro-grids and geothermal.

During a meeting with **Southern Company**, co-ordinated by the 50 50 initiative, company representatives talked about the reasons for not having a separate Climate Committee, but instead delegating to the operations committee to address climate risks. The meeting also discussed climate-related disclosure and the use of climate-related metrics as part of executive remuneration.

LAPFF joined other Climate Action 100+ investors in writing to a number of utility companies, urging them to accelerate decarbonisation by setting out transition plans to net-zero carbon economy. Signatories also called on companies to support the development of ambitious climate policy and ensure that their trade associations are aligned with this objective.

Cross sectoral engagement

A first meeting was held with **ArcelorMittal** under the aeigis of the Climate Action 100+ Group. The meeting covered governance of climate risk at the company and plans for emission reductions through the use of low carbon technologies across operations. Scenario planning, target setting and Taskforce on Climate-related Financial Disclosure reporting were also discussed.

A collaborative conference call, was held with **General Electric Company** to follow up on an letter sent earlier in the year on the climatic impacts of the proposed Amu Power coal project in Kenya. On the call, company representatives committed only to listen to questions and provide written answers. LAPFF asked if the company had considered how prices quoted for coal versus renewables might change over a two to five year time frame, and their view on renewables. A follow-up letter to the company set out a range of issues, including on this point, by asking for the levelised cost of electricity the company used in its evaluation.

LAPFF has signed on to an Investor Statement supporting a just transition to a low-carbon economy. This statement recognises that the social impact of a low-carbon energy transition is often overlooked. However, to avoid stranded workers and stranded communities, as well as stranded physical assets, and to facilitate a smooth transition, social impacts need to be considered.

LAPFF also signed a statement from the Investor Working Group on Sustainable Palm Oil, which highlighted what investors' expect of companies regarding sustainable palm oil, and asks companies operating across the palm oil value chain to adopt and publicly disclose a 'no deforestation, no peat, no exploitation' policy. The statement serves to update an early position paper (signed by LAPFF).

FCA FINANCIAL CONDUCT AUTHORITY An exchange of correspondence with the Financial Conduct Authority (FCA) aimed to better understand how shareholder resolutions are being dealt with at dual-listed companies and to prompt the FCA to promote better practice in the regulatory framework for shareholder accountability. The Forum was specifically concerned with a resolution on climate change at Rio Tinto and reiterated to the FCA that climate risk is a pressing policy issue that affects all companies.

Plastics: 2025 Target for Biodegradable, Compostable and Recyclable Materials at PepsiCo and Nestlé

As a member of the Plastic Solutions Investor Alliance, the Forum engages with consumer goods companies on the overall threats posed by plastic waste and pollution. In November, the Forum participated in a collaborative call with **Nestlé** to discuss the company's global packaging commitment and the related challenges of moving towards a more circular plastic economy. Plastic packaging and pollution was also discussed with **PepsiCo**. The company discussed plans to solely use plastic that is biodegradable, compostable and recyclable by 2025. Both companies expressed concerns over the challenges of having global operations with different regulations. The two companies are working together to achieve the 2025 target.

The Forum has also signed an investor letter urging companies to commit to zero plastic pellet loss across their whole business and to assess and report on all progress. Plastic pellets are used to create almost all plastic products and it is estimated that over 200 thousand tonnes of pellets or other micro-plastics enter the ocean each year[1]. The letter was sent to over 40 companies in associated supply chains which included plastic manufacturers, plastic packaging manufacturers, transport and logistic companies, retailers and consumer companies.

[1]Eunomia (2016) Plastics in the Marine Environment http://www.eunomia.co.uk/reports-tools/plastics-in-the-marine-environment/

MEDIA COVERAGE

Ryanair: Pressure for a New Chair

Ryanair hits headwinds in 2018, but is still well placed to grow – Irish Times, 26 December 2018

Ryanair, O'Leary sotto l'assedio dei fondi inglesi – First Online, 9 November 2018

Investoren fordern Ablsung des Ryanair-Verwal-tungsratschefs – Ariva.de, 5 November 2018

ESG Roundup: UK public sector schemes to oppose Ryanair chairman – IPE, 30 October 2018

Pension funds heal pressure on Ryanair to ditch chairman – The Times, 29 October 2018

Pension fund revives efforts to change Ryanair leadership – LGC, 29 October 2018

Council pension fund forum calls for Ryanair chair to step down – LocalGov, 29 October 2019

Ryanair investors square up for second fight over chairman Bonderman – Independent, 29 October 2018

Ryanair investors call for chairman to go, CEO succession plan - media reports – ProactiveInvestors, 29 October 2018

Crisis en Ryanair: nueva conspiracion interna para que el presidente dimita – preferente.com, 29 October 2018

Ryanair investors call for chairman to stand down in 2019 – The Guardian, 28 October 2018

Ryanair shareholder reignites calls to replace chairman – Financial Times, 28 October 2018

Ryanair shareholder gear up for fresh call to ditch chair – The Telegraph, 28 October 2018

Ryanair shareholder calls for chairman's ouster – Reuters, 28 October 2018

Ryanair shareholders call for chairman David Bonderman to be replaced - ITV, 28 October 2018

Un actionnaire de Ryanair demande l'eviction du president – Capital, 28 October 2018

Reliable Accounts: Challenging the Auditors

Kingman review proposes replacing FRC with new, stronger regulator – IPE, 18 December 2018

Big Four warns against breaking up UK audit firms – Financial Times, 13 November 2018

Chief executive of audit watchdog to step down amid independent probe – IPE, 2 November 2018

'Total failure of a political ideology': SNP MP blasts outsourcing industry at #SNP18 fringe – Common-Space, 9 October 2018

Utilities and the Drive to Zero Carbon

Power companies must accelerate decarbonisation and support ambitious climate policy – Financial Times, 20 December 2018

Asset Managers and ESG

£230bn pensions body tells AMs to 'up your game' on ESG – Citywire Selector, 20 December 2018

Public pension funds 'underwhelmed' by managers on ESG – IPE, 20 December 2018

Pension funds criticise asset managers over lax ESG approach – LGC, 19 December 2018

Mitigating the investment risks of rising income inequality – Impact Alpha, 8 November 2018

For the LGPS, ESG is a shared priority with a split approach – LGC, 22 October 2018

COMPANY PROGRESS REPORT

95 companies engaged over the quarter

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
ALIBABA GROUP HOLDING LIMITED	Letter	Commit to zero plastic pellet loss	Dialogue
AMCOR LTD	Letter	Commit to zero plastic pellet loss	Dialogue
AMOREPACIFIC CORP	Letter	Commit to zero plastic pellet loss	Dialogue
ANADARKO PETROLEUM CORPORATION	Letter	Support methane emissions regulation	Dialogue
ANTERO RESOURCES	Letter	Support methane emissions regulation	Dialogue
APACHE	Letter	Support methane emissions regulation	Dialogue
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BARRATT DEVELOPMENTS PLC	Meeting	Other (SDG)/Climate Change	Satisfactory Response
BASF SE	Letter	Commit to zero plastic pellet loss	Dialogue
BEIERSDORF AG	Letter	Commit to zero plastic pellet loss	Dialogue
BEMIS COMPANY INC	Letter	Commit to zero plastic pellet loss	Dialogue
BHP GROUP PLC (GBR)	AGM	Governance (Joint ventures)/ Human Rights	Dialogue
BP PLC	Meeting/ Letter	Climate Change/ Support methane emissions regulation	Small Improvement
C.H. ROBINSON WORLDWIDE INC.	Letter	Commit to zero plastic pellet loss	Dialogue
CABOT OIL & GAS	Letter	Support methane emissions regulation	Dialogue
CENTRICA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
CEZ	Letter	Set out transition plans to net-zero carbon economy	Dialogue
CHESAPEAKE ENERGY CORPORATION	Letter	Support methane emissions regulation	Dialogue
CHEVRON	Letter	Support methane emissions regulation	Dialogue
CIMAREX ENERGY	Letter	Support methane emissions regulation	Dialogue
CONOCOPHILLIPS	Letter	Support methane emissions regulation	Dialogue
CONTINENTAL RESOURCES	Letter	Support methane emissions regulation	Dialogue
COVESTRO AG	Letter	Commit to zero plastic pellet loss	Dialogue
DAIRY FARM INTL HOLDINGS LTD	Letter	Commit to zero plastic pellet loss	Dialogue
DEVON ENERGY	Letter	Support methane emissions regulation	Dialogue
DIAMONDBACK ENERGY, INC.	Letter	Support methane emissions regulation	Dialogue
DOW DUPONT COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
DSV A/S	Letter	Commit to zero plastic pellet loss	Dialogue
E.ON SE	Letter	Set out transition plans to net-zero carbon economy	Dialogue
EASTMAN CHEMICAL COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
EDF	Letter	Set out transition plans to net-zero carbon economy	Dialogue
ENBRIDGE	Letter	Support methane emissions regulation	Dialogue
ENCANA	Letter	Support methane emissions regulation	Dialogue
ENEL SpA	Letter	Set out transition plans to net-zero carbon economy	Dialogue

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
ENGIE	Letter	Set out transition plans to net-zero carbon economy	Dialogue
EOG RESOURCES	Letter	Support methane emissions regulation	Dialogue
EQT	Letter	Support methane emissions regulation	Dialogue
EQUINOR/ SATOIL	Letter	Support methane emissions regulation	Dialogue
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Letter	Commit to zero plastic pellet loss	Dialogue
EXXON MOBIL CORPORATION	Letter	Commit to zero plastic pellet loss/ Climate Change	Dialogue
FORTUM OYJ	Letter	Set out transition plans to net-zero carbon economy	Dialogue
GAS NATURAL SDG SA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
GENERAL ELECTRIC COMPANY	Letter	Climate Change	Dialogue
GLENCORE PLC	Meeting	Governance (Corruption)	Small Improvement
GODREJ CONSUMER PRODUCT	Letter	Commit to zero plastic pellet loss	Dialogue
GREIF INC -CL A	Letter	Commit to zero plastic pellet loss	Dialogue
HESS CORPORATION	Letter	Support methane emissions regulation	Dialogue
IBERDROLA SA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
JERONIMO MARTINS SGPS SA	Letter	Commit to zero plastic pellet loss	Dialogue
JOHNSON & JOHNSON	Letter	Commit to zero plastic pellet loss	Dialogue
KINDER MORGAN	Letter	Support methane emissions regulation	Dialogue
KUEHNE NAGEL INTERNATIONAL AG	Letter	Commit to zero plastic pellet loss	Dialogue
LG CHEMICAL LTD	Letter	Commit to zero plastic pellet loss	Dialogue
MARICO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
MOTOROLA SOLUTIONS INC.	Letter	Human Rights	Dialogue
NATIONAL FUEL GAS	Letter	Support methane emissions regulation	Dialogue
NATIONAL GRID PLC	Meeting/Letter	Climate Change/Employment Standards/Set out transition plans to net-zero carbon economy	Moderate improvement
NATURA COSMETICOS SA	Letter	Commit to zero plastic pellet loss	Dialogue
NESTLÉ SA	Letter/Meeting	Commit to zero plastic pellet loss/ Environmental risk (plastic)	Small Improvement
NIPPON EXPRESS CO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
NOBLE ENERGY	Letter	Support methane emissions regulation	Dialogue
OCCIDENTAL	Letter	Support methane emissions regulation	Dialogue
PANALPINA WELTTRANSPORT AG	Letter	Commit to zero plastic pellet loss	Dialogue
PEPSICO	Meeting	Environmental Risk (Plastic)	Change in Process
PERSIMMON PLC	Meeting	Other (SDG)/Climate Change/ Remuneration	Small Improvement
PETROCHINA CO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
PIGEON CORP	Letter	Commit to zero plastic pellet loss	Dialogue
PIONEER NATURAL RESOURCES COMPANY	Letter	Support methane emissions regulation	Dialogue
QEP RESOURCES	Letter	Support methane emissions regulation	Dialogue
RANGE RESOURCES COMPANY	Letter	Support methane emissions regulation	Dialogue

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
RELIANCE INDUSTRIES LTD	Letter	Commit to zero plastic pellet loss	Dialogue
REPSOL	Letter	Support methane emissions regulation	Dialogue
ROYAL DUTCH SHELL PLC	Meeting/Letter	Climate Change/Support methane emissions regulation	Moderate Improvement
RWE AKTIENGESELLSCHAFT	Letter	Set out transition plans to net-zero carbon economy	Dialogue
RYANAIR HOLDINGS PLC	Letter	Board Composition	Dialogue
SHOPRITE HOLDINGS LTD	Letter	Commit to zero plastic pellet loss	Dialogue
SONOCO PRODUCTS COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
SOUTHERN COMPANY	Meeting/Letter	Climate Change/ Set out transition plans to net-zero carbon economy	Small Improvement
SOUTHWESTERN	Letter	Support methane emissions regulation	Dialogue
SPORTS DIRECT INTERNATIONAL	Meeting	Finance and Accounting/ Employment Standards	Dialogue
SSE PLC	Letter	Set out transition plans to net-zero carbon economy	Dialogue
TAYLOR WIMPEY PLC	Meeting	Other (SDG)/ Climate Change	Satisfactory Response
TESCO PLC	Letter	Commit to zero plastic pellet loss	Dialogue
THE COCA-COLA COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
THE PROCTER & GAMBLE COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
TOYO SEIKAN KAISHA LTD	Letter	Commit to zero plastic pellet loss	Dialogue
UNILEVER PLC	Letter	Commit to zero plastic pellet loss	Dialogue
UNI-PRESIDENT ENTERPRISE CO	Letter	Commit to zero plastic pellet loss	Dialogue
WALMART INC.	Letter	Commit to zero plastic pellet loss	Dialogue
WHITING PETROLEUM CORP	Letter	Support methane emissions regulation	Dialogue
XPO LOGISTICS INC	Letter	Commit to zero plastic pellet loss	Dialogue

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by or on behalf of LAPFF representatives during the quarter:

Local Authority Pension Fund Forum

The Forum's 23rd annual conference focused on the financial aspects of corporate governance. Presentations from Lord Davies, Baroness Brown, James Bloodworth and many others covered a wide range of topics including problematic accounting rules, executive remuneration, the climate crisis, plastics, human capital management risks and diversity.

global witness

At a collaborative meeting with Peter Jones of Global Witness, the Forum discussed Glencore's relationship with notorious businessman Dan Gertler and related corruption allegations. Global Witness provided three examples around the time of Glencore's IPO that suggested significant financial benefit to Mr Gertler, and no apparent commercial benefit to Glencore.

PRI

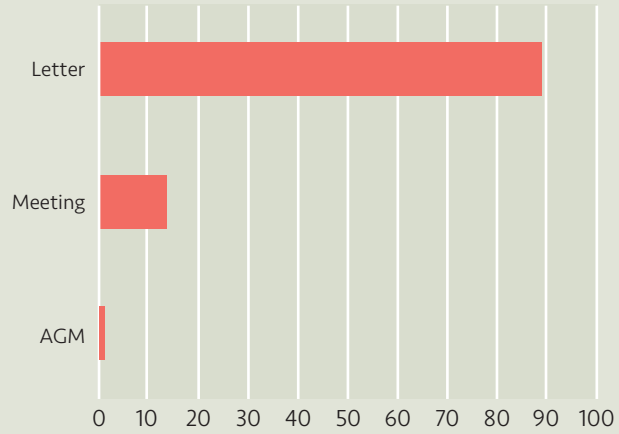
LAPFF Acting Chair, Cllr Paul Doughty, met with the Head of UK and Ireland at the Principles of Responsible Investment (PRI) in December. LAPFF has joined a number of PRI engagements in the past and the two organisations are continuing to look for ways to work together on the responsible investment agenda.
In October, the Forum attended a call with PRI to update signatories on cyber engagements and discuss next steps in escalating activities on this topic.

appg

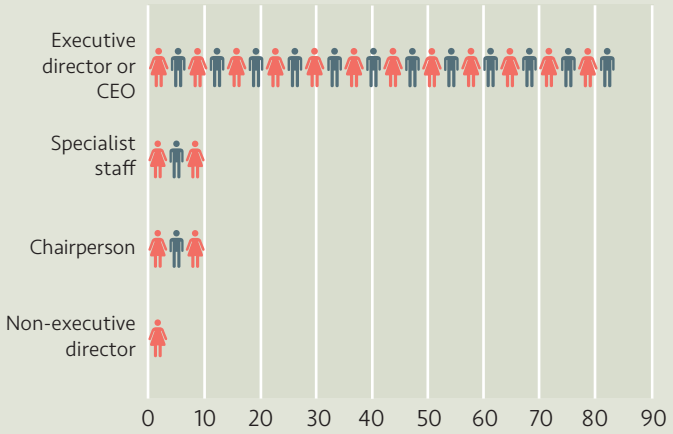
Tom Powdrill of the International Transport Workers' Federation, spoke about employment standards at Ryanair and the role of pension funds at the October meeting of the All Party-Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, the meeting also covered the topic of localising pension fund investments, introduced by Craig Berry, a former employee of Sheffield Political Economy Research Institute. The minutes from the meeting can be accessed here.

COMPANY ENGAGEMENT ACTIVITIES

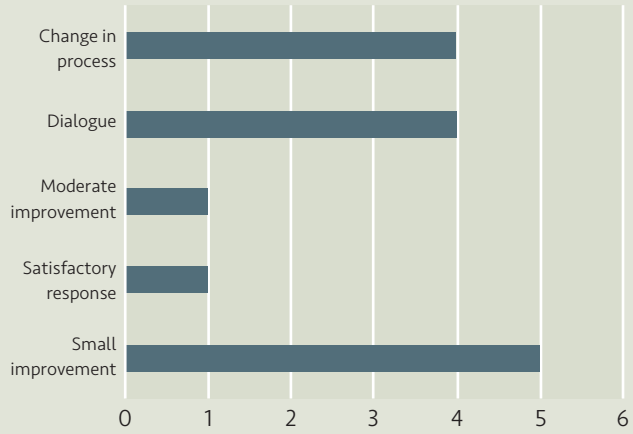
Company engagement activities



Position engaged



Outcomes



Company domiciles

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding Of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Environment Agency Pension Fund
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Hammersmith and Fulham LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham LB
- Lincolnshire CC
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys CC Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pension Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk CC Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster LB
- Wiltshire CC
- Worcestershire CC

Active Ownership Report Q4-2018

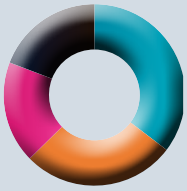
BCPP | 01.10.2018 - 31.12.2018

BORDER TO COAST
PENSIONS PARTNERSHIP

6

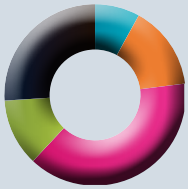
Engagement activities by region

North America	35%
Europe	27%
Pacific	18%
Emerging Markets	0%
United Kingdom	19%



Shareholder meetings voted by region

North America	8%
Europe	15%
Pacific	39%
Emerging Markets	12%
United Kingdom	26%



Voting overview

2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total number of meetings voted	N/A	N/A	57	88
Total number of agenda items voted	N/A	N/A	917	750
% Meetings voted against management	N/A	N/A	72%	52%

Engagement overview by topic

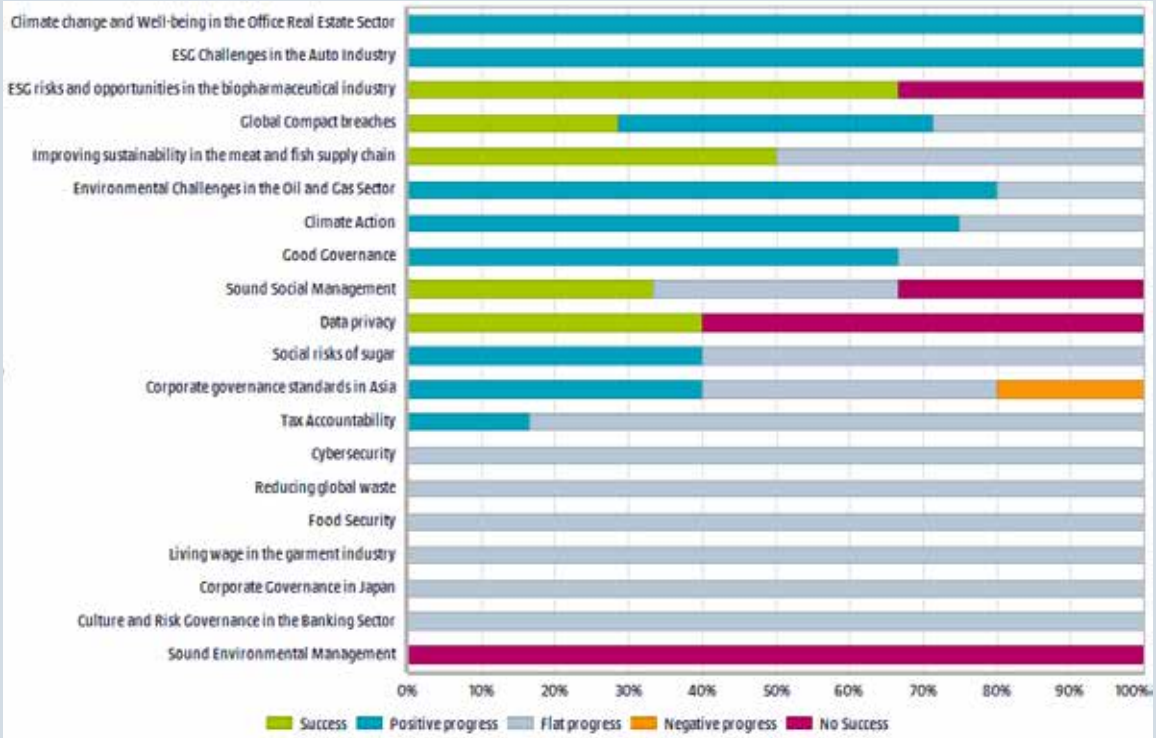
Environmental Management	15
Environmental Impact	1
Human Rights	10
Healthy Living	7
Social Management	3
Corporate Governance	22
UN Global Compact	4

During the quarter, 12 engagement cases were conducted with UK listed companies

Engagement by contact type

Analysis (no actual contact with company)	10
(Open) Letter	19
Meeting at company offices	26
E-mail	16
Active voting	
Shareholder resolution	
Conference call	19
Speaking at a shareholder meeting	
Meeting at Robeco offices	
Speaking at conferences	1
Issue press release	1

Engagement results per theme



Contents

Introduction

Over the course of 2018, we've been working hard to stay ahead of the curve in the active ownership services we provide to our clients, and the fourth quarter has been no different. We have launched new themes throughout the year and achieved some notable successes in our company engagements. During the fourth quarter, we have launched a new engagement theme on Food Security, and closed our Data Privacy theme. We are also pleased to announce the success of our engagement with Royal Dutch Shell, resulting in a climate plan which now leads the oil and gas sector.

The oil and gas sector remains highly exposed to the risks and opportunities of the energy transition required in response to climate change. Therefore it is of the upmost importance that oil and gas companies act now to begin transitioning to business models which will be required in the future. We believe the recent steps taken by Shell do just that, as well as representing another significant step: a company and its major shareholders acting together on climate change. Robeco is also increasingly focused on the integration of the Sustainable Development Goals into our Active Ownership activities. In our newest engagement theme, Food Security we see the opportunity to contribute as active owners to SDG 2 focusing on 'zero hunger'. We strive to improve food security and nutrition, to promote sustainable agriculture, and to identify the promising investment opportunities which arise from new innovations such as precision farming.

Our engagement theme focused on Data Privacy came to an end during the fourth quarter. Over the last three years, we have seen progress at many of the companies in our engagement group in the way they deal with data privacy issues. Positive developments were supported by the implementation of new GDPR legislation, focusing on data privacy at EU level. However, during this time period the relevance of cyber security, a related topic, has continued to rise. Therefore we continue to engage on this theme in the coming years. With this report, we update you on these developments and more.

Carola van Lamoen
Head of Active Ownership

Voting Highlights

Proxy voting is an integral part of Active Ownership. The aim of our voting activities is to encourage good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. During the quarter, we voted at 88 shareholder meetings, voting against at least one agenda item in 52% of cases. Below we provide some highlights from the quarter.

Codes of conduct
- ICGN Global Governance Principles

Corporate Governance: Proxy Voting
Our voting policy is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provide a broad framework for assessing company's corporate governance practices. We constantly monitor the consistency of our general voting policy with the ICGN principles, with laws and governance codes and systems as well as client specific voting policies. Our voting policy is formally reviewed at least once a year. We also take into account company specific circumstances and best practices when casting our votes.

The link between SDGs and voting on shareholder resolutions

As sustainability-minded investors, we are concerned not only with economic returns to shareholders and good corporate governance practices of our investee companies, but also with ensuring that their business activities and practices are aligned with the broader objectives of society. We actively use our shareholder rights to influence the behavior of our investee companies when it comes to their environmental, social and governance impact. Through our proxy voting activities we aim to address key governance and sustainability matters while protecting long-term shareholder value.

The Sustainable Development Goals (SDGs) define global sustainable development priorities for 2030 and seek to mobilize global efforts to achieve these goals, contributing to connecting business strategies with global priorities. The SDGs can be a business opportunity for listed companies, providing them with a future competitive advantage by being a source of innovation, process improvements and operational efficiencies.

The SDG framework constitutes a useful tool when assessing shareholder proposals involving environmental and social (E&S) matters. When assessing shareholder resolutions we take into

account the merits of the proposal, how the company is currently tackling the issue and the overall impact of the proposal on shareholder value in the long run. Moreover we review the overall materiality of the resolution and determine whether the objectives included in the proposal fall within the scope of the company management's influence and control.

Impact assessment of climate change and emission reduction targets are the most common subjects among environmental shareholder resolutions filed in 2018. Proponents mainly target companies operating in the utilities, oil and gas sectors. The scope of these resolutions range from requesting concrete greenhouse or methane emission target reductions, to asking the board to evaluate the long-term portfolio impacts of scenarios consistent with the goal of limiting the global increase in temperature to two degrees Celsius. Supporting these resolutions would positively contribute to SDG 13 'Climate Action' as it calls for integrating climate change measures into corporate strategies and planning, while fostering climate resilience by lowering emissions.

Board and employee diversity-related shareholder proposals were the most common resolutions filed on the social front in 2018. We recognize the importance of corporate diversity and inclusiveness as it adds value to the business whilst improving human capital management. Shareholder support on this resolutions increased from 24.5% in 2017 to 36.6% in 2018 due to amplified governance focus and media attention on the topic. By supporting these resolutions investors are contributing to achieve SDG 5 'Gender Equality', as these support women's full and effective participation and equal opportunities for leadership at different levels of corporate decision-making roles, while advocating to end gender discrimination in the workplace.

While the number of E&S proposals decreased in 2018 compared to last year, the average level of votes in favor rose in many E&S categories. Few of the resolutions discussed in this article received majority support from shareholders, however companies are becoming more aware of investors' scrutiny regarding their non-financial impact on society and the environment. In turn, this trend contributes to enhancing the relevance of positive contributions from corporations to achieve the SDGs.

Data Privacy

Internet and telecommunications (ICT) companies are increasingly associated with the collection of customer data and the subsequent risk of data privacy breaches. ICT companies often have control over the information availability and communication accessibility in their countries of operations, which exposes them to freedom of expression related perils. As a result, ICT companies are exposed to reputational, legal and operational risks.

Codes of conduct
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- SDG 16: Peace, Justice and Strong Institutions

Human Rights: Privacy and Freedom of Expression
The first and second principles of the UN Global Compact provide a framework for companies to operate responsibly to prevent breaches of human rights. Human rights are basic standards aimed at securing dignity and equality for all. Systematic breaches of such human rights could have a negative effect on a company, its immediate surroundings, and other stakeholders. Article 12 of the Universal Declaration on Human Rights specifically draws on the right to privacy as one of the human rights which is described as "the protection against arbitrary, unreasonable or unlawful interference with a person's privacy, family, home or correspondence, as well as attacks on their honor or reputation". Additionally, Article 19 defines freedom of expression as "the right... to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers".

How many online services do you use? And how many do not ask for a subscription fee? Ever thought about the business model of these companies? More and more companies use data as input for their business activities, and for some, data is even the main driver of revenue. But how do these companies ensure consumer trust in the long term? 2018 has been the year in which the use of data by companies and their related business models became much clearer to the public. This was a result of the EU General Data Protection Regulation (GDPR) that came into force in May 2018, but also because of the large data breaches at some ICT companies that were reported in the news, with the subsequent societal debate about privacy.

The impact of GDPR

Over the past three years, we have engaged with companies in the ICT sector on data privacy and freedom of expression. We have seen increasing interest in the topic, both from companies and from other investors. The GDPR has played a key role, as it aims to enable EU citizens to have better control over their personal data, including where it is stored, the purpose of it, and their ability to erase that data. While this is a European law, it applies to organizations anywhere in the world that do business with anyone in the EU, and therefore has broad-

reaching effects globally. It requires organizations to categorize, record and specify how long an individual's data has been held and when it will be erased, which is also known as 'the right to be forgotten'.

We have discussed the implementation of GDPR with the companies in our engagement peer group that are affected by it. Some of these companies already set up project groups to ensure compliance as early as 2016, and were very open about their approach. For other companies, transparency on their implementation only started at the end of 2017, or even as late as early 2018. Compliance with GDPR is key, as penalties can be as high as EUR 20 million, or 4% of the company's global annual revenues, whichever is greater. All companies part of our engagement peer group exposed to GDPR have updated their privacy policies and improved transparency towards users on the information they are sharing.

Freedom of expression

While most attention in the media and public debate over the past years has been around privacy, our engagement theme also covered freedom of expression. ICT companies face an increasing number of orders from governments around the world that seek to restrict access to services and disrupt networks. The consequences of disruptions include restricting internationally recognized rights to free expression, preventing access to vital emergency, payment and health services, and disrupting contact with family members and friends. In some cases, these mandates pose an additional risk of human rights breaches when they restrict the free flow of information in the run-up to elections, or are used to target particular regions, districts or ethnic groups. Shutdowns can also undermine economic growth and long-term development, affecting local businesses and tourism.

One of our key engagement expectations was focused on collaboration by companies with key players across the ICT sector, including peers, vendors, business partners, customers, NGOs and government organizations. We sought to work together to manage human rights risks relevant to data privacy and freedom of expression. We have seen the companies in our engagement peer group that collaborate in the Global Network Initiative actively engaging governments on the topic of freedom of expression and network shutdowns. We have also seen some of the companies increase their disclosures around government requests over the past three years.

Ranking Digital Rights Index is a key resource

One of the key resources we used for our assessment of the performance of companies on data privacy is the Ranking Digital Rights Index (RDR). This is a non-profit research initiative working with an international network of partners to set global standards for how companies in the ICT sector should respect human rights. RDR produces a Corporate Accountability Index evaluating the world's most powerful internet, mobile, and telecommunications companies on their disclosed policies and practices regarding freedom of expression and privacy. Besides a ranking of companies, RDR also provides several investor guidance documents.

To get more investors involved in the topic of data privacy, Robeco took a leading role in setting up an ICT campaign within the Investor Alliance for Human Rights. Over the course of 2018, several webinars were organized in which NGOs presented their data privacy work to the investor community. To emphasize the importance of the topic for investors, the Investor Alliance for Human Rights has put out an investor statement supported by 49 investors. This calls on companies to respect human rights, and refer to the Ranking Digital Rights (RDR) Corporate Accountability Index as a tool to help them improve their governance systems and performance on salient risks related to privacy and freedom of expression.

The next steps around human rights and technology

The rapid development and the increased use of new technologies by companies across sectors poses many questions on how human rights might be impacted. We have discussed

privacy and freedom of expression with companies in the ICT sector for the past three years. Earlier in 2018, we started an engagement theme focused on cyber security that includes an engagement objective around privacy. We will actively follow developments to ensure human rights are taken into account when companies adopt new technologies in their business

Food Security: How can investors contribute to SDG2: Zero hunger?

Food insecurity stems from economic and social conditions that hinder the sufficient availability of, and access to, food. This differentiates food insecurity from the personal state of hunger and creates an important link to investors. Agricultural input providers and food companies play an important role in shaping the circumstances that could foster food security. Therefore, investors in these companies have the opportunity to contribute to SDG 2 (zero hunger), which strives to improve food security and nutrition, and promote sustainable agriculture.

Codes of conduct
- UN Global Compact
- OECD Guideline
- SDG 2: Zero Hunger

Human Rights: Social Supply Chain Standard
Companies are increasingly being held accountable for poor labor conditions in their operations and that of their supply chains. This is the result of a number of different trends. The first of these is the transfer of production to lowwage countries, resulting in companies being faced with non-Western labor standards and conditions in their supply chain. Then there is a trend towards the more rapid and wider dissemination of information on the external effects of corporate activities. Furthermore, non-governmental organizations (NGOs) are playing an increasingly important role as social watchdogs and, finally, consumers are becoming more aware and more demanding in terms of corporate social responsibility. It is very important for companies, especially those that operate internationally and have well-known brand names, that generally accepted labor standards are followed throughout the supply chain.

The persistent concern for food insecurity throughout civil society is reflected in an increased awareness of the issue among regulators. There is widespread recognition that this is a defining development challenge for the 21st century. With that in mind, agricultural policy is being stretched in unprecedented directions. New factors and challenges that need to be taken into account by policymakers are as diverse as poverty, food price volatility and climate change, to the role of gender in rural areas and developing agricultural technology.

Farm productivity is key

One of the most important factors contributing to food insecurity is farm productivity. This depends in a large part on how farming inputs are utilized. Differences in input quality and availability across markets persist, as farmers in developing countries struggle to access farming machinery, crop protection products and seed varieties. Regional discrepancies contribute to enhance the imbalances in the global food system. One of the results of these imbalances is the greater rate of food loss in food-insecure regions. Whilst this is in part due to poor infrastructure and practices following harvest, food loss during crop cultivation and harvest presents an urgent challenge. Pests, pathogens and

weeds have consistently posed threats to crop output, and the problem has become exacerbated as food safety and harvest quality as well as quantity have become central concerns for food security. Companies operating along the value chain have the ability to improve farming practices and productivity in developing countries.

Innovative solutions to help farmers in food-insecure regions

Our research identified four main engagement topics to consider when analyzing the contribution of companies operating in the agricultural industry to SDG 2. First, we looked at product portfolios and innovation management. Following waves of consolidation in the agricultural landscape, products such as fertilizers, pesticides and seeds are nowadays often sold by integrated agrochemical companies. These companies' products and services have the potential to be well aligned with SDG 2, as all three product groups can support farmers in food-insecure regions by closing the yield gaps that put them at a systemic disadvantage.

Second, we assessed pricing and intellectual property management. The food security challenge requires differentiated approaches with regard to intellectual property, depending on the market in question. For instance, agrochemical companies relying on direct revenue from the sale of seeds and waiving royalty fees could foster the development of small farming in food-insecure regions.

Third, we explored how inclusive business models should be developed using public-private-partnerships. The societal challenge of food insecurity is exacerbated by the lack of integration of smallholder farmers into global markets for both inputs and outputs. A large share of small farmers lack the know-how, technological inputs and financing to compete in markets with their produce. A potential solution is that agrochemical firms could engage with smallholder farmers, both as customers and by including them directly in the product development and breeding process of seeds. Mechanization and irrigation companies already provide technological services to farmers in advanced markets, allowing them to control their crops with greater precision, ultimately increasing yields. Beyond this kind of unilateral action, a collaborative approach to problem solving is needed. The complexity of agricultural sectors, especially when they are as fragmented as in food insecure regions, calls for partnerships between companies, governments, NGOs, and public academic bodies.

Companies need to develop strategies

Our food security engagement theme aims to encourage companies active in the agricultural sector to contribute to food security. Our dialogue will focus on sustainability reporting and transparency; product portfolios and the geographic distribution of operations; innovation management, and public-private partnerships.

Addressing food security in sustainability reports

A company can only play a significant role in achieving sustainable development objectives if it is committed to the integration of ESG considerations to its business model. For this reason, we view an analysis of ESG disclosure as indispensable in judging how advanced their sustainable development considerations are. Strong sustainability reporting can also be an important reflection of the maturity of internal sustainability processes, a prerequisite for a meaningful contribution to development.

Conducting a food security impact assessment

In our research, we identified sub-Saharan Africa, South and East Asia as the regions that are most vulnerable to food insecurity. The more active and targeted that a company's involvement in a food-insecure market becomes, the greater is its potential to exert a positive influence. When building on an emerging market presence, food security-oriented product stewardship is an important approach to enhance the product's impact. Tailoring its offerings to the needs and expectations of food insecure communities, and to smallholder farmers in particular, are other strategies that can achieve the same goal.

Developing an innovation strategy for smallholder farmers

Since the quest to improve farm yields lies at the very heart of improving food security, innovation becomes an overriding factor of importance in staying ahead of rapidly evolving forces, such as climate change and soil degradation. The attainment of food security depends on the availability of advanced forms of crop protection, hybrid seed varieties and technological solutions. The allocation of company resources to innovation for food security can confirm whether a firm is truly committed to contributing to sustainable development. R&D efforts should be mindful of the four dimensions of food security, namely availability, access, utilization and stability in the food system.

Engaging in public-private partnerships when commercial business is not viable

Collaborating with other stakeholders elevates corporate impact from a one-dimensional and necessarily limited effort, to a comprehensive search for solutions on a larger scale, that leverages expertise from different areas of society. Whilst governance in food insecure regions does not always meet high standards, governments, regulators and public institutions offer one key piece of the puzzle for progress on the topic.

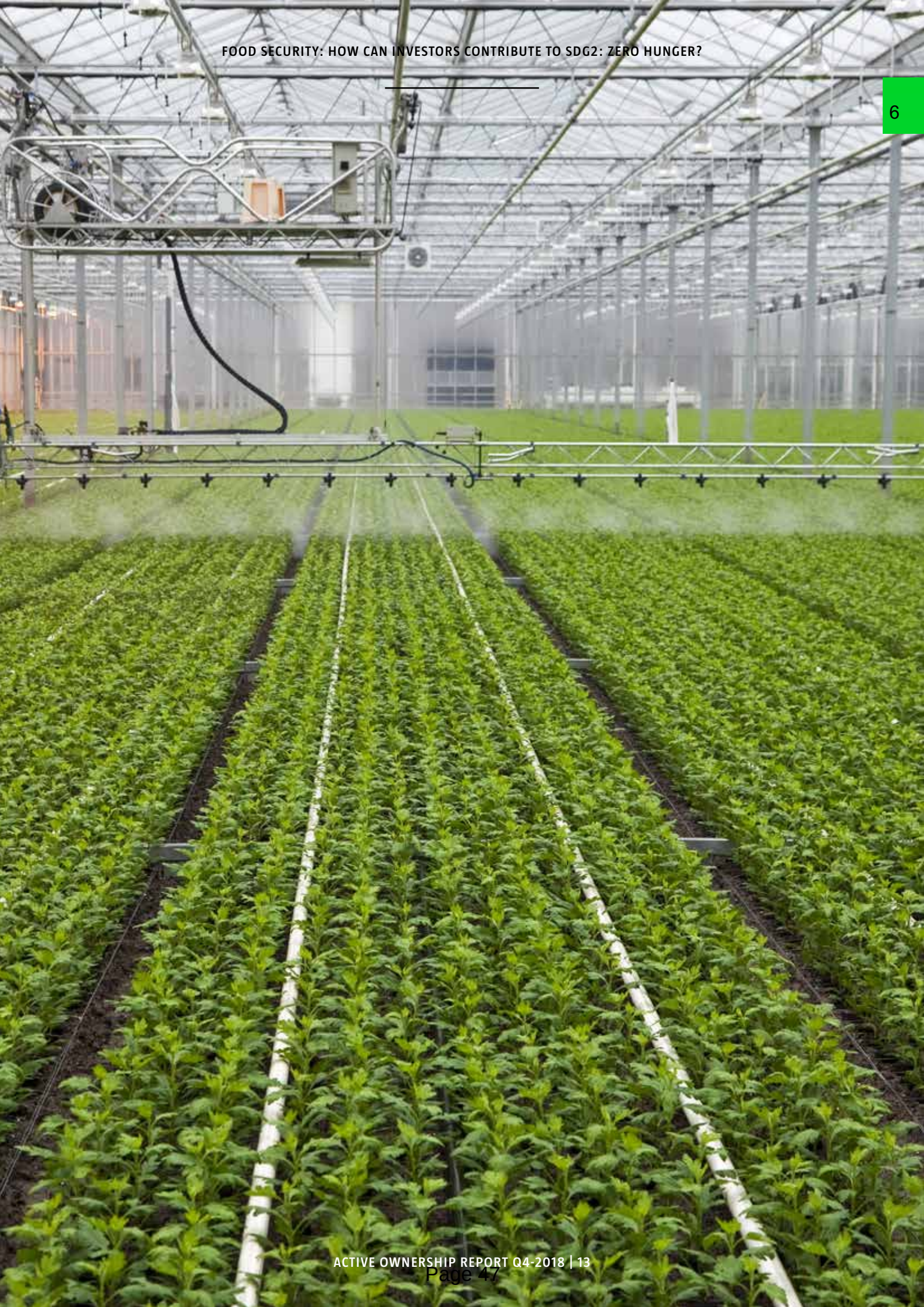
AN INVESTOR PERSPECTIVE ON FOOD SECURITY

Holger Frey, Senior Portfolio Manager – RobecoSAM Sustainable Food Equities

People in developed countries take food security for granted. However, malnutrition remains a major challenge in many developing countries, and with the world's population moving towards 10 billion by 2050, food security remains a moving target for the decades to come. Fortunately, projections foresee a continuous increase in wealth creation for developing countries, which should turn the challenge into an opportunity, as rising consumer purchasing power supports farmers economically.

At the core of food security is creating a stable and efficient food production system. Comparing productivity measures such as yield per acre on a global scale, it is obvious that the large differences in yield dispersion cannot be explained by climatic and soil conditions alone. Often, they are an indicator of entirely different farming practices. To be more precise, it does not come as a surprise that output without the deployment of modern farm equipment and inputs produces below optimal results.

Against this backdrop, a promising opportunity arises in precision farming. While a broad-based adoption of digital farm technology appears to be a given in developed countries in the years ahead, developing countries could become a compelling market as well. Whereas the conventional evolutionary pattern would suggest a repeat of the development in developed countries – the broad-based adoption of mechanical tools, followed by agricultural nutrients and chemicals and finally biotech seeds – precision farming could serve as an enabler for all of this. A similar step-change has been observed for the rapid adoption of mobile communication technology in developing countries. As digitization facilitates a significantly more efficient use of farm inputs, costs and outputs become more manageable. Besides the growth in production-related investments, more capital is also expected to be allocated to food-related infrastructure, contributing to the greater stability of, food supply. Opportunities include basic logistics such as rail links, or more specific issues such as supply-chain management and automation. Given the stable underlying demand pattern for food products, investors should prefer related investments to more cyclical end markets.



Climate change and well-being in the office sector

The real estate sector as a whole accounts for nearly 40% of the world's energy consumption and 33% of global greenhouse gas (GHG) emissions. As the sector is facing major challenges to reduce its carbon footprint, it is a key focus of our carbon-related engagements. Over the last four years, we have successfully engaged on carbon management with retail Real Estate Investment Trusts (REITS). In Q4 2017, we expanded our engagements from retail businesses such as shopping malls to office spaces. Due to this expansion, we now also address 'health and well-being' (H&WB) in our dialogue with these companies.

Codes of conduct
- UN Global Compact principles 7-9
- Rio Declaration on Environment and Development
- SDG 11: Sustainable cities and communities
- SDG 13: Climate Action

Environmental Impact: Climate Change
Together with the limited availability of natural resources such as water, climate change is the biggest environmental issue affecting companies. Climate change currently affects both government policy and consumer behavior. Climate change increases the risk to companies and sectors but also offers opportunities. In order to address the risks arising from climate change, companies will have to develop strategies to manage the financial, operational and organizational impact. It is also important that companies set targets, measure performance and report progress. Opportunities will arise in new and existing markets, through process improvements and technological innovation from companies at the cutting edge.

Using the assessments of GRESB

The research underpinning this engagement program comes from the Global Real Estate Sustainability Benchmark (GRESB) Assessment, and its Health & Well-Being Module supplement. The GRESB is an industry-driven organization committed to assessing the sustainability performance of real estate assets globally. Robeco uses the GRESB's dynamic benchmark to engage with the companies in which we invest, aiming to improve the sustainability performance of the real estate sector.

Focusing on five engagement objectives

As investors, we are not only looking for real estate companies that seek to reduce costs. We also value those companies that integrate sustainability into their business models to ensure the long-term value creation of the properties in their portfolios. We have defined the following five engagement objectives for which we seek improvements at companies:

1. Having a climate change policy, and integrating sustainability into

the overall business strategy. This includes their response to the various risks and opportunities presented by climate change, the integration of sustainability in their respective corporate strategies, and the development of programs and targets aimed at increasing investments in green buildings and facilitating green renovations.

2. Being transparent in order to earn a license to operate. Companies should be sufficiently transparent about their sustainability activities, thereby earning and strengthening their license to operate. This encompasses aspects such as proactive communication, the level and depth of sustainability reporting, and their participation in relevant initiatives such as the GRESB and Carbon Disclosure Project (CDP), along with certification schemes such as the Building Research Establishment Environmental Assessment Method (BREEAM) and Leadership in Energy and Environmental Design (LEED).
3. In order to provide a framework for the efficient measurement and reduction of their overall environmental impact, we believe that companies should have an Environmental Management System (EMS) in place. This EMS should cover energy consumption and carbon reduction metrics, and ideally be externally certified according to international standards, such as ISO 14001.
4. Reducing energy consumption and carbon emissions. Under this objective, we review and look for reductions in the companies' periodic disclosures. We focus on absolute and relative reductions year on year, and across the last three years. The companies' performance will also be evaluated in relation to their peers.
5. Focusing on promoting health and well-being for employees. It is increasingly recognized that office spaces can influence this. These issues are progressively viewed as being important areas of opportunity for the real estate industry because they are a driver for workers' productivity.

Improving health and well-being in offices

For this latter engagement issue, it is widely recognized that having green and healthy office buildings can bring about various economic benefits for real estate companies. First, the proactive management of buildings' environmental performance and carbon emissions can lead to lower energy costs. Second, landlords can charge premium rents for environmentally friendly, healthy buildings because of tenants' lower energy costs, and the increased productivity of happier and healthier employees. Third, it is also easier to market and lease out such buildings, as their occupancy rates are higher on average. Fourth, a climate change strategy reduces the risk related to the potential implementation of stricter environmental legislation by governments.

Therefore, we believe that the objective "Health and well-being" (H&WB) is financially material to our investments. A company's staff is one of its most valuable resources. Critically, employees typically account for 90% of a business' operating costs. Companies that improve their productivity gains can enjoy significant financial and competitive advantages. In fact, according to a recent study, businesses with elaborate employee H&WB programs significantly outperform the S&P 500. Furthermore, in a survey of 200 Canadian building owners, 38% of those reported that healthy buildings were worth at least 7% more than normal ones, while 46% said they were easier to lease out, and 28% said that these buildings commanded higher rents.

According to the World Green Building Council, there are various different elements of a healthy office that can lead to happier, healthier and more productive employees. These are indoor air quality and ventilation, thermal comfort, the availability of natural light, noise reduction, interior layout and design, the look and feel, location, and access to local amenities. Another way that companies can invest in their employees' H&WB is through corporate wellness programs. More than 75% of large companies in the US routinely offer such programs, which can consist of a range of activities such

as improving fitness, and encouraging weight loss and smoking cessation. In general, an amalgamation of strategies is employed to improve employees' and tenants' H&WB.

Reporting on progress

In relation to the health and well-being objective, all the companies under engagement have introduced an employee satisfaction survey. Most have also implemented programs to improve the satisfaction levels. The biggest challenge for the companies now is to collect all the data, and to connect the dots to gain a higher labor productivity.We will disclose our results in the regular engagement updates and reports.

Tax accountability: filtering out the noise

Corporate taxation has been in the focus of considerable public debate over recent decades. Much of the recent attention has focused on the long debated US tax reform of late 2017, which altered tax rates and triggered significant repatriations for several US multinationals. However, corporate taxation was the subject of discussion long before this point, with the OECD introducing stricter guidelines for baseline erosion and profit shifting (known as BEPS) long before the US tax reform was announced.

Codes of conduct
- OECD/ G20 Base Erosion and Profit Shifting (BEPS) Package
- The European Commission, Anti-Tax Avoidance Package (ATAP)
- SDG 16: Peace, Justice and Strong Institutions; SDG10: Reduce Inequality

Corporate Governance: Accountability & Transparency
A company's corporate governance structure specifies the rights and responsibilities of the various stakeholders such as the management, supervisory directors, shareholders and other stakeholders. An effective corporate governance system focuses on a company's long term business continuity and protects shareholders' interests. A well-functioning corporate governance system can contribute to long term shareholder value. International and national principles and codes provide guidelines for good corporate governance. Corporate governance covers a number of important issues. Relevant subjects are: remuneration policy, shareholder rights, transparency, effective supervision of management, independent audit and risk management.

Numerous recent cases of tax avoidance and potential state aid concerns have led to increased demand for corporate tax practices to become more accountable. Investors should be aware that governments worldwide need to increase tax revenue, and are becoming stricter in the enforcement of fiscal policies. For investors therefore, better transparency and accountability in terms of corporate taxation can allow better judgements to be made as to whether an effective tax rate is sustainable over the longer run.

In 2016, Robeco started an engagement project on corporate tax practices, focused on pharmaceutical, media and tech companies. Our goal is to enhance the accountability and transparency of tax practices and rests on four sub-objectives: 1) Tax reporting and disclosures, 2) Policy and principles, 3) Regulatory impact assessments and 4) Tax governance and systems.

Tax policies: high, higher and highest level disclosures

The UK was the first country to require listed companies to publish a document that explains by which principles their tax is calculated. Increasingly, companies in other nations also publish their tax policies, or are converting their UK tax principles

into global principles. At face value, one might think that these documents allow investors and the public to get a better understanding over whether companies are relatively aggressive or conservative around tax matters.

However, these documents usually cover a very similar set of statements. The following principles are usually included:

- "Compliance with all applicable tax laws"
- "Tax payments should follow economic substance"
- "Paying taxes where taxes are due without paying unnecessary or double taxes"
- "Maintaining a healthy and constructive relationship with tax authorities", and
- "The arm's length principle applies for transfer pricing".

  Helpful, but a comprehensive overview it is not.

  Often, tax governance is also covered in the documents, but this too remains extremely high level.
- "Ultimately, the supervisory board has a supervisory role over the company's tax practices, with a specific role for the audit committee....".

Again, a high level statement which says very little about the actual governance of tax practices at a company.

Increasingly, tax policies also provide information on the objective of tax departments. The statements that are usually included are:

- "The tax department is a support function to the business"
- "The integrity of tax reporting is of utmost importance", and
- "The department is not necessarily incentivized to unduly or artificially lower the company's effective tax rate."

Once more, not much to go on here. So how can investors gain further insight into the underlying sustainability and appropriateness of a company's tax position?

Country by country reporting: the Holy Grail

Having had conversations with approximately 10 different pharma, tech and media companies, we noticed that talking directly with tax specialists gave us a much better understanding of the a company's stance towards certain fiscal codes, how they deal with conflicting approaches between tax authorities, and the quality of tax assurance.

Still, what we ultimately are trying to assess is the degree to which the OECD guidelines on baseline erosion and profit shifting are followed. In order to truly do this, information needs to be made available on profits, margins, taxes paid, allocation of intellectual property and the nature of economic activity in the company's markets. This type of reporting is better known as Country by Country Reporting (CbCR).

The OECD requires these documents to be shared with tax authorities. Unfortunately for the investing public, these are not publicly available. US companies are required to file a tax reconciliation in their 10K reports, which allow investors get a sense about the effects of taxes paid in foreign countries, but they do not usually provide any of the above-mentioned data points per market. So far, companies have been very reluctant to provide country by country reporting.

The main argument often is the complexity of the report, and the confusion and misunderstanding it would create. The format in which the CbCR would be presented to the various tax authorities is often said to be not useful to investors. Another common argument is that the information is commercially sensitive, as it would disclose pricing practices and investments in specific products or markets. Yet, several companies have started publishing tax reports with CbCR for the top 10 or 15 markets in which they operate, and provide more narrative on examples of tax risks and challenges. We are encouraged by these examples, even though we haven't seen much of these disclosures by pharma or tech companies.

The tax debate is here to stay

Late in 2017, the US passed tax reform into law. Several of the US pharmaceutical companies in our program had pointed out that the

US tax system was uncompetitive compared to other markets. Soon after the reform, US companies announced cash repatriations to the US, as a result of the lower tax rate. It was often argued that US companies had pursued active tax strategies as a result of the relatively high US tax rate. You might think that the US tax reform puts that discussion to bed, but you would be wrong.

Most companies in our engagement theme report the increase in tax audits and conflicts between jurisdictions as a continuing trend. Several jurisdictions are under pressure to increase their tax base whilst maintaining a competitive business environment for international institutions. The number of listed companies under public scrutiny for their tax contributions have not yet decreased. Our engagement with these companies will continue for another two years.

Active ownership in practice: engaging Royal Dutch Shell

Robeco has been recognized for its critical role in persuading Royal Dutch Shell to significantly strengthen its measures to reduce its carbon footprint. The Anglo-Dutch oil major has agreed to set short-term targets for cutting carbon emissions and will link executive pay to meeting these objectives for the first time. Robeco has engaged with Shell for many years to try to reduce the impact of the company, and that of other oil majors, on climate change.

Codes of conduct
- UN Global Compact Principles 7-9
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises Chapter VI
- SDG 13: Climate Action

Environmental Management: Environmental Policy & Performance
An environmental management policy is a set of restrictions or standards designed to protect and conserve environmental resources. An effective environmental policy clearly outlines rules and expectations for companies to follow regarding preventing negative impact on the environment. Furthermore it should be equipped to calculate the environmental performance of a company as well.

Together with the Church of England Pensions Board, Robeco led the investor engagement activities on behalf of Climate Action 100+, an initiative spearheaded by investors with more than USD 32 trillion in assets under management, and the Dutch corporate governance platform Eumedion.

"This is a significant achievement, something that has never happened before in the field of engagement: a company and its shareholders acting together on climate change," said Carola van Lamoen, Head of Robeco's Active Ownership team. "This shows that dialogue does work, and is an effective way to bring about change."

Introducing an ambition

Shell was already the first oil and gas company to introduce an ambition to reduce its carbon footprint, stretching out to 2050.

Meeting the challenge of tackling climate change requires unprecedented collaboration and this is demonstrated by our engagements with investors," said Shell Chief Executive Officer Ben van Beurden. "We are taking important steps towards turning our Net Carbon Footprint ambition into reality by setting shorter-term targets. This ambition positions the company

well for the future and seeks to ensure we thrive as the world works to meet the goals of the Paris Agreement on climate change."

In a joint statement with investors, the company added: "Shell aims to reduce its Net Carbon Footprint by around half by 2050 and by around 20% by 2035 as an interim step. To operationalize this long-term ambition, Shell will start setting specific Net Carbon Footprint targets for shorter-term periods (three or five years). The target will be set each year for the next three- or five-year period. The target setting process will start from 2020 and will run to 2050."

Link with remuneration

"Taking into account the perspectives gained through its engagements with shareholders and other relevant stakeholders, Shell will incorporate a link between energy transition and long-term remuneration as part of its revised Remuneration Policy, which will be subject to a shareholder vote at the 2020 Annual General Meeting (AGM)."

"If approved at the AGM, the policy will include a Net Carbon Footprint-related measure, as well as other measures, to have a balance of leading and lagging performance metrics over a three-or five-year performance period. The measures for each performance period will be set on an annual rolling basis at the time of the award and will be subject to the annual remuneration target-setting process as well as to the final plan design. The measures and targets will evolve as time progresses over the years to 2050."

"The final plan design is being discussed with shareholders, including details relating to the appropriate remuneration structure and appropriate measures and metrics."

The value of dialoge

Investors welcomed the historic move. "We applaud the joint statement by Shell and lead investors for Climate Action 100+," said Anne Simpson, the inaugural Chair of the Climate Action 100+ Steering Committee and Director of Board Governance and Strategy at the California Public Employees' Retirement System (CalPERS). "The commitment by Shell to fully respond to the engagement shows the value of dialog and global partnership to deliver on the goals of the Paris Agreement on climate change. Shell is setting the pace, and we look forward to other major companies following its lead."

Peter Ferket, Chief Investment Officer of Robeco, added: "When it comes to meeting the demands of the Paris Agreement on climate change, we believe it is necessary to strengthen partnerships between investors and their investee companies to accelerate progress towards reaching such an ambitious common goal. This joint statement is an example of such a partnership. As institutional investors in Shell we continue to support Shell on its journey in the energy transition, aiming for other companies to follow suit."

Long engagement activities

The moves follow engagement activities that go back as far as 2005. Earlier this year, Robeco was signatory to an appeal from 60 investment firms appearing in the Financial Times that encouraged all companies in the oil and gas sector to clarify how they see their future in a low-carbon world. Robeco also spoke at Shell's 2018 shareholder meeting on behalf of a large group of institutional investors.

"Only committing Shell to a climate scenario puts the company at a disadvantage in many respects," said Van Lamoen. "Our engagement must be much broader, so we encourage other companies in this sector to take responsibility in preparing for the energy transition."

Reducing global waste
Total
Xylem, Inc.

Climate Action
BASF
Chevron
Hitachi Ltd.
Royal Dutch Shell

Environmental Challenges in the Oil and Gas Sector
BP
ConocoPhillips
Eni
ExxonMobil
Total

ESG Challenges in the Auto Industry
Bayerische Motoren Werke
Honda Motor
Toyota Motor

Sound Environmental Management
Jardine Matheson Holdings Ltd.

Climate change and Well-being in the Office Real Estate Sector
Great Portland Estates Plc

Food Security
Bayer
Deere & Co.
DowDuPont Inc.

Living wage in the garment industry
Adidas
NIKE
The Home Depot

Data privacy
Apple
AT&T, Inc.
Facebook, Inc.
Singapore Telecommunications
Vodafone

Improving sustainability in the meat and fish supply chain
DSM
McDonald's

ESG risks and opportunities in the biopharmaceutical industry
AstraZeneca Plc
Biogen IDEC, Inc.
Johnson & Johnson

Social risks of sugar
Coca-Cola
Danone
Kellogg Co.
Nestlé
Unilever

Sound Social Management
Bayer
DowDuPont Inc.

Corporate Governance in Japan
Mitsui Fudosan Co. Ltd.

Corporate governance standards in Asia
Hynix Semiconductor, Inc.
Hyundai Motor
INPEX Corp.
Samsung Electronics
SK Holdings Co. Ltd.

Good Governance
DSM
Royal Dutch Shell
Samsung Electronics
Schneider Electric SA
Sun Hung Kai Properties Ltd.
Unilever

Tax Accountability
AstraZeneca Plc
Biogen IDEC, Inc.
Johnson & Johnson
Nestlé
Pfizer
SAP

Culture and Risk Governance in the Banking Sector
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
HSBC
ING Groep NV
JPMorgan Chase & Co., Inc.

Wells Fargo & Co.

Cybersecurity

Deutsche Telekom
Reckitt Benckiser Group Plc
Visa, Inc.
Vodafone
Worldpay, Inc.

Global Compact breaches

During the quarter, six companies were engaged with
for potential breaches of the UN Global Compact

Robeco's Engagement Policy

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, similar to the way we look at other drivers such as company financials or market momentum.

The UN Global Compact

The principal code of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and there are now approximately 9,000 participating companies. It is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt a number of core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on Global Governance Principles
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). The ICGN principles have been revised

in June 2014. The exercise of voting rights is limited to those companies held in our portfolios. This concerns shares held in the mandates of our clients, where Robeco has been requested to vote on the client's behalf. By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO2 emissions from companies. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team, working in close collaboration with Robeco's Investment Teams, and RobecoSAM's Sustainability Investing Research team. This team was established as a centralized competence centre in 2005. The team consists of 12 qualified active ownership professionals based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. The team is headed by Carola van Lamoen.

About Robeco

Robeco Institutional Asset Management B.V. (Robeco) is a global asset manager, headquartered in Rotterdam, the Netherlands. Robeco offers a mix of investment solutions within a broad range of strategies to institutional and private investors worldwide. As at 31 December 2017, Robeco had EUR 161 billion in assets under management. Founded in the Netherlands in 1929 as 'Rotterdamsch Beleggings Consortium', Robeco is a subsidiary of ORIX Corporation Europe N.V. (ORIX Europe), a holding company which also comprises the following subsidiaries and joint ventures: Boston Partners, Harbor Capital Advisors, Transtrend, RobecoSAM and Canara Robeco. ORIX Europe is the centre of asset management expertise for ORIX Corporation, based in Tokyo, Japan.

Robeco employs about 877 people in 15 countries (December 2017). The company has a strong European and US client base and a developing presence in key emerging markets, including Asia, India and Latin America.

Robeco strongly advocates responsible investing. Environmental, social and governance factors are integrated into the investment processes, and there is an exclusion policy is in place. Robeco also makes active use of its voting right and enters into dialogue with the companies in which it invests. To service institutional and business clients, Robeco has offices in Bahrain, Greater China (Mainland, Hong Kong, Taiwan), France, Germany, Japan, Luxembourg, Singapore, Spain, Switzerland, Sydney and the United States.

More information is available at www.robeco.com

ROBECO
The Investment Engineers

1318-10'18

IIGCC
The Institutional Investors Group on Climate Change

Climate Action 100+ 2019 BP Shareholder Resolution - Co-Filing Group

Below is a list of investors that 'co-filed'[1] the Climate Action 100+ shareholder resolution at BP. The resolution supported so far by 58 investors, of which seven are counted in the top 20 largest individual BP shareholders (see investors underlined and in italics below). Organisations with more than $50 billion in assets or assets under management are highlighted in bold. See here for the accompanying announcement.

Climate Action 100+ IIGCC BP core engagement group

Co-filers from this core engagement group are:
- **APG** (on behalf of ABP, bpfBOUW, SPW and PPF APG)
- ***Aviva Investors***, inc. for Aviva Life & Pensions (UK) Limited
- Church Commissioners for England
- ***HSBC Global Asset Management***
- ***Legal & General Investment Management***
- ***M&G Investments***
- Newton Investment Management

The Local Authority Pension Fund Forum *is also part of the core engagement group on behalf of its members, including co-filers:*
- **Border to Coast Pensions Partnership**
- Derbyshire Pension Fund
- Falkirk Council Pension Fund
- Greater Manchester Pension Fund
- **LGPS Central Limited***
- Lothian Pension Fund*
- Merseyside Pension Fund
- Surrey Pension Fund
- Tyne & Wear Pension Fund
- West Yorkshire Pension Fund

The Institutional Investor Group on Climate Change (IIGCC) Climate Action 100+ BP engagement group is led by Hermes EOS[4], Legal & General Investment Management and Aviva Investors.

Other European Investors

Additional co-filers included as top 20 individual BP shareholders:
- ***Royal London Asset Management***
- ***Schroders***
- ***UBS Asset Management***

Other IIGCC members:
- Andra AP-fonden (AP2)
- **AXA Investment Managers**
- Central Finance Board of the Methodist Church
- Kapitalforeningen Sampension Invest
- **Jupiter Asset Management Limited**
- Merian Global Investors Limited
- **OFI Asset Management, OFI Fund-Global Equity Natural Resources**
- PKA A/S*
- Rathbone Greenbank Investments (clients)
- **Robeco**
- Ruffer LLP
- Sjunde AP-fonden (AP7)
- **Scottish Widows Unit Trust Managers Ltd**
- The Church of England Pensions Board
- The Church of Scotland Investors Trust
- The Representative Body of the Church in Wales

Other co-filers, including Principles for Responsible Investment signatories and Church Investors Group members/associates are:
- **CANDRIAM**
- Capfi Delen Asset Management
- Epworth Investment Management Ltd
- HBOS Investments Fund Managers Ltd
- **Ilmarinen Mutual Pension Insurance**
- Ircantec
- Northern Ireland Local Government Officers' Superannuation Committee
- Oxford Diocesan Board of Finance
- ShareAction

Other global Investors

IIGCC is grateful to Climate Action 100+ partners/supporters for building the non-European co-filing group:
- As You Sow (US)
- Bon Secours Mercy Health (US)
- **California Public Employees' Retirement System (US)**
- Christian Brothers Investment Services (US)
- Christian Super (Australia)
- Connecticut Retirement Plans and Trust Funds (US)
- Daughters of Charity, Inc. (US)
- **HESTA (Australia)***
- Hexavest (Canada)
- **Mercy Investment Services, Inc (US)**
- NEI Investments (Canada)
- San Francisco Employees' Retirement System (US)
- VicSuper (Australia)*

Notes:
1. Co-filing is the process of demonstrating sufficient shareholder support for a resolution to be considered at the annual general meeting, which in the case of BP is either 100 individual shareholders or 5% of the share capital. Note that once the 5% threshold was met, the company did not formally review remaining supporting documentation.
2. The co-filing group was supported administratively by the Church of England Pensions Board and Client Earth.
3. Investors underlined, in bold and italics are included in BP's top 20 individual Shareholders as at [insert date] (Source – Bloomberg). Organisations in bold also denotes that the organisation has more than $50 billion in assets or assets under management.
4. The co-filing group includes a number of Hermes EOS clients, identified with an asterisk (*).

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BP shareholder resolution

Strategy consistent with the goals of the Paris Agreement

"That in order to promote the long term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders direct the Company to include in its Strategic Report and/or other corporate reports, as appropriate, for the year ending 2019 onwards, a description of its strategy which the Board considers, in good faith, to be consistent with the goals of Articles 2.1(a) [(1)] and 4.1[(2)] of the Paris Agreement [(3)] (the 'Paris Goals'), as well as:

(1) **Capital Expenditure:** how the Company evaluates the consistency of each new material capex investment, including in the exploration, acquisition or development of oil and gas resources and reserves and other energy sources and technologies, with (a) the Paris Goals and separately (b) a range of other outcomes relevant to its strategy;

(2) **Metrics and Targets:** the Company's principal metrics and relevant targets or goals over the short, medium and/or long-term, consistent with the Paris Goals, together with disclosure of:
   a. the anticipated levels of investment in (i) oil and gas resources and reserves; and (ii) other energy sources and technologies;
   b. the Company's targets to promote reductions in its operational greenhouse gas emissions, to be reviewed in line with changing protocols and other relevant factors;
   c. the estimated carbon intensity of the Company's energy products and progress on carbon intensity over time; and
   d. any linkage between the above targets and executive remuneration;

(3) **Progress reporting:** an annual review of progress against (1) and (2) above.

Such disclosure and reporting to include the criteria and summaries of the methodology and core assumptions used, and to omit commercially confidential or competitively sensitive information and be prepared at reasonable cost; and provided that nothing in this resolution shall limit the Company's powers to set and vary its strategy, or associated targets or metrics, or to take any action which it believes in good faith, would best promote the long-term success of the Company.

Footnotes

(1) Article 2.1(a) of The Paris Agreement states the goal of "*Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.*"

(2) Article 4.1 of The Paris Agreement: *In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.*

(3) U.N. Framework Convention on Climate Change Conference of Parties, Twenty-First Session, Adoption of the Paris Agreement, U.N. Doc. FCCC/CP/2015/L.9/Rev.1 (Dec. 12, 2015).

Investor supporting statement

This resolution has been prepared by a group of investors, many of whom are supporters of the Climate Action 100+ collaborative engagement initiative, launched in December 2017, which now has the support of 310 investors representing more than US$32 trillion of assets under management[1]. The Initiative's aim is to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of Articles 2.1(a) and 4.1 of the Paris Agreement (the 'Paris Goals').

This resolution, prepared with support from environmental law organisation, Client Earth[2], builds on the special resolution prepared by the 'Aiming for A' coalition of investors which requested further disclosures of the Company's management of climate change-related risks and opportunities and was passed overwhelmingly by shareholders at the Company's 2015 AGM.

Strategy consistent with the Paris Goals

Many investors will recognise the Company's leadership on climate change in a number of important areas. This includes helping to form the Oil & Gas Climate Initiative[3]; the evolution of the BP Energy Outlook to include a range of low carbon scenarios; and a range of climate-related targets, including to best-in-class management of fugitive methane emissions[4].

Nonetheless, investors remain concerned that the Company has not yet demonstrated that its strategy, which includes growth in oil and gas as well as pursuing low carbon businesses, is consistent with the Paris Goals. It also presents a potential inconsistency between the Company's actions and its stated corporate purpose "to power economic growth and lift people out of poverty" given climate vulnerabilities in many developing countries. In accordance with investors' fiduciary duties, and to promote the long-term success of the Company, this resolution seeks clarity on the critical question of how the Company's strategy is consistent with the Paris Goals.

Investor expectations of oil & gas companies

Investors' expectations concerning climate-related risks have increased following ratification of the Paris Agreement in 2016, publication of the guidelines of the Taskforce on Climate-related Financial Disclosures (TCFD) in 2017[5] and the recent report from the UN's Intergovernmental Panel on Climate Change on the impacts of global warming to 1.5°C [6]. The latter showed how the difference between a 1.5°C and 2°C rise in global temperatures can be expected to result in additional economic damages globally of between $8tn and $11tn before 2050.

Investors' expectations of oil & gas companies were recently summarised in an open letter to the industry, published in The Financial Times in May 2018[7], which asked all oil and gas companies to clarify how they see their future in a low carbon world, and should involve:

- Making concrete commitments to substantially reduce carbon emissions;
- Assessing the impact of emissions from the use of their products; and

[1] http://www.climateaction100.org/
[2] https://www.clientearth.org
[3] https://oilandgasclimateinitiative.com/
[4] https://www.bp.com/energytransition
[5] https://www.fsb-tcfd.org/
[6] https://www.ipcc.ch/sr15/
[7] https://www.ft.com/content/fda63c26-5906-11e8-b8b2-d6ceb45fa9d0

- Explaining how the investments they make today in energy sources and technologies are compatible with a pathway towards the Paris Goals.

This shareholder resolution formalises that public request, tailored to the specific circumstances of BP, while ensuring the Board retains control over its strategic decision-making.

Capital Expenditure consistent with Paris Goals

As demonstrated in BP's Energy and Technology Outlook publications, future levels of oil and gas demand are uncertain. To contain temperature increases to well-below 2°C requires a considerable decrease in demand for, and investment in, fossil fuels.

Based on current disclosures, it is not possible to evaluate the extent to which the Company's investments in fossil fuel reserves or resources are consistent with the Paris Goals. This limits investors' ability to appraise the attractiveness of the Company as an investment proposition. Therefore, the resolution seeks disclosure of how the Company evaluates the consistency of new material capex investments to the Paris Goals, as well as annual reporting on that evaluation. The Company should also explain how it separately evaluates consistency with other relevant outcomes, resulting in additional (not alternative) criteria for capex investment consistent with the Paris Goals.

The Company should determine the methodology for this evaluation and evolve this over time. However, investors expect this to include consideration of the full life-cycle economics of individual projects, evaluation of the potential return on investment and consideration of their competitive positioning in the context of the Paris Goals. Research by Carbon Tracker[8] provides an example methodology for this type of analysis and indicative results of the extent to which the Company and others may already be consistent.

Metrics and Targets consistent with Paris Goals

To help investors evaluate progress against its strategy, it is vital to understand the Company's key goals and targets and other associated metrics. These should be set over as long a time frame as reasonably possible and reviewed regularly for continued consistency to the Paris Goals, in line with developments in the Company's portfolio, available measurement protocols and other relevant factors such as evolving science, technology and regulation.

To better appraise the long-term investment proposition, investors need to understand the consequences of the Company's strategy for its future business model. This should include the profile of anticipated levels of investment in different types of energy, including oil and gas and other lower carbon energy technologies and their strategic fit. Investors also want to understand the implications for both the carbon emissions associated with the Company's operations and the carbon intensity of its energy products over time. The company should determine the methodology for estimating product carbon intensity. However, investors expect this to include the carbon content of oil and gas products and other emissions associated with the full value chain of operations. Finally, investors request to understand the linkage of the company's targets and metrics to executive remuneration.

[8] https://www.carbontracker.org/reports/2-degrees-of-separation-update/ (noting that the scenarios used may not be consistent with the Paris Goals)

Progress reporting

Investors expect appropriate summaries of the strategy, the evaluation of each material capex investment and performance against key targets and metrics to be contained in the Strategic Report, supported by other reporting as appropriate.

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **GOVERNANCE REVIEW**

SUMMARY OF ISSUE:

As part of the governance and oversight of the Pension Fund, a regular review and update to the governance framework, policies and procedures is essential to ensure that the Fund is compliant with latest legislation, regulations and good practice.

At its meeting of 14 September 2018, the Pension Fund Committee agreed to commission a review of the fund governance. This was carried out by Hymans Robertson.

This report provides details of this review, which includes the definition of a mission statement for the fund and key strategic objectives in investments, funding, governance and delivery.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the governance report and recommendations from Hymans Robertson and that the recommendations are included in the 2019/20 Business Plan.

2. Approves the mission statement for the Surrey Pension Fund.

3. Approves the objectives for the Surrey Pension Fund with regard to investments, funding, governance and delivery.

4. Approves the Business Plan for 2019/20.

REASON FOR RECOMMENDATIONS:

The purpose of this governance review is to provide the Administering Authority with an assessment of where it stands in relation to its legal requirements, as well as the expectations of the Pension's Regulator as set out in Code of Practice 14 – Governance and administration of public service pension schemes.

Key to the success of the Surrey Pension Fund is having an agreed and clear set of objectives in place, covering all the elements of management and administration of the Fund. This provides the necessary clarity in terms of the Fund's direction, which in turn brings a greater focus to the business of the Fund. It is the building block that also ensures risks are managed appropriately, that there is better

decision making and that time and resource is managed more effectively. From these objectives flow all activities of the fund through its business plan.

These objectives are a reflection of the Fund's mission statement. This is a valuable tool in helping to focus and define the core philosophy of the Fund and to express succinctly what it stands for.

BACKGROUND:

1. The scope of the governance review had three sections, Overview, Background and Review.

2. The review concentrated on five areas:

   - Clarity of objectives
   - Business Planning
   - Delivery
   - Risk Management
   - Decision Making

3. Research for the review consisted of the following:

   - Interviews with key members of the Pension Fund Committee, Local Pension Board and officers from the pension administration and pension fund teams
   - Observation of Pension Fund Committee and Local Pension Board meetings
   - Participation in an Objectives Setting Workshop attended by members of the Pension Fund Committee, Local Pension Board, the investment consultant, the independent advisor, the Fund actuary and officers on 9 April 2019
   - Completion of an effectiveness questionnaire issued to all Pension Committee and Pension Board members
   - A comparison of the governance arrangements with LGPS comparators and best practice in the private sector
   - A desk top review of key documents, reports, policies and statements

4. In addition to this there was a further objectives setting meeting held on 26 April 2019 between the Pension Fund Committee Chairman, Vice-Chairman, Independent Advisor and officers.

DETAILS:

5. The governance review (included as Annex 1) considers the following areas:

   - *Clarity of objectives* – Key to the success of the Administering Authority, covering all the elements of management and administration of the Fund, providing clarity in terms of the Fund's direction, ensuring a greater focus to the business of the Fund and manging risks appropriately

   - *Business Planning* – Setting out all the planned activities for the short and medium term, forming the focus for Committee and Board meetings and

supporting the delivery of the Fund's objectives, which is all part of a cycle of good governance

- *Delivery* – Ensuring the Fund has appropriate staffing resource to achieve its objectives, be that in relation to investment, funding, administration or governance, meeting the steady increase in the number of overriding legislative requirements on pension administration teams and other officers charged with managing the Fund

- *Risk Management* – Having a proper risk management framework in place allowing those responsible for the management of the Fund to understand the types of issues that might adversely impact it and assist in preventing issues arising or helping to reduce their impact where they do arise

- *Decision Making* – Having clear objectives in place ensuring each decision being taken is linked to a stated objective and helping keep the Administering Authority on track in achieving its strategic aims

6. The conclusions of the review are that overall the governance of the Fund is considered to be **good**, meeting the legal requirements set for it in the majority of areas. There is clearly good engagement by all stakeholders, with healthy debate and discussion at both the Pension Committee and Pension Board.

7. The review provided the following nine recommendations:

   i) The Fund should adopt the objectives and mission statement as set out in the review.
   ii) The Fund's business plan should be reviewed in light of newly adopted objectives and mission statement.
   iii) Officers should work with the administration team to consider what changes are required to the analysis and reporting of performance against service standards, better reflecting the full range of reporting requirements available, and supporting the Pension Board in effectively delivering on its responsibilities.
   iv) The Fund should receive reassurance from the administration function that all member records are set up on the pension administration system and that all relevant documents are scanned and assigned to the appropriate record.
   v) The Fund should create a risk management policy.
   vi) The Fund should revisit the existing risk register to ensure it reflects the expectations of TPR.
   vii) Consideration should be given to putting in place a formal Training Policy, setting out the Administering Authorities approach to training for members of the Pension Committee, Pension Board and Officers involved in the management and administration of the Fund.
   viii) Introduce a governance matrix for the Fund.
   ix) Consideration to be given to completing a full review and updating of policies held by the Fund. Furthermore, the Fund should consider creation of those policies recommended by TPR but not currently produced and held by the Fund.

MISSION STATEMENT & STRATEGIC OBJECTIVES:

8. An Objectives Setting Workshop, attended by members of the Pension Fund Committee, Local Pension Board, the investment consultant, the independent advisor, the Fund actuary and officers, was held on 9 April 2019. In addition to this there was a further objectives setting meeting held on 26 April 2019 between the Pension Fund Committee Chairman, Vice-Chairman, Independent Advisor and officers.

9. From these two meetings it was determined that all activities of the Fund were derived by reference to the following stakeholders:

   - Members
   - Employers
   - Trustees

10. Leading from these the stakeholders the following Mission Statement was identified:

    "The Surrey Pension Fund strives to deliver a first-class service by creating strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. ESG factors are fundamental to our approach which is underpinned by the highest standards of corporate governance, informed decision making, the use of technology and risk management."

11. From the Mission Statement flow the following strategic objectives were agreed for investment, funding, governance and delivery:

    Investment objectives

    - To have a clearly articulated strategy for achieving the return required to meet pension payments.
    - To have a strategic asset allocation that delivers long-term investment returns, while taking the appropriate level of risk required.
    - To have sufficient liquid resources available to meet the Fund's ongoing obligations.
    - To ensure material ESG factors are fundamental to all investment decisions.
    - To appoint managers and advisors to deliver the investment strategy and monitor their effectiveness.

    Funding objectives

    - To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
    - To ensure that employer contribution rates are affordable and stable
    - To reflect the different characteristics of scheme employers in determining contribution rates
    - To ensure administration costs attributable to scheme employers are charged proportionately to how they are accrued
    - To take reasonable measures to reduce the risk to all employers of any employer defaulting on its pension obligations

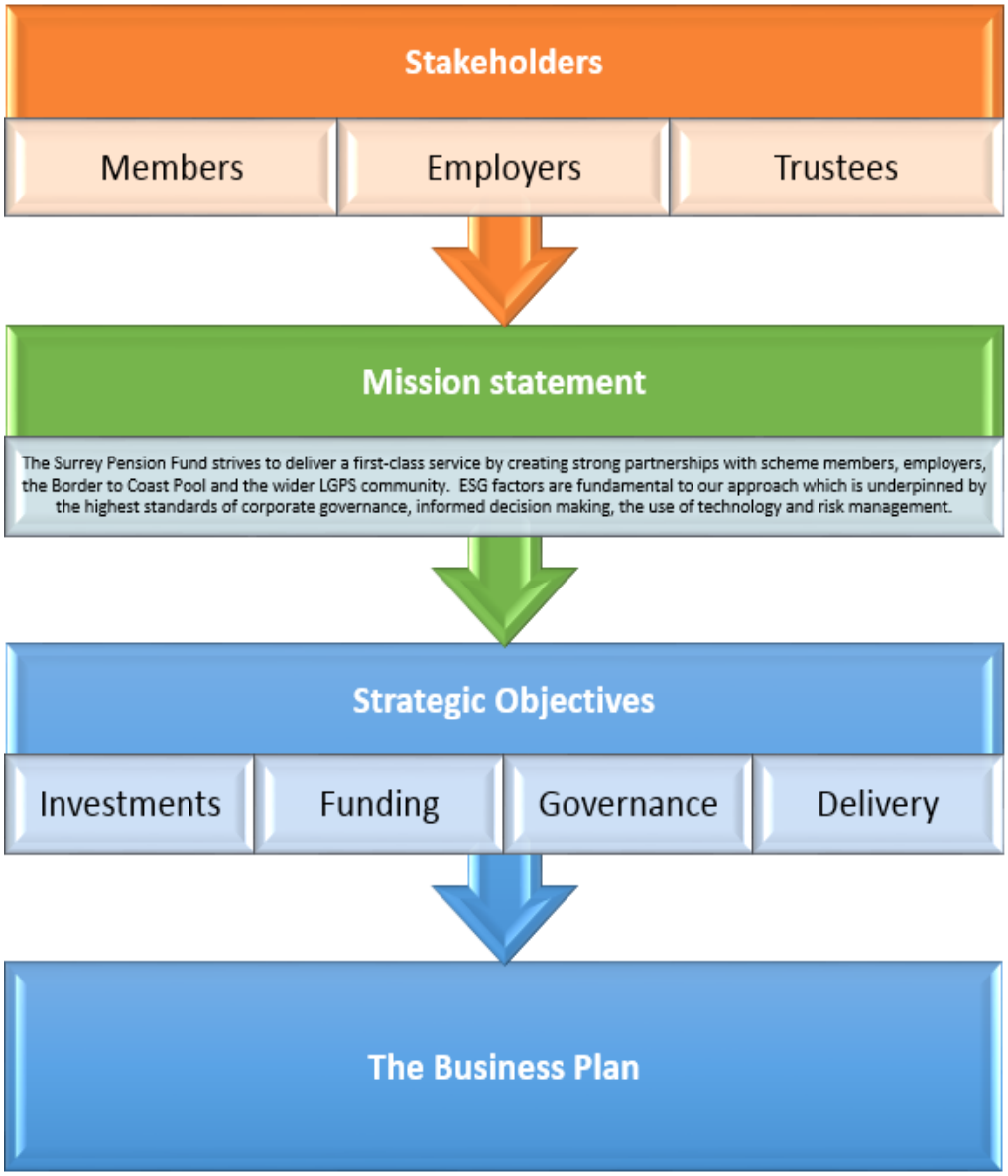
Governance objectives

- To deliver all LGPS administering authority functions to a high level of quality while recognising the need to deliver value for money
- To ensure that policies support the strategic aims and objectives of the Fund
- To ensure the effectiveness of the Pension Fund Committee, Local Pension Board and officers to which delegated function has been passed, including areas such as decision making processes, knowledge and competencies
- To ensure that decision making authority and areas of responsibility are clearly defined and reflected in the Council's Scheme of delegation, terms of reference and procedures
- To recognise that communication is a two-way process and to communicate in a straightforward, effective and friendly way with all our stakeholders. We will listen and take on board all feedback
- To ensure the Pension Fund Committee and officers procure professional advice and appropriate information and interpret, scrutinise and challenge that advice in their supervision and monitoring of the Scheme in all areas
- To enable the management of risks and internal controls to underpin the activities of the Fund
- To comply with relevant legislation, the Pensions Regulator's requirements and acknowledged best practice
- To periodically seek external assurance as to the effectiveness of the governance framework. To report on this effectiveness
- To act with integrity and transparency in a way that upholds public confidence in the management of Fund

Delivery objectives

- To ensure the correct benefits are paid to, and the correct income collected from, the correct people at the right time
- To set out the administration standards expected of the Fund and scheme employers and the methods by which performance will be monitored and reported. To support employers in achieving those standards
- To promote good working relationships and maximise efficiency between the SPF and scheme employers
- To ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations
- To ensure that the Fund maintains accurate pension records and that all data is stored, handled, reviewed and disposed of securely and in accordance with its legal obligations
- To ensure that the administration costs attributable to scheme employers are charged proportionately to how they are accrued
- To ensure that Scheme members, employers and others who have dealings with the Fund receive a strong customer focused service
- To ensure members are communicated effectively so that they understand and appreciate the value of their benefits

12. The 2019/20 Business Plan (shown as Annex 2) is derived from the strategic objectives to complete the following governance process for the Fund.



CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

14. A regular review of governance is a suitable method of identifying and monitoring risk.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

15. The costs of commissioning a governance review are appropriate in the context of the risk management inherent in this activity.

DIRECTOR OF FINANCE COMMENTARY:

16. The Section 151 Officer has been consulted and is satisfied at results of this review.

LEGAL IMPLICATIONS – MONITORING OFFICER:

17. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

18. A review of governance does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS:

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

WHAT HAPPENS NEXT:

20. The following next steps are planned:

    - Keep the 2019/20 Business Plan under constant review and include as a standard item to be reported to the Pension Fund Committee.

Contact Officer:
Neil Mason, Strategic Finance Manager (Pensions)

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – Hymans Robertson governance review of the Surrey Pension Fund
Annex 2 – 2019/20 Business Plan

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HYMANS ROBERTSON

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Surrey Pension Fund

Governance Review

May 2019

Ian Colvin
Head of Public Sector Benefit Consultancy & Governance

Andrew McKerns
Benefit and Governance Consultant

For and on behalf of Hymans Robertson LLP

Contents

1 Executive summary

The purpose of this governance review is to provide The administering Authority with an assessment of where it stands in relation to its legal requirements in respect of the LGPS, as well as the expectations of The Pensions Regulator as set out in Code of Practice 14 – Governance and administration of public service pension schemes. In addition, we set out a plan for how the Administering Authority can address any gaps identified. Furthermore, the review sets out practical benefits, ensuring that the objectives, policies and decision making within the Administering Authority are clearly aligned with the key aim of delivering a first-class service to stakeholders.

Our governance review considers the following areas:

Clarity of objectives - key to the success of the Administering Authority, covering all the elements of management and administration of the Fund, providing clarity in terms of the Fund's direction, ensuring a greater focus to the business of the Fund and manging risks appropriately.
Business Planning - setting out all the planned activities for the short and medium term, forming the focus for Committee and Board meetings and supporting the delivery of the Fund's objectives, which is all part of a cycle of good governance.
Delivery - ensuring the Fund has appropriate staffing resource to achieve its objectives, be that in relation to investment, funding, administration or governance, meeting the steady increase in the number of overriding legislative requirements on pension administration teams and other officers charged with managing the Fund.
Risk Management - having a proper risk management framework in place allowing those responsible for the management of the Fund to understand the types of issues that might adversely impact it and assist in preventing issues arising or helping to reduce their impact where they do arise.
Decision Making - having clear objectives in place ensuring each decision being taken is linked to a stated objective and helping keep the Administering Authority on track in achieving its strategic aims.

Findings

Our conclusions are that overall the governance of the Fund is strong and meets the legal requirements set for it. There is clearly good engagement from an experienced Pension Committee that sets the overall strategy for the Fund. The Pension Board is clear in its role, populated with experienced members and a very good example of how such bodies can add value to LGPS Funds. Officers recognise the need for strong governance and are keen to refine and build on existing strengths.

Recommendations

There are a number of areas where we believe improvements to the Fund's governance arrangements could be made to acknowledge changes in the LGPS environment and to strengthen the Fund's existing position further. Throughout each of the above sections we have set out in detail our recommendations. We have identified 9 areas where improvements or changes could potentially be made. A full list of recommendations can be found at Appendix 1. Among the main recommendations are the following:

- Adopting the suggested Mission Statement set out in our report
- Conducting a review of the Administration reporting received by the Fund
- Creation of a Risk management policy
- Introducing a formal training policy for the Committee, Pension Board and Officers

We would recommend that this paper is presented to the Pension Committee and that our overall findings and recommendations are passed for their approval.

2 Introduction

This report is addressed to Surrey County Council (the "Administering Authority"), who commissioned Hymans Robertson LLP to undertake a governance review of the operations of the Surrey Pension Fund (the "Fund"). The Fund is one of 88 pension funds currently within the Local Government Pension Scheme ("LGPS") in England & Wales.

The purpose of this governance review is to provide the Administering Authority with an assessment of where it stands in relation to its legal requirements, as well as the expectations of the Pensions Regulator.

In our view, the hallmarks of a well governed LGPS pension fund are:

Requirement	Purpose
Clarity of objectives	Providing clarity in terms of the Fund's direction and bringing greater focus to the business of the Fund.
Business Planning	Bringing focus to the Committee and Board meetings and supporting the delivery of the Fund's set objectives, which is all part of a cycle of good governance
Excellent Delivery	Ensuring the service is appropriately resourced to achieve its objectives and comply with the steady increase in overriding legislative requirements.
Risk Management	Having a robust risk management framework in place allowing those responsible for the management of the Fund to understand the types of issues that might adversely impact it and assist in preventing issues arising or helping to reduce their impact where they do arise.
Decision Making	Ensuring each decision being taken is linked to a stated objective, keeping the Administering Authority on track in achieving its strategic aims.

In this report, we have considered each of these areas in turn for the Fund. In each area, we have set out why it is important (or "why this matters"), the findings from our research and any recommended actions. The recommendations are then summarised in Appendix 1.

In addition, we set out a plan of how the Administering Authority can address any gaps identified. Furthermore, the review sets out practical benefits, ensuring that objectives, policies and decision making within the Administering Authority are clearly aligned with the key aim of delivering an excellent service to scheme members and other interested parties.

Our review has been carried out at a high level. As a result, while we have considered the various policies and strategies that are required to be maintained, we have not drilled down into the detail of specific functions such as day-to-day administration, funding and investments or member/employer communications.

3 Research

In undertaking this review we have gathered information from the following sources:

- Conversations with the following key individuals throughout January 2019;
  - Cllr Tim Evans: Chair of the Pension Fund Committee
  - Cllr Nick Harrison: Chair of the Local Pension Board
  - Cllr Ben Carasco: Vice-Chair of the Pension Fund Committee
  - Neil Mason: Strategic Finance Manager (Pensions)
  - Kevin Kilburn: Deputy Chief Finance Officer
  - Mamon Zaman: Officer
  - Ayez Malik: Officer
  - John Smith: Officer
  - Clare Chambers: Pension Delivery Service Manager
- Attendance at the Local Pension Board on 17 January 2019 and the Pension Fund Committee on 8 February 2019.
- An Objectives Setting Workshop attended by members of the Pension Fund Committee, Local Pension Board and officers on 9 April 2019.
- Completion of an effectiveness questionnaire issued to all Pension Committee and Pension Board members, seeking their views on a variety of governance related issues (structure & culture, management of meetings, knowledge & training, risks & conflicts, advisers, documents and policies) – responses received are summarised in Appendix 2;
- A comparison of the governance arrangements with LGPS comparators and best practice in the private sector;
- A desk top review of key documents, reports, policies and statements, including:
  - Funding strategy statement;
  - Investment strategy statement;
  - Administration strategy (Year not confirmed but reference to 2008 LGPS Regulations);
  - Service Level Agreement
  - Breaches of Law policy;
  - Communication policy;
  - Business Plan 2018/19;
  - Guide to Scheme Employer LGPS discretionary policies;
  - Administering Authority discretions;
  - Pension Fund Annual Report 2017/18;
  - Governance Policy Statement; and
  - Pension Committee and Pension Board papers.

Our comments on these documents is set out in Appendix 4

We would like to thank all officers, elected members and Pension Board members for their assistance during our review.

4 Clarity of objectives

Why this matters

Key to the success of the Surrey Pension Fund is having an agreed and clear set of objectives in place, covering all the elements of management and administration of the Fund. This provides the necessary clarity in terms of the Fund's direction, which in turn brings a greater focus to the business of the Fund. It is the building block that also ensures risks are managed appropriately, that there is better decision making and that time and resource is managed more effectively.

Findings

The results of the effectiveness questionnaire suggested that Committee and Board Members felt that they and their colleagues were generally aware of the Fund's objectives. This is clearly a strong positive for the Fund.

However, an analysis of the Fund's key documents suggests that those objectives would benefit from being revisited. In a number of cases we found that what were termed as objectives or policies were more akin to statements of process. It was felt that by reframing objectives as over-riding guiding principles they become more universal. Rather than stating what the Fund will do the objective should state what the Fund believes is important. By setting strategic objectives in this way it then follows that the policies, processes and actions to achieve the stated objective can be put in place. The ability to set strategic goals for the Fund allows decision making to be made within a widely agreed framework. In effect members of the Committee and Board can ask themselves "does this decision support the agreed objectives of the Surrey Pension Fund?"

By not having a set of strategic objectives there is the risk that Committee and Board meetings could become overly focused on the short term and the operational.

Steps taken

It was agreed with officers and the Chairs of the Committee and Local Pension Board that an objective setting workshop should take place in order to gather the views of Committee, Board and Officers in order to feed into a review of objectives and ultimately a mission statement.

The workshop was help on 12 April and was split into 4 areas; governance, funding, investments and administration. It was subsequently agreed that "administration" should be renamed as "delivery" as the former could imply purely the calculation and payment of pensions whereas the new name recognised that the Fund has responsibilities to deliver a wide range of functions.

The results of the workshop were then analysed and a resultant new set of proposed objectives were developed. The new objectives are shown below:

Governance Objectives

- To deliver all LGPS administering authority functions to a high level of quality while recognising the need to deliver value for money.
- To ensure that policies support the strategic aims and objectives of the Fund.
- To ensure the effectiveness of the Pension Fund Committee, Local Pension Board and officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies
- To ensure that decision making authority and areas of responsibility are clearly defined and reflected in the Council's Scheme of delegation, terms of reference and procedures.

- To recognise that communication is a two-way process and to communicate in a straightforward, effective and friendly way with all our stakeholders. We will listen and take on board all feedback.
- For the Pension Fund Committee and officers to procure professional advice and appropriate information and to interpret, scrutinise and challenge that advice in their supervision and monitoring of the Scheme in all areas.
- To enable the management of risks and internal controls to underpin the activities of the Fund
- To comply with relevant legislation, The Pensions Regulator's requirements and acknowledged best practice.
- To periodically seek external assurance as to the effectiveness of the governance framework. To report on this effectiveness.
- To act with integrity and transparency in a way that upholds public confidence in the management of Fund

Delivery Objectives

- To ensure the correct benefits are paid to, and the correct income collected from, the correct people at the right time.
- To set out the administration standards expected of the Fund and scheme employers and the methods by which performance will be monitored and reported. To support employers in achieving those standards.
- To promote good working relationships and maximise efficiency between the SPF and scheme employers.
- To ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations.
- To ensure that the Fund maintains accurate pension records and that all data is stored, handled, reviewed and disposed of securely and in accordance with its legal obligations.
- To ensure that the administration costs attributable to scheme employers are charged proportionately to how they are accrued.
- To ensure that Scheme members, employers and others who have dealings with the Fund receive a strong customer focused service.
- To ensure members are communicated effectively so that they understand and appreciate the value of their benefits.

Funding

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To ensure that employer contribution rates are affordable and stable.
- To reflect the different characteristics of scheme employers in determining contribution rates.
- To ensure administration costs attributable to scheme employers are charged proportionately to how they are accrued.
- To take reasonable measures to reduce the risk to all employers of any employer defaulting on its pension obligations.

Investments

- To have a clearly articulated strategy for achieving the return required to meet pension payments.
- To have a strategic asset allocation that delivers long-term investment returns, while taking the appropriate level of risk required.
- To have sufficient liquid resources available to meet the Fund's ongoing obligations.
- To ensure material ESG factors are fundamental to all investment decisions.
- To appoint managers and advisors to deliver the investment strategy and monitor their effectiveness.

Mission Statement

The Fund was also of the view it should develop a mission statement. This is a valuable tool in helping to focus and define the core philosophy of the Fund and to express succinctly what it stands for.

Following the objectives setting exercise and with input from officers the following mission statement was proposed;

The Surrey Pension Fund strives to deliver a first-class service by creating strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. ESG factors are fundamental to our approach which is underpinned by the highest standards of corporate governance, informed decision making, the use of technology and risk management.

The statement seeks to bring together some of the key themes that have been identified as part of this review, namely the experience and expertise of the committee and officers, a strong commitment to improving the service, partnership working and an emphasis on strong governance and risk management.

Recommendation

Recommendation 1

The Fund should adopt the objectives and mission statement as set out in this section.

5 Business planning and monitoring

Why this matters

It is important to have a business plan in place that supports delivery of the Fund's objectives and provides the focus for clear decision making which is all part of a cycle of good governance. The business plan should set out all of the planned activities for the forthcoming short and medium term and form the focus for Committee and Board meetings.

Indeed the LGPS guidance on the Myners Principles published by CIPFA states the importance of having a business plan in place and what it should contain.

The Chief Finance Officer should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the committee. The business plan should contain financial estimates for the investment and administration of the fund and include appropriate provision for training. Key targets and method of measurement should be stated, and the plan should be submitted to the committee for consideration.

The business plan should review the level of internal and external resources the committee requires to carry out its functions effectively and contain recommended actions to put right any deficiencies or to anticipate changing requirements in the future.[1]

Having a formal business plan in place brings a number of benefits.

- It aligns with the objectives of the Fund, providing clearer visibility of these to members of the Committee, Board and officers.
- It helps provide the focus to Fund business, enabling resources to be allocated appropriately and/or to highlight resourcing issues in advance.
- It helps the Fund in development of its longer-term view.
- It enables the full picture of Fund activities to be captured in a single document (e.g. investments, funding, delivery, and governance).

Aligned to the business plan is the need to ensure that both the Committee and Board are provided with appropriate performance management information at each meeting. This information should relate specifically to the objectives of the Fund and be cross referenced against the relevant item(s) in the business plan. The reporting will provide visibility to the Committee and Board on how successful the Fund is in achieving its objectives, identify the risks that may prevent the Fund from achieving those objectives and also highlighting any new risks or actions that need to be considered and incorporated into the plan.

Findings

The Fund has a business plan which is regularly reported to the Pension Committee and allows them to track progress against actions.

It is recommended that the business plan is revisited once the Fund has agreed a new set of objectives and a mission statement. This will ensure that the business plan activities are explicitly linked to the Fund's objectives and support the delivery of those objectives.

[1] Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012

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Recommendation

Recommendation 2

The Fund's business plan should be reviewed in light of newly adopted objectives and mission statement.

6 Delivery

Why this matters

Ensuring the Fund has appropriate staffing resource is key in delivering on any of the objectives it sets for itself, be that in relation to investment, funding, administration or governance. It is also vital that appropriate support is given to officers by senior management, as well as members of the Pension Committee and Pension Board.

Where, as is the case for the Surrey Pension Fund, the administration function is delivered by means of a shared service arrangement that is not directly managed by the Pensions Team, then it is crucial that the administration function receives proper oversight.

Even where administration is provided through a shared service or is outsourced, the administering authority remains responsible for the delegated tasks and functions. It is essential therefore, that the committee and board are clear about the levels of expected and agree standards against which performance can be measured.

The Pensions Regulator has emphasised this point as part of its 21st Century Trusteeship campaign;

You should regularly assess their [service providers] performance against targets, measures and objectives that you've documented, and service providers should have suitable service level agreements that are appropriate for your scheme[2]

Background

Over the years there has been a steady increase in the number of overriding legislative requirements on pension administration teams and other officers charged with managing the LGPS Fund as per the table below.

Organisation	Issue
Ministry for Housing, Communities and Local Government ("MHCLG")	Funds are required to provide much more statistical information to MHCLG for the purposes of their reporting and scheme wide analysis
HMRC	Successive changes to the pension taxation system since 2006 have increased the complexity of individual member calculations and the quarterly or annual reporting to HMRC
Public Service Pensions Act 2013 ("PSPA 2013")	The PSPA 2013 requires each LGPS fund to establish a local pension board. While the local pension board can undoubtedly add value to LGPS funds, there is nonetheless an increased requirement for officer time to support the board
The Pensions Regulator	Since 2014, the code of practice 14 has required far greater need for compliance (and the need to demonstrate compliance) in areas such as knowledge & understanding, publishing of scheme information, conflicts and breaches of the law, scheme record keeping, maintaining contributions and dispute resolution
The Pensions Ombudsman	Member pension disputes have become more high profile over the years, with the need to ensure sufficient time and effort is placed in

[2] https://www.thepensionsregulator.gov.uk/en/trustees/21st-century-trusteeship

Organisation	Issue
	collating evidence and making individual determinations more time consuming
Investment Pooling	The requirement for LGPS funds to pool their assets has placed a significant additional workload on senior pension officers, s151 officers and pension committees, as they have had to become familiar with a number of new concepts and approaches. While it could be argued that pooling will eventually become "business as usual" it is likely that the transition to full pooling will take a number of years and will continue to place a large demand on officer and committee resource

Findings

It is apparent from our various conversations and attendance at Committee and Board meetings that concerns exist about the current administration service provided. The Local Pension Board minutes of 23 October 2018 record that in respect of the Administration Performance Report for 1 July to 31 August "*The Board raised concerns with performance figures and agreed to express their disappointment to the Pension Fund Committee*".

As part of the 21st Century Toolkit Campaign the Pensions Regulator has identified some key principles[3] that pension schemes should adopt when dealing with advisers and service providers. These points are designed to cover all services that might be provided, not just administration. An extract is provided below;

Working well with your service providers and administrators

1 Agree standards that you can measure performance against

2 Regularly assess their performance against targets, measure and objectives that you've documented

3 Invite your advisers and service providers to your board meetings where appropriate

4 Make sure contracts are consistent with your scheme's aims and objectives, and that you understand them

5 Have arrangements in place to deal with risks which may affect members

6 Challenge reports or decisions if you want further clarity or are unsure about how they've been reached

It is clear that the Surrey Pension Fund in its oversight role does adhere to these principles. The pension administration function is regularly reviewed at Board meetings and reported to the Committee, performance figures are provided and challenged, and the risks of poor performance are understood.

[3] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/21c-round-up-2.ashx

From our review of past Board papers there may be some ways in which this oversight function could be strengthened. For example;

- In order to assist the Board to understand the experience of members, it may be helpful for them to receive details of the full period of time elapsed in completing certain key tasks. In some cases, this may be longer than the period the administration function has taken to process the case. For example, the administration team may process a retirement within 15 days, but that period may not include a 30 day delay in obtaining correct leaving details from the member's employer. It is quite proper that the administration function should "stop the clock" on cases where they are awaiting information outside of their control. However, as a measure of quality of service to the retiring member the full period for the task to be performed should be measured. Reporting such cases may also flag up specific employers that have a training or resource issue or highlight where processes might be improved.
- Where remedial actions are identified there should be a specific date for when each action will be completed, and ownership assigned. This will allow progress to be tracked.
- Any additional actions should specify the resource requirement to achieve them and who is responsible for delivery. Where additional resource is required, it should be made clear, where that resource is coming from and whether it will have an impact on another part of the administration function.
- In our experience it can be useful when reporting large amounts of text to make use of charts and diagrams to aid understanding. This may be something that the Pension Board may wish to consider.

During the conversations we held it was reported anecdotally that not all pension records are set up promptly on the administration system. It was stated that documents received in conjunction with casework are not immediately scanned and tagged to those records and that work is not always manged through the administration system's workflow module.

We are not able to comment on the above observation as administration matters are beyond the scope of this report, however, from a governance perspective, if the above situation is routinely the case it raises a number of concerns. The use of paper files is considered poor practice in pension administration. Holding data on a secure administration system is essential in terms of business continuity and security. It also allows for better management of workflow, allowing managers to track cases regularly and allocate resources accordingly. It also permits better managing information and reporting.

Recommendations

Recommendation 3

Officers should work with the administration team to consider what changes are required to the analysis and reporting of performance against service standards, better reflecting the full range of reporting requirements available, and supporting the Pension Board in effectively delivering on its responsibilities

Recommendation 4

The Fund should receive reassurance from the administration function that all member records are set up on the pension administration system and that all relevant documents are scanned and assigned to the appropriate record.

7 Risk Management

Why this matters

Having an appropriate risk management framework in place allows those responsible for the management of the Fund to understand the types of issues that might adversely impact it and the scale of impact should this happen. This framework can also assist in preventing issues arising or helping to reduce their impact where they do arise.

Risk management should not be focussed solely on funding or investment risks but should cover all aspects of the management and administration of the Fund, including the day-to day administration responsibilities, employer management and overall governance arrangements.

Risk management should also be aligned with the Fund's objectives. As well as forming a key role as part of the decision-making process risk management should also be seen as an integral part of the day-to-day administration too.

Findings

The Pension Committee and Pension Board's focus does extend beyond the traditional areas of funding and investments, with time taken to consider wider issues around administration and governance.

Management of risk has been a focus of recent activity by The Pensions Regulator and we are aware that risk registers have been part of the discussion that TPR has being having with selected funds. We believe there are a number of areas that TPR might expect to see in connection with risk management which the Fund should consider adopting. These include;

1. A risk management policy. This should set out the Fund's approach to managing risk including;
   - how risk management is implemented;
   - roles and responsibilities for the management of risk;
   - the key processes for operating the risk register e.g. how are risks added to and removed from the register;
   - key controls to be operated by those with responsibility for manging the Fund.

2. Additions to the risk register to indicate;
   - When a risk was added to the register or last reviewed
   - Who has responsible for managing a risk. TPR expect this to be the person who will actively monitor the risk, even if ultimate responsibility lies elsewhere.

Recommendations

Recommendation 5

The Fund should create a risk management policy.

Recommendation 6

The Fund should revisit the existing risk register to ensure it reflects the expectations of TPR.

8 Decision making

Why this matters

Clear objectives lead to better decision making. By having clear objectives in place this ensures each decision being taken is linked to a stated Fund objective. This in turn helps keep the Administering Authority on track in achieving its strategic aims.

Three main elements contribute to ensuring the Administering Authority can have confidence in the decisions it takes, which we have considered below:

Structure and effectiveness of meetings

In order to achieve clear decision making it is essential that the Administering Authority has the correct governance structure in place. In this regard it is important to note that there is no “one-size-fits-all” solution and so each LGPS Administering Authority needs to decide what structure and approach is best for them.

It is also important to get the right balance in terms of length or frequency of meetings against the number of items needing to be considered.

Strategies and policies

Having all of the requisite policies and strategies in place is vital. The LGPS Regulations specify a number of these that administering authorities must have in place. Additionally, the Regulators code of practice 14 adds to the number of policies and strategies that administering authorities need to consider having as part of best practice.

To ensure that these documents are appropriate it is essential that the Pension Committee and Pension Board are fully engaged in their development and review and that any advice or expertise received is appropriate and proportionate.

Knowledge and skills

This is critical to the success of the Administering Authority in delivering its objectives. All members of the Pension Committee and Pension Board, as well as officers, need to have the appropriate levels of knowledge and understanding to perform their respective roles and need to be able to demonstrate this.

At a high level this can be assessed against the Pensions Regulator’s Public Service toolkit, albeit this is by nature generic across all public service schemes and does not fully cover the funded nature of the LGPS.

More specifically knowledge and understanding can be measured against the CIPFA Knowledge and Skills Frameworks.

As well as assessing knowledge and understanding against any of the above it is important that the Administering Authority documents its approach to training in a formal training policy.

Findings

Structure and effectiveness of meetings

From our observations both the Pension Committee and Pension Board meetings are well run, with all participants given the freedom to express their views on agenda items and to scrutinise proceedings. Having reviewed the various Committee and Pension Board papers we are also happy that they are well presented, complying with the Council’s corporate reporting requirements. It was also pleasing to witness officers introducing reports in a clear and concise manner as well as delegating questions to the most appropriate officer in attendance.

On the day we observed the Pension Committee, there were a series of questions from the public relating to the investment activities of the Fund. The Chair and the members of the Committee dealt with these questions patiently and transparently and directed the individuals to where they could obtain further information.

Our effectiveness questionnaire found a positive response from Committee and Board members regarding the tone and management of meetings and the way in which the Committee and Board worked together.

Governance Matrix

Given the increasing complexity of the LGPs, the increasing external governance oversight and the addition of investment pooling it has become increasingly important to delineate where decision making, and oversight responsibilities lie. One approach to this is to create a governance matrix. This simple but powerful tool sets out the key decision makers and governance bodies involved in running an LGPS fund. It then considers the main functions and decisions that need to be made in the running of the fund and flags who is responsible for making, overseeing or carrying out that decision.

Strategies and policies

Our review of the Fund's key policy documents suggests that it has all the regulatory required documents in place. However, some of these documents, for example the Administration Strategy document, are out of date and require updating to reflect the challenges of the delivery function of an LGPS fund in 2019. We would also note that the current documents can be quite wordy in places and would benefit from a clearer focus on the objective of the document and making them more accessible to users. As a comment, many LGPS funds have moved from merely producing documents, in order to have them in place, to making them part of the active management of the Fund.

We also note that the Fund's Communication Policy, which is required by the Regulations, although straightforward and succinct, seems to lack the level of detail noted in most other LGPS funds Communication policy. It would be advisable for this policy to be reviewed and updated.

There are a few policies recommended by TPR that we could not find on the Funds website:

- Conflicts of Interest
- Complaints/IDRP (there is a small section on the Fund website but there doesn't appear to be a specific policy document)
- Record keeping
- Maintaining Contributions
- Risk assessments/management and risk register policies
- Training strategy

We also note that we could not find policies on the below best practice documents:

- Admission, cessation and bulk transfer policy
- Data Protection and Freedom of Information

Our feedback on the strategies and policies is set out in Appendix 5.

Knowledge and skills

Our observations from both the Pension Committee and Pension Board meetings suggested a high level of engagement amongst all participants, with a high level of quality interactions. The majority of the Committee and the Board consider that *"there is sufficient time dedicated to gaining the appropriate knowledge and understanding" to carry out their role".*

Furthermore, we note that the Fund does not currently have a formal training policy or plan in place for members of the Committee or Board or officers. TPR's 21st Century Trusteeship Campaign identifies this as a key part of a well run scheme and states that;

you should annually assess your knowledge, understanding and skills and evaluate the decisions you've made over the past year. This will help you identify your strengths and weaknesses and any gaps, which you can then address in your training plan.

Ensuring a strategy is in place will help in coordinating individual planning, within the context of the Fund's policy.

As a minimum we recommend that any such policy include:

- How training will be provided;
- Expectations in relation to attendance;
- How knowledge and understanding will be routinely assessed;
- The responsible officer within the Administering Authority charged with ensuring the policy is implemented

Recommendations

Recommendation 7

Consideration should be given to putting in place a formal Training Policy, setting out the Administering Authorities approach to training for members of the Pension Committee, Pension Board and Officers involved in the management and administration of the Fund.

Recommendation 8

Introduce a governance matrix for the Fund.

Recommendation 9

Consideration to be given to completing a full review and updating of policies held by the Fund. Furthermore, the Fund should consider creation of those policies recommended by TPR but not currently produced and held by the Fund.

9 Next Steps

It is important to emphasise that the governance of the Surrey Pension Fund is in a very strong place. On all the key fundamental issues that would immediately impact an LGPS Fund's governance duties, such as effectiveness of its Pension Committee, Pension Board and Senior Fund Officers, the Surrey Pension Fund has demonstrated and evidenced that it is on solid foundations. We have recognised these positive aspects of the Fund's governance throughout our report but have sought recommendations that would aid the Fund's continued push for excellence in this, and all, areas. With the ever-increasing role of the Pension Regulator in public sector pensions and the high level of scrutiny placed on funds by a variety of external scrutineers, now is an appropriate time to take stock and make sure that all those with responsibility for the management of the Fund have a full understanding of both the risks and opportunities available in the current LGPS environment.

We would recommend that this paper is presented to the Pension Committee and Pension Board and that our overall findings and recommendations are passed for their approval.

We recommend that a 3-year rolling work plan should be developed and agreed, based on these recommendations, setting out the various actions required, the owners of the actions and appropriate timescales to take them forward to completion. Within this work plan clear short to medium term priorities should be set out for the coming 12 to 18 months, while taking account of key pieces of Fund business (e.g. issue of annual benefit statements, financial accounting and triennial/quadrennial valuation exercises). Progress against this plan should then be monitored on a regular basis and adjustments made when required.

Prepared by:-

Ian Colvin

Andrew McKerns

24 May 2019

For and on behalf of Hymans Robertson LLP

10 Reliance's and limitations

This report has been prepared for Surrey County Council.

This report must not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety.

Hymans Robertson LLP do not accept any liability to any party unless we have expressly accepted such liability in writing.

This report has been prepared by Hymans Robertson LLP, based upon its understanding of legislation and events as at May 2019.

Appendix 1

Summary of recommendations

Clarity of objectives

Recommendation 1

The Fund should adopt the objectives and mission statement as set out in this section.

Business planning and monitoring

Recommendation 2

The Fund's business plan should be reviewed in light of newly adopted objectives and mission statement.

Delivery

Recommendation 3

Officers should work with the administration team to consider what changes are required to the analysis and reporting of performance against service standards, better reflecting the full range of reporting requirements available, and supporting the Pension Board in effectively delivering on its responsibilities

Recommendation 4

The Fund should receive reassurance from the administration function that all member records are set up on the pension administration system and that all relevant documents are scanned and assigned to the appropriate record.

Risk Management

Recommendation 5

The Fund should create a risk management policy.

Recommendation 6

The Fund should revisit the existing risk register to ensure it reflects the expectations of TPR.

Decision Making

Recommendation 7

Consideration should be given to putting in place a formal Training Policy, setting out the Administering Authorities approach to training for members of the Pension Committee, Pension Board and Officers involved in the management and administration of the Fund.

Recommendation 8

Introduce a governance matrix for the Fund.

Recommendation 9

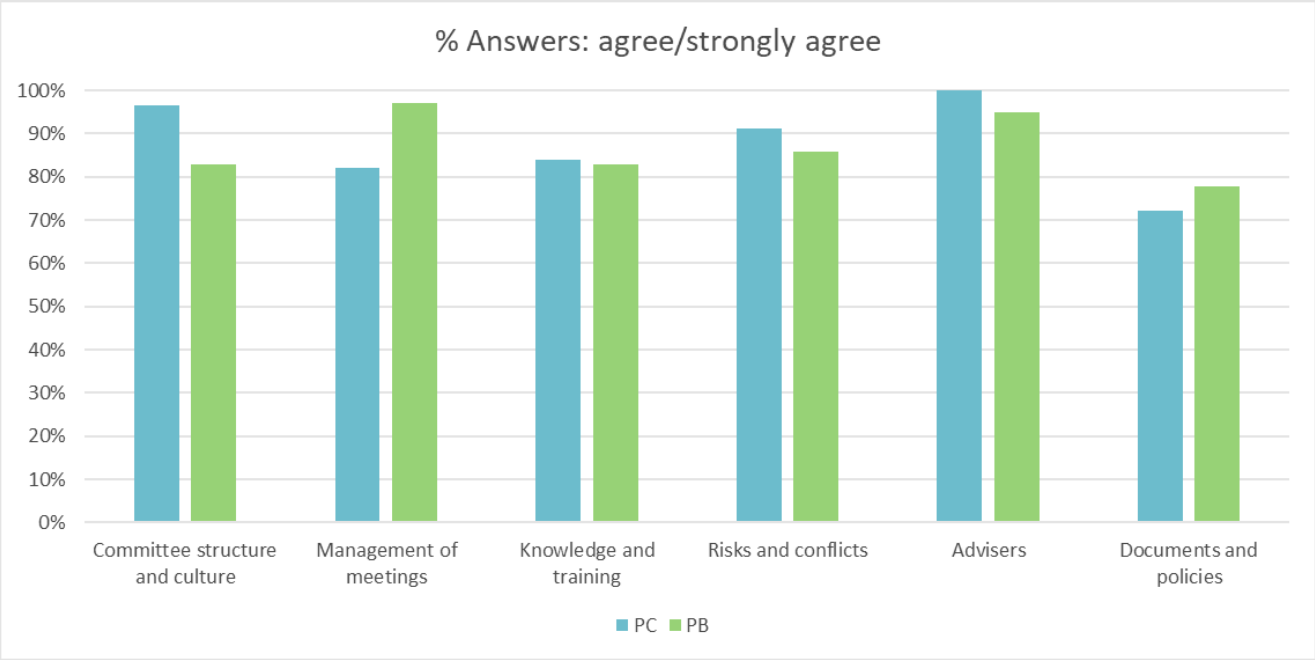
Consideration to be given to completing a full review and updating of policies held by the Fund. Furthermore, the Fund should consider creation of those policies recommended by TPR but not currently produced and held by the Fund.

Appendix 2

Effectiveness questionnaire responses (results only)

The table below summarises the responses of the Pension Fund Committee and Pension Board to a series of statements broken down into key areas, for example Committee structure and culture. The statements represent positive governance characteristics, so high levels of agreement are a positive indicator.

The individual statements and responses are provided in the remainder of this appendix.



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	Question			No. of responses		
1	Committee structure and culture					
				Committee	Board	Total
1.1	I understand my role and obligations under the LGPS Regulations and Committee's/Board's own terms of reference.		Strongly Agree	3	3	6
			Agree	5	2	7
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
1.2	The Committee/Board has sufficient time and resources available for the ongoing management of the Fund.		Strongly Agree	4	1	5
			Agree	4	2	6
		3	Neither Agree nor Disagree	0	2	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
1.3	Do you believe your colleagues on the PC/LPB are clear on these objectives?		Strongly Agree	1	2	3
			Agree	7	3	10
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
1.4	The current size of the Committee/Board is about right		Strongly Agree	3	3	6
			Agree	5	1	6
		3	Neither Agree nor Disagree	0	1	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
1.5	The distinction between the roles of elected members, Board members and officers is understood.		Strongly Agree	3	2	5
			Agree	5	2	7
		3	Neither Agree nor Disagree	0	1	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
1.6	Sufficient time is given to reviewing the Funds governance structure to ensure it remains appropriate		Strongly Agree	4	2	6
			Agree	3	2	5
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
1.7	The Committee and Board work effectively as a team		Strongly Agree	4	2	6
			Agree	3	2	5
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0

	Question			No. of responses		
2	Management of Meetings					
				Committee	Board	Total
2.1	The number of scheduled meetings is sufficient for the Committee/Board to conduct its business		Strongly Agree	4	0	4
			Agree	3	5	8
		3	Neither Agree nor Disagree	1	0	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
2.2	The Committee's/Board's agendas focus on the right topics to allow me to carry out my role.		Strongly Agree	3	2	5
			Agree	3	3	6
		3	Neither Agree nor Disagree	2	0	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
2.3	Meetings are run such that there is sufficient time to discuss all the issues properly		Strongly Agree	4	1	5
			Agree	2	4	6
		3	Neither Agree nor Disagree	2	0	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
2.4	Committee/Board meetings are well managed and productive		Strongly Agree	4	2	6
			Agree	3	3	6
		3	Neither Agree nor Disagree	1	0	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
2.5	A suitable structure exists to ensure any issues can be appropriately escalated		Strongly Agree	3	1	4
			Agree	4	3	7
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
2.6	The Chair has the right qualities in order to perform the role		Strongly Agree	5	4	9
			Agree	1	1	2
		3	Neither Agree nor Disagree	2	0	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
2.7	Meetings are chaired in an even-handed manner, with all opinions being heard and consensus being sought		Strongly Agree	5	3	8
			Agree	2	2	4
		3	Neither Agree nor Disagree	1	0	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0

	Question			No. of responses		
3	Knowledge and Training					
				Committee	Board	Total
3.1	I have sufficient knowledge and understanding to enable me to properly discharge my duties as a Committee/Board member.		Strongly Agree	3	2	5
			Agree	4	2	6
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
3.2	I am familiar with the principles of the Fund's training strategy		Strongly Agree	1	2	3
			Agree	7	3	10
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
3.3	There is sufficient time dedicated to gaining the appropriate knowledge and understanding?		Strongly Agree	3	2	5
			Agree	4	1	5
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	1	1
			Strongly Disagree	0	0	0
				Committee	Board	Total
3.4	The Committee/Board receives appropriate briefings from officers and advisers on current topics and new developments		Strongly Agree	3	1	4
			Agree	5	3	8
		3	Neither Agree nor Disagree	0	1	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
3.5	I am familiar with the objectives of the Fund		Strongly Agree	4	2	6
			Agree	4	3	7
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
3.6	I have completed the Pension Regulator's online Toolkit		Strongly Agree	1	4	5
			Agree	1	0	1
		3	Neither Agree nor Disagree	3	1	4
			Disagree	3	0	3
			Strongly Disagree	0	0	0
				Committee	Board	Total
3.7	The Committee/Board is kept up to date with any legal or regulatory changes impacting the scheme		Strongly Agree	1	1	2
			Agree	6	3	9
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0

	Question			No. of responses		
4	Risks and Conflicts					
				Committee	Board	Total
4.1	I am aware of the need to disclose any conflict of interest that arises		Strongly Agree	6	4	10
			Agree	2	1	3
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
4.2	I have the opportunity to disclose conflicts of interest		Strongly Agree	5	4	9
			Agree	3	1	4
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
4.3	The Committee/Board regularly sees the Fund's issues log		Strongly Agree	4	3	7
			Agree	3	1	4
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
4.4	The Committee/Board is given adequate opportunity to input into the development of and actions within the Fund's issues log		Strongly Agree	2	2	4
			Agree	4	2	6
		3	Neither Agree nor Disagree	2	1	3
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
4.5	In meetings the distinction between "Fund business" and "Employer business" is clearly understood.		Strongly Agree	1	2	3
			Agree	6	1	7
		3	Neither Agree nor Disagree	1	2	3
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
4.6	I am confident that the Fund is managing risk appropriately		Strongly Agree	2	0	2
			Agree	5	5	10
		3	Neither Agree nor Disagree	1	0	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
4.7	If I suspected a breach of the law, I would know the proper process to follow.		Strongly Agree	1	2	3
			Agree	7	2	9
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	1	1

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	Question			No. of responses		
5	Advisors					
				Committee	Board	Total
5.1	Advisers make a useful contribution to the Committee/Board meetings		Strongly Agree	8	1	9
			Agree	0	4	4
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
5.2	I understand the role of the Fund's actuary		Strongly Agree	6	3	9
			Agree	2	2	4
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
5.3	I understand the role of the Fund's investment advisors		Strongly Agree	5	3	8
			Agree	3	2	5
		3	Neither Agree nor Disagree	0	0	0
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
5.4	I understand the role of the Fund Committee/Pension Board		Strongly Agree	4	2	6
			Agree	4	2	6
		3	Neither Agree nor Disagree	0	1	1
			Disagree	0	0	0
			Strongly Disagree	0	0	0

	Question			No. of responses		
6	Documents and Policies					
				Committee	Board	Total
6.1	I know where to find up to date copies of the Fund's key documents		Strongly Agree	3	1	4
			Agree	4	3	7
		3	Neither Agree nor Disagree	0	0	0
			Disagree	1	1	2
			Strongly Disagree	0	0	0
				Committee	Board	Total
6.2	I understand the purpose of the Fund's Funding Strategy Statement		Strongly Agree	4	2	6
			Agree	3	2	5
		3	Neither Agree nor Disagree	1	0	1
			Disagree	0	1	1
			Strongly Disagree	0	0	0
				Committee	Board	Total
6.3	I understand the purpose of the Fund's Communications Policy		Strongly Agree	0	0	0
			Agree	4	4	8
		3	Neither Agree nor Disagree	3	0	3
			Disagree	1	1	2
			Strongly Disagree	0	0	0
				Committee	Board	Total
6.4	I understand the purpose of the Administration Strategy		Strongly Agree	1	1	2
			Agree	5	3	8
		3	Neither Agree nor Disagree	2	0	2
			Disagree	0	1	1
			Strongly Disagree	0	0	0
				Committee	Board	Total
6.5	I am satisfied that the Fund undertakes regular reviews of its member data, in line with Pensions Regulator guidelines		Strongly Agree	0	0	0
			Agree	3	3	6
		3	Neither Agree nor Disagree	5	2	7
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	Board	Total
6.6	A data improvement plan is in place, with progress against objectives reviewed regularly		Strongly Agree	0	0	0
			Agree	5	3	8
		3	Neither Agree nor Disagree	2	2	4
			Disagree	1	0	1
			Strongly Disagree	0	0	0
				Committee	Board	Total
6.7	The Committee/Board is informed of changes to the Fund's key documents		Strongly Agree	1	0	1
			Agree	5	5	10
		3	Neither Agree nor Disagree	2	0	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0

13

				Committee	Board	Total
6.8	I am aware of the Fund's business plan, including its goals and objectives.		Strongly Agree	2	0	2
			Agree	5	4	9
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0
				Committee	**Board**	**Total**
6.9	There are adequate processes and a structure in place to monitor performance against the Fund's objectives		Strongly Agree	2	1	3
			Agree	5	3	8
		3	Neither Agree nor Disagree	1	1	2
			Disagree	0	0	0
			Strongly Disagree	0	0	0

Appendix 3

Review of the Surrey Pension Fund against the 10 topics of TPR 21st century trustee

21st Century Trustee Topic	Brief description	Surrey PF review - analysis
Good Governance Fundamentals	Are appropriate people, structures in place?	Yes – our review has shown that both the fundamental structures and people are in place. One area of concern is the ability of the Pension Committee and Pension Board to appropriately scrutinise the delivery function of the Fund's administration. This is perhaps where the Fund should look to review as part of its structures and practices.
Roles and Responsibilities	Is there clarity around roles, responsibilities, decision-making, governance structures and processes? Are they clearly documented?	The evidence provided within our review, in particular the information gained from the effectiveness review, indicates a clear understanding of roles and responsibilities within the Fund's management. The 2017/18 annual report has a long section on Pensions Governance and demonstrates the importance appropriate Governance structures and processes are in place at the Fund. One note of caution is that the Fund's documentation of some policies appears to be out of date and should be reviewed and updated.
Purpose and strategy	Is the legislative position well understood? Does the Fund have clearly understood objectives? Are these supported by the Business Plan? Are these supported by Fund strategies and policies?	The Governance review has allowed the Fund to refresh their objectives and to introduce a mission statement which encapsulates all recent objective work. With the Fund's fundamental structure and roles strongly in place, this renewed focus to put in place appropriate 2019 LGPS fund objectives highlights the Fund's goal to strive for excellence in its performance on all areas.

21st Century Trustee Topic	Brief description	Surrey PF review - analysis
Competence and integrity	Have the Committee and Board reviewed their effectiveness Do members of Committee and Board act in the best interests of the Scheme members?	Both the competence and integrity of Pension Committee and Pension Board members have been shown to be at the highest level in the evidence provided and found within the Governance review
Skills and training	Is a training strategy in place? Is training delivered? Is the effectiveness of training assessed?	There were no details of a documented training strategy being in place for the Pension Committee and Pension Board. We note that this has been added as an action within the 2019/20 business plan for the Fund.
Advisers and Providers	Do advisers provide clear and relevant advice focused on areas that have the most impact? Do advisers help the Committee and Board run the schemes effectively, offering feedback and challenge	The evidence provided from the effectiveness review would indicate that both Pension Committee and Pension Board members are happy with the impact of advisors as part of the Governance of the Fund.
Conflicts of Interest	Is there a conflict of interest policy and a current register of interests?	A conflict of interest policy was not found within our desktop review of the Funds policies. While elected members will be subject to the Council's own register of interests there should be a Pension Fund policy on conflicts of interest and a register of interests for all committee and board members.
Managing Risk	Is there a risk management framework in place? Is it communicated effectively to the Committee and Board and well understood?	We could not find details of a risk management document or risk register policy on the Fund's website. However, we are aware that the Risk Register is regularly reviewed and presented to the Pension Board.

21st Century Trustee Topic	Brief description	Surrey PF review - analysis
Meetings and decision making	How effective are meetings? How well are they chaired? Are all voices heard?	Both the evidence of my observations of Fund meetings and the information within the effectiveness review indicate that this is a particularly strong area for the Fund. It was encouraging seeing first-hand the constructive nature of Fund meetings. Comments from effectiveness review respondents highlight that views are sought from all parties during meetings.
Value for scheme members	Are scheme members surveyed for their satisfaction with the service the Fund provides?	No evidence was presented to answer this specific question.

Appendix 4

Review of key policies & documents

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Funding strategy statement	2017	LGPS Regulations	Reviewed as part of 2016 funding valuation, in conjunction with the Fund actuary and consultation with employers. Given recent changes to the LGPS Regulations regarding refund of funding surplus for exiting employers this may require review ahead of 2019 valuation exercise
Investment Strategy Statement	2017	LGPS Regulations	Comprehensively reviewed as a requirement of the LGPS (Management and Investment of Funds) Regulations 2016. This was recently approved by the Surrey Pension Fund Committee on the 8th February 2019.
Communications Policy	May 2013	LGPS Regulations	Very light on detail. Does not cover: - key objectives; - measures of success; - purpose of type of communication used for different events - details of the pension team/opening times. This is not a visually engaging document and could be used to further enhance the engagement between the Fund, its employers and members.

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Administration Strategy	Not specified	LGPS Regulations – best practice	Consider as a matter of priority in developing and publishing a robust Administration Strategy, in line with best/accepted practice across LGPS Funds. Our observation of the current administration strategy document is that it is both quite wordy but also short. Many LGPS funds are using the update of their Administration Strategy document to set new polices on employer fines, noting the importance of data and confirming timescales for both the Fund and Employers responsibilities and duties.
Governance Compliance Policy & Statement	2013 Compliance statement and is not specified for Policy statement	LGPS Regulations	The versions online appear to be out of date. Both are not very engaging documents and we would recommend that these documents are reviewed as part of the 2019/20 document reviews being completed by the Administering Authority.
The Surrey Pension Fund Board attendance and Knowledge and Understanding policy	Not specified	Best practice	This document only mentions 6 core skills from the CIPFA knowledge and skills framework. There is no mention of administration knowledge.
Service level agreement	Not specified	Best practice	We would suggest that this is updated at the same time as any review of the administration strategy document. This is to ensure there is a consistent message communicated by the Fund.
Breaches of the Law	Not specified	Code of Practice 14	This is a very well drafted, comprehensive policy document that is clearly laid out and easy to follow.
Annual report 2017/18	2018		Very good annual report that informs interested parties on the Fund's performance throughout 2017/18.

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Business plan 2018/19	2018		Very clear and easily understood business plan. Succinctly sets out the Fund's key management actions for the year ahead.
Discretions Policies (employer)	2016	LGPS Regulations	Comprehensive. Should be reviewed to ensure it does not need to be updated.
Discretions Policies (Administering Authority)	Not specified	LGPS Regulations	Very comprehensive. Should be reviewed to ensure that it does not need to be updated.

Other policies/procedures to consider	
Risk management policy	See Recommendation 5
Training Policy and Log	See Recommendation 7
Contribution Policy	Setting out the Fund's expectation in respect of the payment of employer and employee contributions, together with the procedures to be followed when dealing with non-compliance. This could be incorporated into, or be standalone from, the Fund's Administration Strategy
Ill Health Guidance	While an employer responsibility the Fund might wish to consider the introduction of specific guidance to employers concerning the ill health retirement process and how they can best mitigate the risk of possible pension disputes in this area.
Admissions/Cessations/Bulk Transfers	The Fund should consider setting out its approach to the admission of new employers as well as how it would expect to deal with possible bulk transfers and exiting employers.

Other policies/procedures to consider	
Transgender	While the Council may have a general policy on transgender issues it is important that the Fund understands a) the impact on individual entitlements resulting from transitioning; and b) the associated record keeping implications It may be useful for the Fund to consider introducing a document that sets out the approach to the above.

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Surrey Pension Fund
Business Plan and Actions for 2019/20

The Surrey Pension Fund strives to deliver a first-class service by creating strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. ESG factors are fundamental to our approach which is underpinned by the highest standards of corporate governance, informed decision making, the use of technology and risk management.

Funding

Objective(s)

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To ensure that employer contribution rates are affordable and stable.
- To reflect the different characteristics of scheme employers in determining contribution rates.
- To ensure administration costs attributable to scheme employers are charged proportionately to how they are accrued.
- To take reasonable measures to reduce the risk to all employers of any employer defaulting on its pension obligations.

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Agree actuarial assumptions and employer contribution rates for 2019 actuarial valuation	September 2019	Neil Mason	
2	Provide employers with IAS19/FRS102 funding statements when requested	Scheduled and admitted bodies: Mar 2019 Colleges: July 2019 Academies: August 2019	Ayaz Malik/Mamon Zaman	
3	Monitor and reconcile contributions schedule for the County Council and scheme employers	Ongoing	Ayaz Malik	
4	Member training covering actuarial funding issues	December 2019	Neil Mason	
5	Consult with Parish Councils regarding pooling	December 2019	Neil Mason	

6	Further investigate options for bespoke employer investment strategies	December 2019	Neil Mason	
7	Further investigate covenant assessment for employers	December 2019	Neil Mason	
8	Revise the Funding Strategy Statement	December 2019	Neil Mason	

Investment

Objective(s)

- To have a clearly articulated strategy for achieving the return required to meet pension payments.
- To have a strategic asset allocation that delivers long-term investment returns, while taking the appropriate level of risk required
- To have sufficient liquid resources available to meet the Fund's ongoing obligations.
- To ensure material ESG factors are fundamental to all investment decisions.
- To appoint managers and advisors to deliver the investment strategy and monitor their effectiveness

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Review the investment strategy statement	September 2019	Neil Mason	
2	Monitor performance of investment managers/Border to Coast and report to Pension Fund Committee	Quarterly 2019/20	Mamon Zaman	
3	Reporting on Responsible Investment Outcomes achieved by Fund, BCPP and Engagement Partners, and developments in Responsible Investment Policy	Ongoing 2019/20	Mamon Zaman	
4	Review of Responsible Investment Policy	December 2019	Mamon Zaman	
5	Continue transition to national asset pooling (Border to Coast Pensions Pool) • Global equity • Multi-asset credit	Ongoing 2019/20	Neil Mason	
6	Reviewing the risk attrition of the	Ongoing 2019/20	Mamon Zaman	

	portfolio and how it compares against risk profile of the Fund			
7	Review tender for investment advisory service	April 2020	Neil Mason	
8	Establish base-line pension fund budget	31 May 2020	Mamon Zaman	
9	Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile	Ongoing 2019/20	Mamon Zaman	
10	Produce Annual Statement of Accounts and achieve an unqualified audit	31 May 2019	Mamon Zaman	
11	Produce Pension Fund Annual Report	30 September 2019	Mamon Zaman	
12	Deliver ESG Engagement forum	30 September 2019	Mamon Zaman	

Governance

Objective(s)

- To deliver all LGPS administering authority functions to a high level of quality while recognising the need to deliver value for money.
- To ensure that policies support the strategic aims and objectives of the Fund.
- To ensure the effectiveness of the Pension Fund Committee, Local Pension Board and officers to which delegated function has been passed, including areas such as decision making processes, knowledge and competencies
- To ensure that decision making authority and areas of responsibility are clearly defined and reflected in the Council's Scheme of delegation, terms of reference and procedures.
- To recognise that communication is a two-way process and to communicate in a straightforward, effective and friendly way with all our stakeholders. We will listen and take on board all feedback.
- To ensure the Pension Fund Committee and officers procure professional advice and appropriate information and interpret, scrutinise and challenge that advice in their supervision and monitoring of the Scheme in all areas
- To enable the management of risks and internal controls to underpin the activities of the Fund
- To comply with relevant legislation, The Pensions Regulator's requirements and acknowledged best practice.

- To periodically seek external assurance as to the effectiveness of the governance framework. To report on this effectiveness.
- To act with integrity and transparency in a way that upholds public confidence in the management of Fund

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Reasonably comply with any requests from the Local Pension Board with regard to any aspect of the Scheme Manager function	Ongoing 2019/20	Ayaz Malik	
2	Give due consideration to recommendations made to the Pension Fund Committee from the Local Pension Board and respond to the Local Pension Board within a reasonable period of time	Ongoing 2019/20	Neil Mason	
3	Commission the Local Pension Board to carry out specific studies to assist the Pension Fund Committee	Ongoing 2019/20	The Pension Fund Committee	
4	Ensure ongoing risk assessments of the management of the fund for 2019/20	Ongoing and reported to every committee meeting, via the Local Pension Board report	Ayaz Malik	
5	To monitor a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2019/20	Neil Mason/The Lead Pensions Manager	
6	Review governance strategy and agree mission statement	June 2019	Committee Members	
7	Review Pension Fund Committee and Local Pension Board member training	Ongoing 2019/20	Ayaz Malik	

	requirements and implement training plan as appropriate			
8	Agree annual plan for Committee member training	June 2019	Ayaz Malik	
9	Ensure that meeting papers are issued at least seven days prior to meeting	Every meeting	Neil Mason	
10	Review governance compliance statement and policy	September 2019	Ayaz Malik	
11	Review compliance with the Pension Regulator's Codes of Conduct.	April 2019	Ayaz Malik	April 2019
12	Respond to all government consultations and report to the Pension Fund Committee as necessary	As and when required	Neil Mason	

Delivery

Objective(s)

- To ensure the correct benefits are paid to, and the correct income collected from, the correct people at the right time.
- To set out the administration standards expected of the Fund and scheme employers and the methods by which performance will be monitored and reported. To support employers in achieving those standards.
- To promote good working relationships and maximise efficiency between the SPF and scheme employers
- To ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations.
- To ensure that the Fund maintains accurate pension records and that all data is stored, handled, reviewed and disposed of securely and in accordance with its legal obligations.
- To ensure that the administration costs attributable to scheme employers are charged proportionately to how they are accrued.
- To ensure that Scheme members, employers and others who have dealings with the Fund receive a strong customer focused service.
- To ensure members are communicated effectively so that they understand and appreciate the value of their benefits.

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Conduct monthly monitoring meetings with the Pension Administration Team	Monthly	John Smith	
2	Produce administration performance monitoring reports on a quarterly basis, after scrutiny from the Local Pension Board	Ongoing with reports due at each committee meeting	Ayaz Malik	
3	Pension Fund Committee to receive the Pension Fund Annual Report	By 30 September 2019	Mamon Zaman	

4	Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner	Ongoing	John Smith/Clare Chambers	
5	Review the content of the pension fund website to ensure it is relevant and kept up to date.	Ongoing	Adele Seex/Clare Chambers	
6	Agree and monitor the service specification between the pension fund and pension services team as part of a new service specification	Ongoing	John Smith/Lead Pensions Manager	
7	Agree and monitor performance against the pension fund administration strategy	Ongoing	John Smith/Lead Pensions Manager	
8	Review communications strategy	December 2019	Ayaz Malik/Lead Pensions Manager	
9	Production of a newsletter to pensioners in April each year	April 2019	Lead Pensions Manager	
10	Timely production of benefit statements	Active members by 31 Aug 2019 Preserved members by 31 Aug 2019 Councillors by 31 Aug 2019	Tom Lewis	
11	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme to members and employers. Ensure communication material is amended to	Ongoing	John Smith/Clare Chambers	

	comply with the requirements of the new regulations/legislation			
12	Communication on a timely basis of material scheme changes to Pension Fund Committee, Local Pensions Board, employer bodies and members	Ongoing	Ayaz Malik/Clare Chambers	
13	Prepare Pension Fund Annual Meeting (November) and receive feedback from employers	21 November 2019	Neil Mason	
14	Prepare employer forum	Dates tbc	Ayaz Malik/Lead Pensions Manager	
15	Review JLT work on Guaranteed Minimum Pension (GMP) Reconciliation.	Ongoing	Tom Lewis	
16	Review and implement i-connect.	September 2019	Lead Pensions Manager	
17	Review JLT work on backlog cases.	Ongoing	Tom Lewis	
18	Ongoing monthly meetings between officers to review and report on projects.	Ongoing	Ayaz Malik/ Clare Chambers/ Tom Lewis	
19	Produce a risk management policy.	October 2019	John Smith	
20	Fund receive reassurance from the administration function that all member records are set up on the pension administration system and that all relevant documents are scanned and assigned to the appropriate record.	Ongoing	John Smith/Lead Pensions Manager	
21	Redesign Pension Fund Logo	30 September 2019	Mamon Zaman	

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **PENSION FUND ACCOUNTS 2018/19**

SUMMARY OF ISSUE:

This report presents the unaudited financial statements of the Pension Fund for the year ended 31 March 2019, in light of Surrey County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) will then audit the Accounts, with the Fund aiming for an unqualified opinion.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the 2018/19 Pension Fund Accounts (attached as Annex 1), subject to an unqualified opinion issued by Audit.

DETAILS

1. Grant Thornton audits both the Council and Pension Fund accounts and is required to present separate audit opinions on each. The Audit will commence in June 2019 before presenting their findings of the work carried out, the conclusions reached and recommendations made.

2. Annex 1 represents the primary statements and accompanying notes to the accounts.

SUMMARY OF FINDINGS:

3. The total value of the Fund was reported at £4.29bn (£4.03bn in 2017/18) and received contributions of £176.8m in 2018/19 (£178.3m in 2017/18).

4. The Pension Fund had chosen to reclassify its two Darwin assets (£79.5m) from Property to Private Equity Fund as per Fund Manager Recommendations. This is in line with how the Fund reports against its Strategic Asset Allocation.

5. Note 14 also mentions that the Fund paid approximately £2m in respect of pooling costs to Border to Coast Pensions Partnership (BCPP).

6. Note 17d summarises the investments held by each fund manager, also showing the UK Equity Alpha Fund, the first asset transitioned on to BCPP.

MANAGEMENT REPRESENTATION LETTER:

7. It is considered good practice for those charged with governance to provide the external auditor with a letter of representation in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

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

SECTION 151 OFFICER COMMENTARY:

11. 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:

12. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

13. 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:

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

WHAT HAPPENS NEXT:

15. The following next steps are planned:

    - Undertaking the Statement of Accounts Final Audit before achieving an unqualified opinion and presenting to the Audit & Governance Committee.

Contact Officer:

Mamon Zaman, Senior Accountant

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – Pension Fund Accounts 2018-19

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SURREY PENSION FUND ACCOUNTS 2018/2019

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2018/2019 and of the disposition of its assets at 31 March 2019.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over two hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

The fund exists to provide pensions and other benefits for employees, their widows, widowers or dependants in accordance with Local Government Pension Scheme Regulations.

The number of employees in the fund and the number of pensioners as at 31 March 2018 and 31 March 2019 are:

31 Mar 2018		**31 Mar 2019**
35,802	Employees in the fund	34,211
25,135	Pensioners	26,242
45,079	Deferred pensioners	50,076
106,016	**Total**	**110,529**

Surrey pension fund account

2017/2018 £000		Note	2018/2019 £000
	Contributions and benefits		
178,283	Contributions receivable	7	**176,776**
12,881	Transfers in	8	**14,932**
191,164			**191,708**
-144,146	Benefits payable	9	**-149,832**
-9,527	Payments to and on account of leavers	10	**-10,946**
-12,222	Investment and governance expenses	14	**-13,641**
-1,626	Administration expenses		**-1,829**
-167,521			**-176,248**
23,643	**Net additions from dealings with members**		**15,460**
	Return on investments		
65,751	Investment income	16	**59,055**
-1,032	Taxes on income	15	**-785**
98,662	Change in market value of investments	17	**185,965**
163,381	**Net return on investments**		**244,235**
187,024	**Net increase in the fund during the year**		**259,695**
3,868,859	**Net assets of the fund At 1 April**		**4,055,883**
4,055,883	**At 31 March**		**4,315,578**

Net asset statement

31 Mar 2018 £000		Note	31 Mar 2019 £000
	Investment assets	17	
601,208	Bonds		**706,529**
2,413,734	Equities		**2,489,806**
279,781	Property unit trusts		**283,240**
394,288	Diversified growth		**402,589**
197,738	Private equity		**255,964**
	Derivatives	17c	
	- Futures		
1,327	- Foreign exchange contracts		**1,329**
80,636	Cash		**150,680**
60,000	Other short term investments		**0**
4,740	Other investment balances	17b	**3,406**
	Investment liabilities		
	Derivatives	17c	
0	- Futures		**0**
-1	- Foreign exchange contracts		**-1,452**
-3,393	Other investment balances	17b	**-3,444**
0	Borrowings		**0**
4,030,058	**Net investment assets**		**4,288,647**
7,260	**Long-term debtors**	12	**5,450**
29,861	**Current assets**	11	**30,635**
-11,296	**Current liabilities**	13	**-9,154**
4,055,883	**Net assets of the fund at 31 March**		**4,315,578**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General
The fund is governed by the Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:
- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

During 2018/19 the investment decision making and governance of the fund was undertaken by the Pension Fund Committee, a committee of the Administering Authority, with representation on behalf of employers and members.

b) Membership
Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.
Organisations participating in the Surrey Pension Fund include:
- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.

c) Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	Service pre 1 April 2008	**Service 1 April 2008 until 31 March 2014**
Basis of pension	1/80th of final salary	1/60th of final salary
Lump sum	Automatic lump sum 3 x pension Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org).

	Service 1 April 2008 until 31 March 2014	**LGPS 2014 scheme**
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60th of salary	1/49th of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

Pre 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

LGPS 2014 employee contribution rates for 2018/19	
Pensionable payroll banding	Contribution rate
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
More than £157,801	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or the LGPS 2014 scheme website (http://www.lgps2014.org).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at the year end at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) Contribution income
   Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

   Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

b) Transfers to and from other schemes
   Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

   Transfers in/leavers are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

   Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity

Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

Fund account – expense items

e) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2019 is reported as a current liability.

g) Management expenses

Administrative expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Investment management expenses
All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Governance expenses
Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

Net assets statement

h) Financial assets

Investments in Border to Coast Pensions Partnership are valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, only became licensed to trade on 1 August 2018 and no reliable trading results or profit forecasts are as yet available. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other financial assets are included in the financial statements on a fair value basis as at the reporting date, with the exception of loans and receivables which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

v) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

vi) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contacts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Loans and receivables
Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

m) Financial liabilities
The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.
As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) Additional voluntary contributions
Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2019 was £256 million (£155.8 million at 31 March 2018).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

No allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licensed to trade on 1 August 2018
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement or subsequent notes as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions

Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £256 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £99.7 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

Note 7: Contributions receivable

By category

2017/2018 £000		2018/2019 £000
97,180	Employers	95,662
42,982	Employers deficit	42,612
38,121	Members	38,502
178,283		**176,776**

2017/2018 £000		2018/2019 £000
83,861	Administering authority	80,839
86,022	Scheduled bodies	87,698
8,400	Admitted bodies	8,239
178,283		**176,776**

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2017/2018 £000		2018/2019 £000
0	Group transfers from other schemes	0
12,881	Individual transfers in from other schemes	**14,954**
12,881		**14,954**

Note 9: Benefits payable

By category

2017/18 £000		2018/19 £000
119,064	Pensions	126,014
21,606	Commutation and lump sum retirement benefits	19,571
3,399	Lump sum death benefits	4,146
77	Interest on late payment of benefits	101
144,146		**149,832**

2017/2018 £000		2018/2019 £000
69,389	Administering Authority	70,690
63,587	Scheduled Bodies	67,001
11,093	Admitted Bodies	12,141
144,069		**149,832**

Note 10: Payments to and on account of leavers

2017/2018 £000		2018/2019 £000
9,257	Group transfers to other schemes	10,732
0	Individual transfers to other schemes	0
283	Refunds of contributions	217
-13	Payments for members joining state schemes	-3
9,527		**10,946**

Note 11: Current assets

2017/2018 £000		2018/2019 £000
3,215	Contributions - employees	2,391
9,838	Contributions - employer	10,847
16,808	Sundry debtors	17,397
29,861		**30,635**

Analysis of current assets

2017/2018 £000		2018/2019 £000
5,612	Central government bodies	2,535
19,122	Other local authorities	23,435
5,128	Other entities and individuals	4,665
29,861		**30,635**

Note 12: Long term debtors

2017/2018 £000		2018/2019 £000
7,260	Central government bodies	5,450
7,260		**5,450**

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2019 is £7.260m but £1.815m was due in 2018/19, leaving a long term debtor of £5.450m.

Note 13: Current liabilities

2017/2018 £000		2018/2019 £000
11,094	Sundry creditors	8,885
202	Benefits payable	269
11,296		**9,154**

Analysis of current liabilities

2017/2018 £000		2018/2019 £000
1,418	Central government bodies	1,345
6,254	Other local authorities	4,424
3,624	Other entities and individuals	3,385
11,296		**9,154**

Note 14: Investment and governance expenses

2017/2018 £000		2018/2019 £000
11,263	Investment management fees	10,256
239	Investment custody fees	171
721	Oversight and governance costs	3,214
12,222		**13,641**

The investment management fees includes £569k in respect of transaction costs (2017/18: £1.1million).

As part of its oversight and governance costs in 2018/19, the fund had also spent £2m in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: Taxes on Income

2017/2018 £000		2018/2019 £000
978	Withholding tax – equities	754
54	Withholding tax – property	31
1,032		**785**

Note 15b: External Audit Costs

2017/2018 £000		2018/2019 £000
31	Payable in respect of external audit	21
31		**21**

Note 16: Investment income

2017/2018 £000		2018/2019 £000
	Bonds	
3,667	UK	**0**
7468	Overseas	**5,491**
	Equities	
24,959	UK	**23,526**
11,260	Overseas	**13,733**
9,062	**Property unit trusts**	**11,101**
1,052	**Diversified growth**	**1,693**
2,315	**Private equity**	**2,821**
4,807	**Interest on cash deposits**	**519**
1,161	**Other**	**171**
65,751		**59,055**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000
Bonds	**601,208**	100,492	0	4,829	**706,529**
Equities	**2,413,734**	4,008,340	-4,070,705	138,437	**2,489,806**
Property unit trusts	**279,781**	81,225	-83,613	5,847	**283,240**
Diversified growth	**394,288**	12,111	0	-3,810	**402,589**
Private equity	**197,738**	98,418	-91,286	51,094	**255,964**
Derivatives					
- Futures					
- Forex contracts	**1,326**	66,507	-37,130	-30,826	**-123**
	3,682,270	**4,367,093**	**-4,282,734**	**165,571**	**4,138,005**
Cash	**117,498**			**20,394**	**150,680**
Other Short Term Investments	**60,000**				
Other investment balances	**1,347**				**-38**
Borrowing					
	4,030,058				**4,288,647**

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	**583,327**	304,323	-283,524	-2,918	**601,208**
Equities	**2,288,136**	1,938,482	-1,845,436	32,552	**2,413,734**
Property unit trusts	**235,367**	89,975	-55,432	9,871	**279,781**
Diversified growth	**390,257**	2,327	0	1,704	**394,288**
Private equity	**185,228**	53,184	-50,680	10,006	**197,738**
Derivatives					
- Futures		311	-406	95	
- Forex contracts	**-45**	28,423	-68,141	41,089	**1,326**
	3,642,270	**2,415,334**	**-2,302,389**	**92,860**	**3,888,075**
Cash	**117,498**			5,802	**80,636**
Other Short Term Investments	**42,000**				**60,000**
Other investment balances	**3,344**				**1,347**
Borrowing					
	3,845,112			**98,662**	**4,030,058**

Note 17b: Analysis of investments

	31 Mar 2018 £000s	31 Mar 2019 £000s	
Fixed interest securities			
UK public sector & quoted	205,115	211,246	Level 2
UK pooled funds	0	0	-
Overseas public sector & quoted	0	0	-
Overseas pooled fund	396,093	495,283	Level 1
	601,208	**706,529**	
Equities			
UK quoted	605,423	219,113	Level 1
UK pooled funds	418,042	492,713	Level 1
Overseas quoted	320,896	309,803	Level 1
Overseas pooled funds	1,069,373	1,468,177	Level 1/2
	2,413,734	**2,489,806**	
Property unit trusts			
UK property funds	206,370	206,301	Level 2/3
Overseas property funds	73,411	76,939	Level 2/3
	279,781	**283,240**	
Diversified growth			
UK diversified growth funds	0	0	Level 1
Overseas diversified growth funds	394,288	402,589	Level 1
	394,288	**402,589**	
Private equity			
UK limited partnerships	64,673	104,877	Level 3
Overseas limited partnerships	41,411	51,366	Level 3
UK fund of funds	0	0	Level 3
Overseas fund of funds	91,654	99,271	Level 3
	197,738	**255,964**	
Derivatives			
Futures			
FX forward contracts	1,326	-123	Level 2
	1,326	**-123**	
Cash deposits	**80,636**	**150,680**	Level 1
Other short term investments	**60,000**	**0**	
Other investment balances			
Outstanding sales	357	1,137	Level 2
Outstanding purchases	-3,393	-3,444	Level 2
Tax due on accrued income	0	0	Level 1
Accrued income - dividends and interest	4,383	2,269	Level 1
	1,347	**-38**	
Total investments	**4,030,058**	**4,288,647**	

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2019 the fund had no future contracts in place. At 31 March 2018 the fund had no future contracts in place

31 March 2019

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	-	-	-	0	0	0
				0	0	0

31 March 2018

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	-	-	-	0	0	0
				0	0	0

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2019 the Fund had forward currency contracts in place with a net unrealised loss of -£123k (net unrealised gain of £1,327k at 31 March 2018).

2018/19

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	GBP	JPY	143	-20,803	0	-2
2	One Month	JPY	GBP	99,626	-685	6	0
3	Three Months	GBP	JPY	77,360	-11,150	0	-78
3	Three Months	GBP	EUR	149,652	-171,767	1,323	0
7	Three Months	GBP	USD	442,232	579,813	0	-1,373
						1,329	**-1,452**

2017/18

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	One Month	GBP	JPY	137	-20,650	0	0
5	Two Months	GBP	EUR	118450	-134,064	702	0
5	Two Months	GBP	JPY	66,837	-9,954,387	19	0
8	Two Months	GBP	USD	374,615	-525,891	606	0
						1,327	**0**

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2018/19 the fund operated a stock lending programme in partnership with the fund custodian. As at 29 March 2019 (the last working day) the value of quoted securities on loan was £53.8 million in exchange for collateral held by the fund custodian at fair value of £57.9 million

Note 17d: Investments analysed by fund manager

Investments managed within Border to Coast Pensions Partnership Ltd;

Market value 31 March 2018		Manager	Market value 31 March 2019	
£000	**%**		**£000**	**%**
0	0.0	Border to Coast UK Equity Alpha	464,200	11.1
0			**464,200**	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	**%**		**£000**	**%**
1,151,591	28.6	Legal & General Investment Management	1,190,723	28.3
373,811	9.3	Majedie Asset Management	243,621	5.8
498,553	12.4	Marathon Asset Management	505,222	12.0
317,106	7.9	Newton Investment Management	333,760	7.9
322,509	8.0	Western Multi Asset Credit	422,967	10.1
73,663	1.8	Franklin Templeton Investments	72,316	1.7
150,596	3.7	Baillie Gifford Life Limited	161,151	3.8
260,170	6.5	CBRE Global Multi-Manager	287,636	6.8
122,576	3.0	Ruffer	121,748	2.9
121,117	3.0	Aviva	119,691	2.8
3,777,193			**3,458,835**	
3,777,193			**3,923,035**	

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

The following investments represent more than 5% of the net investment assets of the fund

Market value 31 March 2018 £000	% of total fund	Security	Market value 31 March 2019 £000	% of total fund
496,453	12.3	Legal & General World Developed Equity Index	0	0
494,553	12.3	Marathon Global Contractual Fund	501,089	11.9
376,553	9.3	Legal & General UK Equity Index	0	0
114,467	0	TLCV Bespoke (34048)	492,637	11.7
0	0	Border to Coast UK Equity Alpha	464,200	11.1
322,431	7.7	Legg Mason GBL FD WA Multi-Asset CDT H EUR AC	422,967	10.1
0	0	GPCLMSCIWORLDLW CARBON	352,109	8.4
0	0	GPDG - RAFIMUL-FDEVEQIDX(OFC)	345,977	8.2
1,804,457			**2,578,979**	

Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Not required
Pooled Investments - He dge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed Valuation Range (+/-) %	**Value at 31 March 2019 £000**	**Value on Increase £000**	**Value on Decrease £000**
Private Equity	10%	255,964	281,560	230,368
Property funds	10%	142,704	156,974	128,433
Total		**398,668**	**438,434**	**358,801**

Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2018 £000	**Transfers in/ out of Level 3 £000**	**Purchases during the year and derivative payments £000**	**Sales during the year and derivative receipts £000**	**Market movements £000**	**Market value at 31 Mar 2019 £000**
Equities	**2,758**	132	0	-2,591	-445	**0**
Property unit trusts	**64,859**	68,913	18,813	-20,416	10,535	**142,704**
Private equity	**155,782**	60,000	38,418	-51,286	53,050	**255,964**
	223,545	**129,045**	**57,231**	**-74,293**	**63,140**	**398,668**

Note 18c: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2018				As at 31 March 2019		
Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial assets			
601,208			Bonds	706,529		
2,413,735			Equities	2,489,806		
279,781			Property unit trusts	283,240		
394,288			Diversified growth	402,589		
197,738			Private equity	255,964		
			Derivatives			
	80,636		Cash		150,680	
	60,000		Other short term investments			
4,739			Other investment balances	3,407		
	37,121		Debtors		36,085	
3,891,489	**177,757**		**Total financial assets**	**4,141,535**	**186,765**	
			Financial liabilities			
-1			Derivatives	-123		
-3,393			Other investment balances	-3,445		
		-11,296	Creditors			-9,154
			Borrowings			
-3,394		**-11,296**	**Total financial liabilities**	**-3,568**		**-9,154**
3,888,095	**177,757**	**-11,296**		**4,137,967**	**186,765**	**-9,154**

Note 18d: Net gains and losses on financial instruments

31 March 2018 £000		31 March 2019 £000
	Financial Assets	
92,860	Designated at Fair Value through profit and loss	196,397
5,802	Loans and Receivables	20,210
	Financial Liabilities	
0	Fair Value through profit and loss	-30,826
0	Financial liabilities at amortised cost	
98,662	**Total**	**185,781**

Note 18e: Fair Value Hierarchy

31 March 2019	**Quoted market price Level 1**	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
	£000	£000	£000	£000
Financial assets at Fair Value	2,420,590	1,332,588	398,668	4,151,846
Loans and Receivables	52,520	1,230	0	53,750
Financial Liabilities at Fair Value	0	-4,897	0	-4,897
Net financial assets	**2,473,110**	**1,328,921**	**398,668**	**4,200,699**

31 March 2018	**Quoted market price Level 1**	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
	£000	£000	£000	£000
Financial assets at Fair Value	2,306,918	1,357,613	223,545	3,888,076
Loans and Receivables	55,408	357	0	55,765
Financial Liabilities at Fair Value	0	-3,393	0	-3,393
Net financial assets	**2,362,326**	**1,354,576**	**223,545**	**3,940,448**

Note 18c: Book cost

The book cost of all investments at 31 March 2019 is £3,164million (£3,055million at 31 March 2018).

Note 19: Outstanding commitments

At 31 March 2019 the Fund held part paid investments on which the liability for future calls amounted to £163.6million (£127million as at 31 March 2018)

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis

PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2018/19 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2019 £000	Change	Value on increase £000	Value on decrease £000
UK equities	711,826	9.90%	782,308	641,344
Overseas equities	1,777,980	9.28%	1,942,938	1,613,022
Bonds	495,283	4.06%	515,368	475,198
Index-linked	211,246	9.81%	231,966	190,526
Cash	150,680	0.50%	151,433	149,927
Other short term investments	0	0.50%	0	0
Property	283,240	4.33%	295,504	270,976
Alternatives	255,964	6.01%	271,348	240,580
Diversified growth fund	402,589	4.14%	419,244	385,934
Other assets	-161	0.50%	-162	-160
Total Investment Assets	4,288,647	4.60%	4,485,771	4,091,523

Asset type	Value at 31 March 2018 £000	Change	Value on increase £000	Value on decrease £000
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	396,093	4.38%	413,439	378,747
Index-linked	205,115	10.00%	225,627	184,604
Cash	80,636	0.03%	80,663	80,609
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,737	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	2,626	2,624
Total Investment Assets	4,030,011	6.01%	4,272,248	3,787,774

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2018 £000		As at 31 March 2019 £000
80,636	Cash & cash equivalents	150,680
60,000	Other short term investments	0
396,093	Fixed interest securities	495,283
536,729	**Total**	**645,963**

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2019	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	150,680	1,507	-1,507
Other short term investments	0	0	0
Fixed interest securities	495,283	4,953	-4,953
Total	**645,963**	**6,460**	**-6,460**

Asset type	Carrying amount as at 31 March 2018	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	80,636	81	-81
Other short term investments	60,000	60	-60
Fixed interest securities	396,093	396	-396
Total	**536,729**	**537**	**-537**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis
PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2018/19 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2019 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,479,276	11.54%	1,649,999	1,308,553
Fixed interest	495,283	11.54%	552,443	438,123
Property and Private Equity	228,026	11.54%	254,342	201,710
Diversified Growth	402,589	11.54%	449,052	356,126
Cash and Other Assets	14,026	11.54%	15,645	12,407
Total	2,619,200	11.54%	2,921,481	2,316,919

Asset type	Value at 31 March 2018 £000	% Change	Value on increase £000	Value on decrease £000
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
Total	1,850,582	4.93%	1,941,842	1,759,322

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a

counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund held no fixed term deposits with other Local Authorities as at 31 March 2019.

Fixed Term Deposits	No. of days	Balance at 31 March 2019 £000
Other short term investments		**0**

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2018 £000		Balance at 31 March 2019 £000
	Term Deposits	
0	Nationwide	0
	Call account	
0	Natwest	0
20,000	Lloyds	19,000
	Money market fund	
4,000	Goldman Sachs	25,000
5,500	Aberdeen MMF	25,000
	Current account	
64	HSBC	18,948
29,564	**Internally Managed Cash**	**87,948**
51,072	Externally Managed Cash	62,732
80,636	**Total Cash**	**150,680**

The fund's cash holding under its treasury management arrangements as at 31 March 2019 was £87.9million (£29.6million at 31 March 2018).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2017/18 or 2018/19

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2018/19 amounted to £63,982k (£62,796k in 2017/18).

2017/2018 £000		2018/2019 £000
41,031	Employers' current service contributions	41,466
21,287	Lump sum payments to recover the deficit in respect of past service	21,299
479	Payments into the fund to recover the additional cost of early retirement liabilities	1,217
62,796		**63,982**

ii) Surrey Pension Fund paid Surrey County Council £2,136k for services provided in 2018/19 (£1,847k in 2017/18).

2017/2018 £000		2018/2019 £000
221	Treasury management, accounting and managerial services	307
1,626	Pension administration services	1,829
1,847		**2,136**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2019 were £4,619k (£5,218k at 31 March 2018).

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund.

2017/18 £	Position	2018/19 £	
24,109	Director of Finance	51,842	1
80,681	Head of Pensions	91,202	2
25,398	Senior Specialist Advisor	23,599	2
49,059	Senior Accountant	54,956	2
179,247		**221,598**	

2018/19
1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York
Glennmont Partners	Augentius (Luxembourg) S.A.

Note 24 : Actuarial statement for 2018/19 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2016 valuation report.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	**31 March 2016**
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.1 years	26.4 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016
Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA
For and on behalf of Hymans Robertson LLP
2 May 2019
Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31/03/2019	31/03/2018
Active members (£m)	3,135	2,559
Deferred members (£m)	1,519	1,359
Pensioners (£m)	1,918	1,921
	6,572	**5,839**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £489m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	574
0.5% p.a. increase in the Salary Increase Rate	1%	87
0.5% p.a. decrease in the Real Discount Rate	10%	674

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies our covering report titled ‘Actuarial Valuation as at 31 March 2019 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA (For and on behalf of Hymans Robertson LLP)

30 April 2019

Note 26: Additional Voluntary Contributions

Market Value 2017/18 £000	Position	Market Value 2018/19 £000
13,621	Prudential	14,520
13,621		**14,520**

Additional Voluntary Contributions, net of returned payments, of £2.6million were paid directly to Prudential during the year (£2.8million during 2017/18).

Note 27: Investment Strategy Statement

Full details of the fund's investment policy are documented in the Investment Strategy Statement. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 28: Annual report

The Surrey Pension Fund Annual Report 2018/2019 provides further details on the management, investment performance and governance of the Fund.

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

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 25 April 2019 that need to be brought to the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the recommendations from the Local Pension Board.
2. Notes the progress and developments in improvements in the Pension Administration department, but also that the service improvement plan is in its infancy.
3. Endorses relying on the legal opinion on the recovery of overpaid guaranteed minimum pensions (GMPs) prepared by Squire Patton Boggs for the Local Government Association (LGA).
4. Agrees that there are currently no projects or processes that the Local Pension Board should be commissioned to undertake on behalf of the Committee.

REASON FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013 requires for Local Pension Boards to assist the Scheme Manager in securing compliance with the LGPS Regulations and requirements imposed by the Pensions Regulator. This report provides the Pension Fund Committee with insight in to the activities of the Local Board and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

DETAILS:

Action tracker

1. The Board agreed that item A1/15, knowledge and understanding, would be removed from the action tracker as it is an item reviewed by the Board on a long standing basis.
2. The Chairman requested an update on item A2/16, the discretions exercise, at October's meeting.

3. The Strategic Finance Manager (Pensions) confirmed that the governance review, item A2/19, would be presented at the next Local Board in July and would be reviewed at June's Pension Fund Committee meeting. Board members were asked to send comments to the Board Chairman.

4. It was agreed that items A2/18, the AVC review, and A4/18, cyber security, would be added to the Board's forward plan.

5. It was noted in item A9/19 that the Pension Administration Service is appointing a tracing agency to reduce the large number of deferred beneficiaries without valid addresses, is to be carried forward.

6. The Board approved the Local Government Association's generic recommendation on item A12/19, endorsing Surrey Legal Services view on recovering GMP overpayments, following the advice of Squire Patton Boggs.

Forward plan

7. Items on cyber security and AVC review are to be added to the forward plan for consideration at July's meeting.

8. Reports on the annual and lifetime allowances, member feedback from roadshows and the employer discretions exercise are to be added to the forward plan for consideration at October's meeting.

9. The Lead Pension Manager will report on progress made on the Service Improvement Plan at each Board meeting.

Administration update report

10. The Lead Pension Manager to provide an update on the developments in pensions administration department (further information can be found in the Administration Monitoring paper). The Board noted the new Performance Report, which showed timelines for the delivery of improvements.

11. The Board stressed that the processing of death cases remained unsatisfactory.

12. In the GMP reconciliation project, JLT have completed their work relating to member queries from HMRC.

13. A contract has been entered in to with JLT to handle the processing of the backlog.

14. In relation to the 2019 Annual Benefit Statement project, 216 employer returns have already been received, from a total of 276 scheme employers. Further follow-up action will be taken regarding the outstanding returns.

15. Significant work is being undertaken in a data cleansing exercise, in conjunction with the 2019 valuation. A progress report will be presented at the next Board meeting.

16. The Board received the annual CIPFA administration benchmarking report and noted that the cost per member remained below average. The Board queried that no staff in the administration team had professional qualifications, in comparison to peers and asked for a further report on this issue.

Risk register

17. Risk A4, lack of capability in the administration team, is to be amended to correct an error which recorded the residual risk as being greater than the inherent risk.

18. Risk register A18, structural changes in an employer's workforce, is to be deleted as it is captured elsewhere.

19. The Board discussed the officer judgment that many of the residual risks in the Administration Risk Register were modified from amber to green, as the likelihood had been amended from rating "3" to "2". This reflected that there is an improvement plan being implemented, but, the implementation process was still in its infancy. The Chairman asked that this be considered with caution.

Compliance with the Pension Regulator's code of practice

20. The Pension Advisor/Accountant was commended for a through piece of work, assessing compliance with 93 separate requirements.

21. Item 27 is to be amended to record that the Chairman is an elected councillor – albeit not a member of the ruling party - as opposed to an "independent chair".

22. Item 30, information relating to the membership of the Pension Fund Committee and the Local Pension Board, officers are to ensure that Surrey Pension Fund's website is updated.

23. Item 46, communications policy, officers are to update the entry so that the ongoing communications strategy is noted.

24. The Board agreed that the compliance checklist would be scheduled for an annual review, but items marked as "partially" compliant would be reviewed in six months.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

27. 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 COMMENTARY:

28. 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:

29. 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:

30. 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:

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

WHAT HAPPENS NEXT:

32. 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

Consulted:
Pension Fund Committee Chairman
Local Pension Board Chairman

Annexes:
Annex 1 – Administration Risk Register 2018/19 Quarter Four

Administration Risk Register 2018/19 Quarter 4

Risk Ref.	Risk Description	Risk Owner	Inherent Risk						Control actions	Action by whom	Residual risk						Reviewed on	Changes made during review
			Impact					Total risk score			Impact					Total risk score		
			Fin	Service	Rep'n	Total	Likely				Fin	Service	Rep'n	Total	Likely			
A1	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	AM/NM	4	1	3	8	3	24	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and Pension Committee members are able to interrogate data to ensure accuracy.		3	1	3	7	2	14	Mar-19	
A2	Lack of process ownership leads to ineffective processes and errors.	AM	1	3	3	7	3	21	TREAT 1) Require transparent workflow reporting with clear identification of process ownerhip to be reported to the Local Pension Board.		2	2	2	6	2	12	Mar-19	Updated
A3	Failure to follow up on outstanding issues results in inefficiency and damaged reputation.	AM	2	3	3	8	3	24	TREAT 1) Include monitoring of task follow-up times as part of the revised service standards in the Administration Strategy		2	2	2	6	2	12	Mar-19	Updated
A4	Lack of capability of the admin system leads to inefficiency and disruption.	AM	2	2	3	7	1	7	TOLERATE 1) Ensure system efficiency is included in the annual improvement review.		2	1	1	4	1	4	Mar-19	Updated
A5	Poor reconciliation process leads to incorrect contributions.	AM/NM	3	3	3	9	4	36	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process 3) Pensions admin team testing i-connect to ensure it is fit for purpose and if funding agreement reached it will be implement from April 2019.		2	2	1	5	2	10	Mar-19	Updated
A6	Lack of guidance and process notes leads to inefficiency and errors.	AM	2	3	3	8	3	24	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and administration teams 2) Process Improvement Officer developing Standard Operating Procedures for all process. 3) Use of Heywood's Training and Education Centre allows for standardisation of training.		1	2	2	5	2	10	Mar-19	Updated
A7	Unstructured training leads to under developed workforce resulting in inefficiency.	AM/NM	2	4	3	9	3	27	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Orbis.		1	2	2	5	2	10	Mar-19	Updated

A8	Conflicting priorities (Orbis, SCCvsSPF, Pensions pooling) leads to lack of overall strategy, confusion and missed opportunities.	AM/NM	2	2	3	7	4	**28**	TOLERATE 1) Establish transparent lines of communication between Orbis partnership leads and local service areas 2) Ongoing monitoring from the Pension Fund Committee and Local Pension Board.		2	2	3	7	2	**14**	Mar-19	Leave
A9	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	AM/NM	3	2	4	9	3	**27**	TREAT 1) The fund has generally good internal controls with regard to the management of the fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.		1	2	4	7	2	**14**	Mar-19	Updated
A10	Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance.	AM	2	3	3	8	3	**24**	TREAT 1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. 4) Skills Matrices completed by all staff and standardised Personal Development Plans being introduced.		2	3	2	7	2	**14**	Mar-19	Updated
A11	Failure to get on top of the backlog leads to resource issues and management distractions.	AM	3	3	3	9	4	**36**	TREAT 1) Backlog to be identified as a "Project" as part of the Service Specification between the Fund and Orbis 2) Backlog to be included in revised Performance Statistics reported to and scrutinised by the Committee and Board 3) Consideration being given to outsourcing the largest areas of the backlog.		2	3	4	9	2	**18**	Mar-19	Updated
A12	Failure to identify GMP liability leads to ongoing costs for the pension fund	AM	3	2	3	8	4	**32**	TREAT 1) GMP to be identified as a "Project" as part of the Service Specification between the Fund and Orbis 2) Stage 1 reconciliation reviews has been completed. 3) Acquila Heywoods have been appointed to carry out an intermim stage 2 review GMP Reconciliation project is being progressed by JLT. Seperate updates being issued.		3	2	3	8	2	**16**	Mar-19	
A13	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	AM/NM	3	3	3	9	3	**27**	TREAT 1) Disaster recover plan in place as part of the Service Specification between the Fund and Orbis 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms should ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.		3	3	3	9	1	**9**	Mar-19	

A14	Lack of productivity leads to impaired performance.	AM	2	3	3	8	4	32	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff 2) Productivity outputs are being measured and reported on a monthly basis.		2	3	2	7	3	21	Mar-19	Updated
A15	Failure to continuously improve leads to inefficiency and missed opportunities.	AM	2	2	2	6	3	18	TREAT: 1) Annual customer feedback survey to be carried out. 2) Quarterly complaints/praise feedback to be reported to and scrutinised by the Committee and Board 3) Implementation and monitoring of an annual Continous Improvement Plan as part of the Service Specification between the Fund and Orbis 4) Support and Development Team in place to identify and implement areas for improvement.		2	2	2	6	2	12	Mar-19	
A16	Rise in ill health retirements impact employer organisations	NM	3	1	2	6	2	12	TREAT 1) Implement self-insurance across employers within the fund		3	1	3	7	1	7	Mar-19	Updated
A17	Rise in discretionary ill health retirements claims adversely effecting self-insurance costs	AM/NM	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations		2	1	2	5	1	5	Mar-19	
A18	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond	AM/NM	3	4	2	9	3	27	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers implemented as part of 2016 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	AM/NM	3	4	2	9	2	18	Mar-19	
A19	The Pensions Payroll process had migrated onto the Altair system from SAP in Nov 17. Unlike the SAP payroll process the manual emergency payments made outside of the monthly payroll do not integrate with our banking processes or offer sound financial controls. This is due to these manual payments not being accounted for in the financial system when they occur and therefore payments made are not able to be checked. The risk of errors in the current process are increased by the core Altair payroll system not being integrated with the BACS generator application meaning items have to be recorded twice.	AM/NM	3	2	3	8	3	24	TREAT 1) Develop an automated process whereby the Altair payment log updated by the administration team, is then converted into a journal template on a daily basis. This is then processed onto SAP to ensure that all payments processed manually through Altair are accounted for and payments are then subject to the standard financial controls.	AM/NM	3	4	3	10	2	20	Mar-19	

A20	Pension Services Manager leaving the Council may dilute the organisation's collective knowledge and impact on decision making.	AM	3	4	3	10	3	**30**	TREAT/TOLERATE An interim Pensions Manager has been appointed and a permanent Manager will be appointed in six months.	AM	3	3	3	9	2	**18**	Mar-19	Updated

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **ADMINISTRATION MONITORING REPORT**

SUMMARY OF ISSUE:

This report is for information purposes and to note and is in response to the concerns raised by the Local Pension Board and Pension Committee and the recently received Audit Report regarding the Pension Administration Service.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the content of this report and approves the monitoring approach of the Fund.

REASON FOR RECOMMENDATIONS:

To provide the Pension Fund Committee with the necessary assurance of the actions is being taken to improve the pension administration service.

DETAILS:

Service improvement plan

1. The Lead Pensions Manager had produced a service improvement plan with a mission to provide “excellent service from expert people and an engaging self-service which our members and client partners value”.

2. This is underpinned by four pillars:

   - Data Improvement – accuracy
   - System Improvement – efficiency
   - Process Improvement – effectiveness
   - People Improvement – performance

3. The plan will be delivered in three stages:

   - Stabilise – lead, support, plan, correct, deliver, control
   - Enhance – protect, prevent, improve
   - Optimise – value, engagement, scale

4. There are a number of projects that are contained within the service improvement. These projects and BAU will be monitored by the Pension Fund team, with progress reported to the Local Pension Board.

The monitoring approach of the Pension Fund Team

5. The following actions have been undertaken to review the pension administration function. These measures have been put into place to demonstrate the monitoring, accountability of business as usual and projects, between the Surrey Pension fund and the Pensions Administration Team:

   - Monthly review meetings will be held between the Fund and Administration teams to monitor projects and business as usual (BAU) functions of the Pensions Administration Team. Dates of these meetings are as follows:

Day	Date
Friday	10/05/2019
Friday	14/06/2019
Thursday – to be moved to a Friday	04/07/2019
Friday	09/08/2019
Friday	06/09/2019
TBC	October
TBC	November
TBC	December

- The introduction of new metrics for KPIs has been agreed and performance against these will be monitored.

- Progress against project milestones and BAU performance will be reported to the Local Pension Board on a quarterly basis.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

7. There are no risk direct risk implications arising from the recommendation of this report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

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

SECTION 151 OFFICER COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

10. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

11. The approval of Administration Monitoring Report does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS:

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

WHAT HAPPENS NEXT:

13. The following next steps are planned:

    - Quarterly report progress to both Local Board and Pension Fund Committee, including monitoring of progress against the Service Improvement Plan.

Contact Officer:
Ayaz Malik, Pensions Accountant Advisor

Consulted:
Pension Fund Committee Chairman

Sources/background papers:
Pension Administration Service Improvement Plan

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **PENSION FUND BUSINESS PLAN 2018/19: OUTTURN REPORT**

SUMMARY OF ISSUE:

All Local Authority Pension Funds are recommended to approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints. This report sets out the outturn of the annual business plan for 2018/19.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the achievements and progress made with regard to the Business Plan objectives shown in respect of the 2018/19 financial year and approve the outturn report.

REASON FOR RECOMMENDATIONS:

A business plan is required by best practice in order to set relevant targets and monitor progress. Monitoring the outturn against the objectives set is an essential part of the planning and monitoring and outturn processes.

DETAILS:

Background

1. At the Pension Fund Committee meeting of 9 February 2018, the Committee approved a business plan for 2018/19, identifying the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives. The business plan listed the investment process and pension administration tasks to be carried out during 2018/19 and the target date when these should be achieved.

Outturn 2018/19

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

Outturn: Administration

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

   Outcome: **Achieved**

4. *Action 2:* Pension Fund Committee to receive the Pension Fund Annual Report by 30 September 2018

   Outcome: **Achieved**

   The Draft Pension Fund Annual Report was approved by the Committee on 14 September 2018 before being approved by External Auditors and published on the Pension Fund website.

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

   Outcome: **Achieved**

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

   Outcome: **Achieved**

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

7. *Action 5:* Monitor the service specification between the Pension Fund and pension services team as part of new service specification

   Outcome: **Partially Achieved**

   A new pension service level agreement is currently being drafted with input from the Senior Specialist Advisor, Pensions Services Manager and Customer Services Manager. The expected completion date is September 2019.

8. *Action 6:* Review the current pension administration strategy

   Outcome: **Partially Achieved**

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

Outturn: Communication

9. *Action 1:* Review communications strategy

Outcome: **Partially achieved**

A communication strategy is being drafted, the expected completion date is December 2019.

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

    Outcome: **Achieved**

    An update regarding the annual pension increase was provided in March 2019 and confirmed in writing as part of a newsletter sent to all pensioners of the Surrey Pension Fund.

11. *Action 2:* Timely production of benefit statements

    Outcome: **Partially Achieved**

    Benefit statements were issued by 31 August 2018 for all members for whom we had received end of year pensions data.

    Although a very high percentage of statements were issued, this was still reported to the Pensions Regulator as a breach, in accordance with published guidance. The Regulator is understanding of the administrative challenges facing local authority funds and was satisfied that no further action was required.

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

    Outcome: **Achieved**

    Standard booklets, information sheets and policies are regularly updated to comply with any regulatory changes to the scheme. Scheme employers and members have also been issued with bulletins which have provided details of regulatory and wider legislative and procedural changes.

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

    Outcome: **Achieved**

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

    Outcome: **Achieved**

    The Fund held a successful annual meeting on 23 November 2018, attended by the actuary who was available for one-to-one sessions with employer representatives following the formal meeting. Feedback from delegates who attended the meeting was very favourable and pointed to a successful event.

15. *Action 6:* Prepare employer forum

    Outcome: **Partially achieved**

    Officers to agree employer forum dates with the actuary and send communication plan to scheme employers.

Outturn: Actuarial/Funding

16. *Action 1:* Award actuarial contract

    Outcome: **Hymans were reappointed Fund Actuary after formal approval by the Committee on 26 March 2019**

17. *Action 2:* Commence preparation for the 2019 actuarial valuation

    Outcome: **Partially Achieved**

    Fund Officers and the Administration team have provided the Actuary with information from 2016-2018 to begin their draft assumptions. The remaining membership information will be submitted to the Actuary by the 30 June 2019 deadline.

18. *Action 3:* Continue implementation of funding unitisation

    Outcome: **Partially Achieved**

    The Pension Fund is working the Fund Actuary in implementing the Hymans Employer Asset Tracker in time for the 2019 Valuation which will unitise the assets of each employer.

19. *Action 4:* Provide employers with IAS19/FRS102 funding statements when requested

    Outcome: **Achieved**

    The Pension Fund had provided all required FRS102 reports for Scheduled/ Admitted bodies in March 2018, Colleges in July 2018 and Academies in August 2018

20. *Action 6:* Monitor and reconcile contributions schedule for the Council and scheme employers

    Outcome: **Achieved**

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

21. *Action 5:* Member training covering funding issues

    Outcome: **Achieved**

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

Outturn: Pension Fund Committee Members

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

    Outcome: **Achieved**

    Results of the questionnaires designed for the assessment of the Committee's governance will be presented to the Committee on 7 June 2019, with initial new member training and future training proposals presented to the same meeting. Committee members are invited to discuss the 2018/19 financial year with a view to reviewing its decision-making process and the effectiveness of the way in which its decisions are made.

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

    Outcome: **Achieved**

    A new training policy covering Pension Fund Committee, Local Pension Board members and officers was approved on 8 February 2019. Regular quarterly training for the Committee is provided and various external conferences and seminars are attended by Committee members. Pension Fund Committee and Local Pensions Board members will be required to carry out Self-Assessment Questionnaire on an annual basis to assess their overall level of 'Knowledge and Understanding'. The self-assessment will be in the form of a short self-assessment questionnaire to identify any perceived development needs. Training on the identified areas will be provided as necessary, including induction and on an ongoing refresher basis.

24. *Action 3:* Agree annual plan for Pension Fund Committee member training

    Outcome: **Achieved**

    Pension Fund Committee members are provided with upcoming trainings for the financial year. During the year a short-self assessment questionnaire provided to members to develop a training plan for next year.

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

    Outcome: **Achieved**

    Committee agendas and reports were sent out on a timely basis within the seven-day target.

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

Outcome: **Achieved**

All governance documents are now existent. An independent review of governance from Hymans Robertson will be considered at the 7 June 2019 Committee meeting.

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

    Outcome: **Achieved**

    The national asset pooling was a constant agenda item throughout all of the Pension Fund Committee meetings during 2018/19. The Pension Fund Committee is made aware of any progress in transitions onto Border to Coast Pensions Partnership on a quarterly basis.

28. *Action 7:* Ensure that Committee is kept fully up-to-date with Pensions Regulator Code of Conduct

    Outcome: **Achieved**

Outturn: Financial and Risk Management

29. *Action 1:* Monitor Pension Fund expenses for next financial year with the target of unit cost in lowest quartile

    Outcome: **Partially Achieved**

    The Fund reported the manager fee rates on a quarterly basis to the Committee.

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

    Outcome: **Achieved**

    This was produced on time (2017/18 accounts, financial statements and annual report) with no external audit qualifications.

31. *Action 3:* Produce Annual Pension Fund Report

    Outcome: **Achieved**

    The Pension Fund Annual Report was posted onto the Fund's website in November 2018.

32. *Action 4:* Ensure ongoing risk assessments of the management of the fund for 2018/19

    Outcome: **Achieved**

    An evaluation of the Fund's risk assessments with risk control procedures and mitigations was presented at every Committee meeting in 2018/19 and will be a regular agenda item at every future meeting.

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

    Outcome: **Achieved**

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

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

    Outcome: **Achieved**

    The Fund's new risk assessment in accordance with strength of covenant to be applied for the 2019 actuarial valuation process, subject to employer consultation.

Outturn: Investment

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

    Outcome: **Ongoing**

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

36. *Action 2:* Review of investment manager arrangements

    Outcome: **Achieved**

    The Fund had recently transitioned its first tranche of assets to Border to Coast Pension Partnership's UK Equity Alpha Fund. Work is continuing on the investment strategy review, further diversification possibilities (including infrastructure). The Fund also implemented a downside equity protection strategy with Legal and General. This is due for review in September 2019.

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

    Outcome: **Achieved**

    Asset allocation and variances have been consistently reviewed at each quarterly. An asset repositioning exercise and transition process between managers was conducted during 2018/19.

38. *Action 4:* Review equity portfolio strategy

    The equity portfolio strategy was reviewed in 2018/19 and the decision was approved to retain 20% exposure to Active UK Equity mandate across the entire Equity portfolio. The UK Equity exposure has been strategically allocated to Border to Coast Pension Partnership's UK Equity Alpha Fund.

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

    Outcome: **Achieved**

    Meetings have been held with all investment managers in every quarter during 2018/19 and the minutes included in Committee agenda reports with the independent advisor's written and verbal commentaries at meetings.

40. *Action 5:* Review the Investment Strategy Statement (ISS)

    Outcome: **Achieved**

    Revised versions of the Investment Strategy Statement were approved at every Committee meeting in 2018/19. Changes to the existing ISS will be put forward to the Committee with the most recent version available on the Pension Fund website.

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

    Outcome: **Achieved**

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

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

    Outcome: **Achieved**

    All national initiatives with a consultation process were considered by the Committee with a response sent within stated deadlines. The Fund had most recently issue a response in March 2019 to MHCLG's consultation on asset pooling.

43. *Action 8:* Implement plan re asset pooling (Border to Coast Pensions Partnership

    Outcome: **Achieved**

    The Surrey Pension Fund transitioned its UK Equity Portfolio into Border to Coast in November 2018.

Outturn: Local Pension Board

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

    Outcome: **Achieved**

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

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

    Outcome: **Achieved**

    Although the Local Pension Board has not presented the Pension Fund Committee with any specific recommendations, the Pension Fund Committee has been fully supportive of any requests or activities of the Local Pension Board.

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

    Outcome: **Achieved**

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

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

    Outcome: **Achieved**

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

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

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

SECTION 151 COMMENTARY:

51. The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the outturn report, and that the document will provide the Committee and officers with a useful update as to the achievement of the business plan's objectives, and a useful tool for the monitoring of progress.

LEGAL IMPLICATIONS – MONITORING OFFICER:

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

EQUALITIES AND DIVERSITY:

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

OTHER IMPLICATIONS:

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

WHAT HAPPENS NEXT:

55. The following next steps are planned:

- Continuation of the current year's work programme in line with the 2019/20 business plan
- Progress monitoring will take place and, if necessary, matters will be discussed at future Committee meetings

Contact Officer:
Neil Mason, Strategic Finance Manager (Pensions)

Consulted:
Pension Fund Committee Chairman

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) – STATUTORY GUIDANCE ON ASSET POOLING**

SUMMARY OF ISSUE:

The Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) consultation on proposed changes to the current statutory investment pooling guidance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the report and annexes.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives with a consultation process with a response sent within stated deadlines, in accordance with the Business Plan.

BACKGROUND:

1. On 2 January 2019, the Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) issued a limited circulation consultation on proposed changes to the current statutory investment pooling guidance (attached as Annex 1).

2. The statutory guidance and the proposed changes to it apply to Local Government Pension Scheme (LGPS) Administering Authorities and direct how they are required to invest their assets.

3. A joint response to the consultation was agreed by the Border to Coast Joint Committee at its meeting of 11 March 2019 and was issued on 27 March 2019 (it is included as Annex 2).

4. An individual response on behalf of Surrey County Council, from Leigh Whitehouse, Executive Director of Finance, was issued to MHCLG on 21 March 2019, after consultation with Cllr Tim Evans, Chairman of the Surrey Pension Fund Committee (included as Annex 3).

DETAILS:

5. The reform of investment management in LGPS for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities (including our Partner Funds) responded by coming together in groups of their own choosing to form eight asset pools, one of which was Border to Coast Pensions Partnership.

6. The stated intention of the latest draft guidance is to clarify several matters raised by Administering Authorities and others) that have come to light through the implementation to date, and further clarify what MHCLG expects in terms of future progress in the next stage of pooling and reporting / monitoring of associated costs and savings in meeting these obligations.

7. Once finalised this will replace all matters in the current guidance at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 LGPS Investment Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015. As such it will become part of the LGPS regulations and Administering Authorities will have to either follow the guidance or explain and account for any instances where they have not followed it.

8. One significant change of approach from MHCLG evident in the draft guidance is the move to impose a more consistent approach to investment pooling across the LGPS. Comments from Government in previous years had supported an environment where each LGPS Pool and its constituent funds had scope to determine what structure it would use to meet the Government's pooling criteria, provided those criteria were achieved.

9. The draft guidance marks a change of tone and imposes a more uniform approach to the way LGPS investment pooling should operate. This includes requiring each Pool to include a Pool company (or companies) to implement investment strategies, and mandating that these Pool companies are regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities.

10. While this is not a specific concern for the Surrey Fund, and in fact effectively endorses the approach we have taken to investment pooling, it demonstrates a move away from allowing different versions of pooling to co-exist and towards further central control over the approach to investments in the LGPS.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

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

SECTION 151 OFFICER COMMENTARY:

14. 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:

15. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

16. 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:

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

WHAT HAPPENS NEXT:

18. The following next steps are planned:

    - Provide the Pension Fund Committee with details of the results of the consultation.

Contact Officer:
Neil Mason, Strategic Finance Manager (Pensions)

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – MHCLG Draft Pooling Guidance
Annex 2 – Border to Coast JC response to the Draft Pooling Guidance
Annex 3 – Surrey County Council response to the Draft Pooling Guidance

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Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement
3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management
3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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By email to LGPensions@communities.gov.uk

Teresa Clay
Local Government Finance Reform and Pensions
Local Government Finance
2/SE
Fry Building
2 Marsham Street
London
SW1P 4DF

27 March 2019

Dear Ms Clay

Consultation on Draft Statutory Guidance on Asset Pooling in the Local Government Pension Scheme

Thank you for the opportunity to comment on this draft guidance. This response is on behalf of the Joint Committee (the 'pool governance body') of Border to Coast Pensions Partnership. Separate responses will also be sent / have already been sent by each of the Administering Authorities that jointly own Border to Coast (the 'pool members') and also by Border to Coast Pensions Partnership Limited ('the pool company').

In general the Joint Committee welcomes the guidance, which provides some clarity on how investment pooling within the Local Government Pension Scheme (LGPS) should operate. The approach set out is generally consistent with the approach to pooling that has been adopted by the pool members within the Border to Coast Pensions Partnership, for example in the following areas:

- Confirming that all Pool members must pool their assets (with some limited exceptions such as some passive investments and local investments);
- Specifying the need for a Financial Conduct Authority (FCA) regulated entity at the heart of the pooling proposition (either owned or procured);
- Confirming that strategic asset allocation remains the responsibility of Pool members, recognising their authority's specific liability and cash-flow forecasts;
- Providing definitions to help all when communicating how each Pool works (although these will need some rewording to work for all Pools);
- Clarifying that decision making on selection, appointment and management of asset managers rests with the Pool company;
- Confirming that internal management can be offered by Pool companies, although Pool members can choose whether or not to invest through internal management;
- Clarifying that the aim is for reduced costs balanced against risk adjusted returns – so value, not cost, is the key metric;
- Highlighting that providing too many asset allocation choices restricts the ability to use scale to drive up value, but recognising there is a need to provide enough choice to provide the diversification needed to meet the Pool members' liability profile and cash flow requirements;

- Requiring demonstration of how these considerations have been balanced and that they be kept under regular review;
- Confirmation that a long-term view of implementation costs should be taken, and that Pool members do not seek just to minimise costs in the short term;
- Outlining that transition of existing assets into the Pool should happen as quickly and cost effectively as possible, with transition of listed assets to be undertaken over a relatively short period;
- Providing Government's view that cost sharing of transition expenses (explicit and implicit) is allowable under the regulations;
- Requiring that Pool members working with the Pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the Pool;
- Confirming that although no target has been set for infrastructure allocations, MHCLG expects Pool members to "set an ambition on investment in this area". Pool companies are expected to provide access to infrastructure investment in the UK or overseas or both, with the expectation that over time Pools will move towards "levels of infrastructure investment similar to overseas pension funds of comparable aggregate size"

The Joint Committee would like to make specific comments in connection with the views set out in the draft guidance in relation to

- the use of the word 'temporary' in relation to the retention of existing assets;
- the apparent implicit bias towards passive management;
- the implication that administering authorities have a fiduciary duty to beneficiaries who are not part of their fund; and
- the timing of the introduction of new reporting requirements and the extent to which they should be detailed in the guidance.

These are set out in the table on the following pages.

Please contact me if you have any questions or wish to discuss this response.

Yours sincerely

Cllr Doug McMurdo
Joint Committee Chairman
Border to Coast Pensions Partnership

Paragraph in draft guidance	Comment
Regular review of active and passive management 3.6Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.	Evidence was provided to highlight and counter the flaws in the consultant research that supported the views held in some parts of Government that passive management was the way forward for the industry, including the LGPS in the early 2015/16 discussions on pooling, so it is disappointing that this has been reintroduced as a key theme. As such we do not accept the premise behind this paragraph that passive management delivers better net of fees long term risk adjusted returns, but that the only relevant test to the chosen implementation model should be that as set out in the final sentence of this paragraph, "should seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles"
4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.	The Council agrees that administering authorities should take a long-term view in relation to the costs/benefits of pooling, however there is a general issue in regard to how Administering Authorities can possibly "take account of the benefits across the Pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers". The clear legal fiduciary duty each Administering Authority has is towards its own beneficiaries, not to those of the "scheme as a whole".
Temporary retention of existing assets 5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.	Paragraphs 5.4 and 5.5 are on one level common-sense. However, for alternative assets such as private equity the description of these arrangements as temporary is unhelpful. Holding a private equity fund to maturity where the initial commitment was made this financial year may well be a 10 year period which is not really temporary. The ability of Pool companies to manage these assets either within pooled structures or simply on behalf of its Pool members will very much

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.	depend on the pooling vehicle proposed and the regulatory permissions in place. Border to Coast will, in due course, be offering the ability to transfer such legacy assets into the pooled structure but this may not suit all circumstances and may not be the case for all Pools. It should be acknowledged that 'temporary' or 'interim' arrangements may in fact last a number of years, until an investment matures.
Section 8 ' Reporting'	Administering Authorities are required to report in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on Preparing the Annual Report, the only issue being that this publication is not due to be published until April 2019 when most Funds will already have closed their books and be well on their way to finalising their accounts. Whilst according to the regulations the Annual Report does not need to be finalised until December the audit cannot be signed off without it, which means in reality it has to be available in June. Simply put the guidance is too late for application in this reporting period. Detailed information on reporting requirements should not be included within the draft guidance. It is enough to state that CIPFA guidance should be followed – adding further detail of that guidance just means the overall investment pooling guidance could need amending every time the CIPFA guidance changes in future.

SURREY
COUNTY COUNCIL

Tel: 020 8213 2739

E-Mail: neil.mason@surreycc.gov.uk

Our Ref: LGPS Statutory guidance on asset pooling
Your Ref:

Teresa Clay
LGF Reform and Pensions Team
Ministry for Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

21st March 2019

Dear Teresa,

RE: Consultation on the Local Government Pension Scheme statutory guidance on asset pooling

Surrey County Council (Surrey) welcomes the opportunity to respond to the Government's consultation on the Local Government Pension Scheme statutory guidance on asset pooling.

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £4billion and includes nearly 300 employers. Surrey is a partner of the Border to Coast asset pool, along with our other 11 partner funds.

This response represents the considered views of Surrey, but, should be read alongside the response of the Joint Committee of Border to Coast Pension Partnership.

Surrey welcomes the attempt by Government to produce guidance to enable clarity over the understanding of what is meant by pooling and setting out some basic requirements for each of the pools. We believe that the guidance is supportive of how Border to Coast and its constituent

partner funds have approached pooling. However, there are some areas, which we include in this response, which we believe require further clarification.

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3. Structure and scale

Paragraph 3.1

Surrey is in agreement with the benefits of scale noted in the guidance. However, an ambition for Surrey is also to improve net of fees investment returns through pooling and we believe this aim should be specifically included as a desirable benefit of pooling.

Paragraph 3.2

We welcome the fact that the guidance makes it clear that the decision to invest through internal or external managed vehicles is an administering authority decision. However, use of internal or external management is presented as a binary choice. In some cases the optimal outcome could be to merge these two management styles into a single hybrid sub-fund. We believe this option should be recognised in the guidance.

Paragraph 3.3

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 3.4

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 3.5

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 3.6

We are pleased to note the confirmation that allocations to active and passive management are strategic asset allocation decisions and rest with Administering Authorities. However, we do not accept the premise in this paragraph that passive management delivers better net of fees long term risk adjusted returns. Evidence was provided to highlight and counter the flaws in the consultant research that supported the views held in some parts of Government that passive management was the way forward for the industry, including the LGPS in the early 2015/16 discussions on pooling.

We also believe that the reference to a period over which the comparison between active and active management is measured is ambiguous.

Please provide clarification on why this clause is needed.

4. Governance

Paragraph 4.1

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 4.2

The statement on holding the pool company to account is welcome and is embedded as part of existing pooling governance arrangements.

Paragraph 4.3

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 4.4

We are supportive of the assertion that Administering Authorities should take a long term view in relation to the costs/benefits of pooling and believe that this should produce scheme wide benefits. However, consistent with Paragraph 4.4 of the consultation, the primary responsibility of the Administering Authorities is to the employers, members and local taxpayers of their own fund.

Paragraph 4.5

We are pleased to note that this reflects our current understanding of and approach to pooling. The Surrey Local Pension Board is engaged with all pool activity.

Paragraph 4.6

We are pleased to note that this reflects our current understanding of and approach to pooling. There exists a non-voting scheme member representative drawn from the Scheme Member representatives on the Local Pension Boards on the Border to Coast Joint Committee.

Paragraph 4.7

We welcome the confirmation that responsibility for deciding on the investment strategy and asset allocation rests with individual pool members (Administering Authorities).

Paragraph 4.8

Whilst not disagreeing with this point it is also important to recognise the differences between each fund and the responsibilities each fund has to its employers, members and local taxpayers.

Therefore, any decisions on what is tactical and what is strategic should be set within sufficiently wide parameters to allow each fund to implement their current and proposed strategic allocations as determined by each fund.

Paragraph 4.9

This reflects our current understanding of and approach to pooling. The question of investment choice versus scale is an ongoing conversation between the partner funds and pools.

Paragraph 4.10

Current arrangements are compliant with the guidance.

Paragraph 4.11

We are pleased to note that this reflects our current understanding of and approach to pooling.

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5. Transition of assets to pools

Paragraph 5.1

We broadly agree with the sentiment, however, the priority for funds should be that sub-fund capability is fully assured before assets are transitioned.

Paragraph 5.2

The guidance is correct to the extent that the transitions take place inside an authorised contractual schemes (ACS), but not if it is to take place outside an ACS. In these circumstances it is the fund who remains the legal owner of the assets and therefore responsible for decisions around the transition.

We would like this distinction between transitions inside and outside of an ACS to be made clear in the guidance.

Paragraph 5.3

While the clarification in the guidance is welcome, we believe that these assurances require the support of legal opinion to provide administering authorities with sufficient comfort.

Paragraphs 5.4 & 5.5

The definition of “temporary” is problematic, as this may include classes of assets, such as alternatives. Holding some alternative assets to maturity may well be at least a 10 year period. The ability of pool companies to manage these assets either within pooled structures or simply on behalf of its pool funds will very much dependent on the pooling vehicle proposed and the regulatory permissions in place.

The confirmation that it is appropriate that certain assets can be retained outside of the pool by funds is welcome. As is the specific mention of life insurance contracts for the purpose of passive investment and direct property investments.

Paragraph 5.6

We are pleased to note that this reflects our current understanding of and approach to pooling.

6. Making new investments outside of the pool

Paragraph 6.1

We agree with this sentiment. Funds should consider their investment strategy in alignment with the capacity of the pool company’s capacity to deliver the suitable investment choices.

Paragraph 6.2

Investments in local initiatives will be considered where they are consistent with investment strategy statement of the fund. It should be noted that, at some point it may be possible for such investments to be housed within a pool.

We would seek clarification as to how an aggregate figure of 5% of fund assets was reached.

Paragraph 6.3

We require further clarification regarding this section. The guidance could be read to mean that funds can invest in pools other than that which they are a member of. This suggest the creation of competition between the pools, which runs counter to the Government's original policy intend.

Paragraph 6.4

The confirmation that funds can continue to make new investments outside of the pool, in circumstances where the pool is unable to offer a suitable investment vehicle consistent with strategic asset allocation is welcome.

7. Infrastructure investment

Paragraph 7.1

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 7.2

We welcome the absence of a target and the acceptance of the need for such investments not just to be concentrated in the UK. The allocation to infrastructure in fund portfolios should only be when it is consistent with the investment strategy. We do not believe a specific ambition for investment in this asset class, above others, should be singled out by the Government.

Paragraph 7.3

We are comfortable with the guidance.

Paragraph 7.4

Our treatment of these assets is consistent with the guidance.

Paragraphs 7.5 & 7.6

We are comfortable with the guidance**.**

8. Reporting

Administering Authorities are required to report in line with the CIPFA Guidance on Preparing the Annual Report, the only issue being that this publication is not due to be published until April 2019 when most Funds will already have closed their books and be well on their way to finalising their accounts. Whilst per the regulations the Annual Report does not need to be finalised until December the audit cannot be signed off without it, which means in reality it has to be available in June. Simply put the guidance is too late for application in this reporting period

Paragraph 8.1

18

We are comfortable with the guidance.

Paragraphs 8.2, 8.3 & 8.4

Paragraph 8.1 requires pool members to follow the CIPFA guidance. Clauses 8.2, 8.3 and 8.4 are therefore unnecessarily prescriptive. We would ask that they be removed.

Paragraph 8.5

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 8.6

This requirement is supported, on the basis that additional requests for information are reasonable and proportionate.

Paragraph 8.7

We welcome the commitment to the SAB code of cost transparency.

Paragraph 8.8

The SAB report will be published after the pension fund annual reports, and the pool annual report. We believe it is therefore for the SAB to ensure consistency.

Paragraph 8.9

We are comfortable with the guidance. However, should there be an issue of non-compliance there will be a reason for it. The issue and the reason would be reported. This effectively introduces a “comply or explain” requirement. It is therefore suggested that this is made more explicit.

As mentioned we are broadly supportive of the Government’s attempt to produce guidance to enable clarity over the understanding of what is meant by pooling. We are pleased to note that, in the main, the guidance as currently written is consistent with the Surrey and Border to Coast approach to pooling.

Yours sincerely

Leigh Whitehouse
Executive Director of Finance

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

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:

1. Notes the cash-flow position for quarters three and four.
2. Determines that no change is required to the investment or funding strategy as a result of the current cash-flow position.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Cash-flows for Quarters Three – Four (2018/19) (1 October 2018 – 31 March 2019)

1. In simple terms, pension funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.
2. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund.
3. The half-yearly (quarters three-four) cash-flow for the Surrey Pension Fund shows positive cash flow of £11,898,751, as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
Three (1 Oct 2018 – 31 Dec 2018)	£40,462,984	£36,953,527	3,509,457

Four (1 Jan 2019 – 31 Mar 2019)	£49,973,507	£38,074,755	11,898,751

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

   I. At the financial year end officer performed a reconciliation of contribution balance whereby they allocated cash into appropriate months which was sitting in the holding account and which has not been done in the previous quarters.

   II. Another reason for high increase was due some employers paying the deficit contribution at the year-end.

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

Period	Active members	Deferred members	Pension members	Total members
2016 valuation (31 Mar 2016)	33,404	33,200	23,243	89,847
Quarter three 2018/19 (1 Oct 2018 – 31 Dec 2018)	36,062	31,934	25,855	93,851
Quarter four 2018/19 (1 Jan 2019 – 31 Mar 2019)	36,469	31,993	26,015	94,477

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

7. 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:

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

SECTION 151 OFFICER COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

10. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

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

OTHER IMPLICATIONS:

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

WHAT HAPPENS NEXT:

13. The following next steps are planned:

    - A cash-flow analysis update to be provided to the Committee twice annually. The next report will be produced for the 13 September 2019 meeting.

Contact Officer:
Ayaz Malik, Pensions Accountant Advisor

Consulted:
Pension Fund Committee Chairman

Sources/background papers:
Administration performance monitoring progress log

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