Notice of Meeting

Surrey Pension Fund Committee

Date & time
Friday, 13 September 2019 at 10.00 am

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

Contact
Ben Cullimore
Room 122, County Hall
020 8213 2782
ben.cullimore@surreycc.gov.uk

Chief Executive
Joanna Killian

We're on Twitter: @SCCdemocracy

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

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), Mr John Beckett (Ewell), Mr David Mansfield, Ms Charlotte Morley 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 substitutions.

2 MINUTES OF THE PREVIOUS MEETING: 7 JUNE 2019 (Pages 1 - 16)

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

3 DECLARATIONS OF INTEREST

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

(i) Any disclosable pecuniary interests and / or
(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

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

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Members' questions is 12.00pm four working days before the meeting (9 September 2019).
2. The deadline for public questions is seven days before the meeting (6 September 2019).
3. The deadline for petitions was 14 days before the meeting and none have been received.

5 COMPANY ENGAGEMENT & VOTING (Pages 17 - 38)

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.

6 DRAFT ANNUAL REPORT & AUDITED STATEMENT OF ACCOUNTS (Pages 39 - 178)

The Pension Fund Committee's role is to approve the Annual Report, which contains the audited statement of accounts together with other

information about the Fund's performance during 2018/19. The Annual Report is included as Annex 1.

The external auditor (Grant Thornton) has issued an unqualified opinion on the accounts and this is outlined in the External Audit Findings Report (Annex 2).

7 LOCAL PENSION BOARD REPORT (Pages 179 - 190)

This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 18 July 2019 that need to be brought to the attention of the Pension Fund Committee.

8 GOVERNANCE COMPLIANCE STATEMENT (Pages 191 - 194)

Local authority pension funds are required to publish and keep under review a Governance Compliance Statement. The Governance Compliance Statement of the Surrey Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement.

The Governance Compliance Statement was last reviewed by the Pension Fund Committee at its meeting of 22 May 2015. This paper notes any changes to the Governance Compliance Statement since the last review.

9 MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) - CONSULTATION ON CHANGES TO THE LOCAL VALUATION CYCLE AND THE MANAGEMENT OF EMPLOYER RISK (Pages 195 - 208)

The Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk.

10 SCHEME ADVISORY BOARD REVIEW OF GOVERNANCE IN THE LGPS (Pages 209 - 212)

In January 2019, the Scheme Advisory Board (SAB) appointed Hymans Robertson (Hymans) to facilitate a review of governance structures for the LGPS. This paper provides details of the survey issued by Hymans and the subsequent report "Good Governance in the LGPS", published in July 2019. Any changes to the LGPS governance will have an impact on the Surrey Fund.

11 SURREY PENSION FUND LOGO (Pages 213 - 218)

The Surrey Pension Fund Committee approved its new Mission Statement on 7 June 2019 and the Fund thereafter reviewed and redesigned its logo to better represent its new Mission Statement.

12 2019 VALUATION UPDATE (Pages 219 - 240)

To provide members with an update on the delivery of the 2019 actuarial valuation of the Pension Fund.

13 CASHFLOW ANALYSIS (Pages 241 -

A cash-flow analysis allows the Surrey Pension Fund to ascertain a projection as to when benefit payments may exceed income. This information can influence both the investment and funding strategy. 244)

14 INVESTMENT STRATEGY REVIEW (Pages 245 - 298)

The Pension Fund continually reviews its current Investment Strategy, in line with current progress made within BCPP's asset offerings, as well as having reviewed its current Fund Managers' performance returns, since inception. This paper develops on the work presented to the Pension Fund Committee at its meeting of 7 June 2019 and includes a review of the downside equity protection strategy.

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)

15 INVESTMENT MANAGER ISSUES (Pages 299 - 330)

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

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)

16 BORDER TO COAST UPDATE (Pages 331 - 380)

The Border to Coast Pension Partnership (BCPP) is now an established fully regulated asset management company when the authorised contractual scheme (ACS) went "live" on 26 July 2018. The Surrey Pension Fund started transitioning assets in quarter four of 2018 and has continued this through 2019.

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

17 DATE OF NEXT MEETING

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

Joanna Killian
Chief Executive
Published: Thursday, 5 September 2019

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 7 June 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 Charlotte Morley
* Mr John Beckett
* Mr David Mansfield
* Mrs Hazel Watson

Co-opted Members:

* Borough Councillor Ruth Mitchell, Hersham
* District Councillor Tony Elias, Bletchingley and Nutfield
* Margaret Janes, Employers
* Philip Walker, Employees

In attendance:

Nick Harrison, Chairman of the Surrey Local Pension Board

17/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

None received.

18/19 DECLARATIONS OF INTEREST [Item 2]

None received.

19/19 MINUTES OF THE PREVIOUS MEETING: 8 FEBRUARY 2019 [Item 3]

The minutes were approved as an accurate record of the meeting.

20/19 QUESTIONS AND PETITIONS [Item 4]

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

Supplementary questions were asked from five members of the public and verbal answers were provided.

Meeting was adjourned at 10:25 am due to disruptive behaviour.

21/19 FORWARD PLAN [Item 5]

Key points raised during the discussion:

Meeting resumed at 10:40 am.

Resolved:

The Committee reviewed its forward plan.

22/19 COMPANY ENGAGEMENT & VOTING [Item 6]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Mamon Zaman, Senior Accountant

Key points raised during the discussion:

1. The Chairman introduced the report and explained that the Committee took seriously all environment, social and governance (ESG) issues. He said that it was reasonable for people to query what had come out of the engagement the Fund had been involved in and that this was one of the questions the report attempted to address.
2. The Committee heard from the Strategic Finance Manager, who directed Members' attention to the section on the Border to Coast Pensions Partnership (BCPP) Climate Change Working Party. These laid out the considerations the Surrey Pension Fund (the Fund) were working on and offered an explanation for its policy of engaging rather than divesting. The Responsible Investment Policy of Border to Coast was adopted by the Fund. This is reviewed annually and any future changes would be brought to the Committee.
3. A discussion was had about the Fund's voting record, with a Member asking for more detailed information to be provided about the impact and outcome of each vote. The Senior Accountant highlighted the fact that the success of the Fund's voting varied depending on the specific resolution and that paragraph 25 of the report mentioned votes that had been defeated.

Actions/further information to be provided:

The Committee is to be provided with a list of the individual votes that the Fund has been involved in.

Resolved:

The Committee:

1. Noted the main findings of the report, the outcomes achieved for the quarter ending 31 December 2018 by Robeco/LAPFF, by engaging with multinational companies on various ESG issues.
2. Noted the findings from the Fund's share voting process for the quarter ending 31 March 2019.
3. Noted the ESG outcomes achieved by Fund managers.
4. Reaffirmed focus on ESG issues and the Fund's policy on engagement.

23/19 EXCLUSION OF THE PUBLIC [Item 7]

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.

24/19 INVESTMENT STRATEGY REVIEW [Item 9]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Steve Turner, Mercer
Anthony Fletcher, Independent Advisor
Nick Harrison, Chairman of the Surrey Local Pension Board

Key points raised during the discussion:

1. The Committee heard from the representative from Mercer, who directed their attention to the illustrative portfolio graphics outlined in the Part 2 report and explained the proposed investment strategy.
2. A discussion was had about a training session on illiquid assets that would be conducted before the next Committee meeting on 13 September 2019. The Strategic Finance Manager informed the Committee that this would take place in either July or August and Members would be invited to attend.
3. The representative from Mercer introduced the proposed strategy pie chart included in the report and ran through the key considerations outlined.
4. The representative from Mercer confirmed to a Member of the Committee that the expected return outlined in the proposal had taken into account costs and fees expected.
5. The Chairman of the Surrey Local Pension Board questioned what progress had been made with regards to the potential introduction of employer-related investment strategies. In response, the Strategic Finance Manager explained that strategies had been agreed by the Committee. The shape of the proposed strategies would become apparent after the end of year valuation and contributions had been agreed with employers, and the plan was to bring this to the Committee for approval later in 2019.
6. A discussion was had about the formulation of the percentage allocations outlined in the illustrative portfolio proposals. The representative from Mercer told the Committee that changes had been made in an attempt to keep the return the same as the current strategy.

Actions/further information to be provided:

The Strategic Finance Manager is to organise a training session on illiquid assets before the next Committee meeting on 13 September 2019.

Resolved:

The Committee:

1. Noted the initial work carried out by officers and the Investment Consultant, Mercer, on reviewing the investment strategy.
2. Gave approval for officers, Mercer, the Independent Advisor and the Chairman of the Committee (and other members of the Committee, if

deemed appropriate) to continue work on this review. Formal recommendations will then be put forward to the Committee at its meeting on 13 September 2019.

25/19 2019 VALUATION ASSUMPTIONS [Item 10]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
John Wright, Hymans Robertson
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The representative from Hymans Robertson introduced the report and explained to the Committee that there was no clear evidence to justify a change in the discount rate.
2. Discussing longevity assumptions, the representative from Hymans Robertson informed the Committee that these were the same as at the last valuation. The rate of improvement in population life expectancy had slowed down since then but was improving amongst pension contributors.
3. A Member of the Committee questioned how often longevity was reviewed to work out figures and was told by the representative from Hymans Robertson that this was done at the time of the valuation for the purposes of the Fund but that data was provided from private sector schemes on a yearly basis. The Chairman added that the Continuous Mortality Investigation (CMI) was constantly carrying out analysis to see what changes were occurring.
4. Responding to a question about what impact an increase in certainty would have on expected return, the representative from Hymans Robertson explained that more certainty would be achieved by a lower risk investment strategy with lower investment return, but that this could result in higher contributions from the Fund's employers. The Independent Advisor then spoke about the fact that the scheme is approximately 93% funded and that the aim was to make sure that they did not need to go back to employers in the future for higher contributions.

Actions/further information to be provided:

None.

Resolved:

The Committee approved the recommended actuarial assumptions to be used by the actuary in the 2019 valuation.

26/19 BORDER TO COAST UPDATE [Item 11]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Andrew Stone, Border to Coast

Key points raised during the discussion:

1. The Committee viewed a presentation from the representative from Border to Coast.
2. In response to a question about the development of the ESG strategy, the representative from Border to Coast told the Committee that this was ongoing and would take into account all of the investment decisions.
3. The Chairman asked whether managers were specifically asked about ESG issues and was told that this formed a section of the questions and was part of the due diligence before sign off.
4. A discussion was had about the references to “necessary conditions” in the recommendations for the Committee. The Strategic Finance Manager agreed to share the related papers with Members.

Actions/further information to be provided:

The Strategic Finance Manager is to provide the Committee with the necessary conditions papers.

Resolved:

The Committee agreed the recommendations outlined in the Part 2 report.

27/19 PUBLICITY OF PART 2 ITEMS [Item 12]

The Committee agreed that the Part 2 items remain confidential and restricted from the public.

28/19 GOVERNANCE REVIEW [Item 13]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Ian Colvin, Hymans Robertson

Key points raised during the discussion:

1. The representative from Hymans Robertson introduced the report and ran the Committee through its main points. He explained that the governance arrangements of the Fund were strong, with experienced and engaged members and officers committed to driving things forward, but that there were still steps that could be taken to further improve governance.
2. The Committee heard that one of the key goals of the governance review was to produce a mission statement that would boil down the Fund’s objectives to a core philosophy. The proposed statement tried to capture what shone through from the previous discussions that were had and the work that Hymans Robertson had undertaken.
3. The representative from Hymans Robertson explained that the nine recommendations for the Fund were outlined on page 252 of the report and that these had been linked to the outlined business plan. He went on to tell the Committee that the Fund had in place all the mandatory policies but some needed to be refreshed and revisited to make sure it had adequate oversight.

4. The Strategic Finance Manager discussed the diagram on page 230 and informed the Committee that it outlined four clear, stakeholder-led objectives that informed the business plan. This would act as a representation of the way in which the Committee wanted to see the Fund operate.
5. A discussion was had about the mission statement, with Members approving its overall message but suggesting changes to the wording used. The following suggestions were put forward:

    - A stronger word than “strives” needed to be used, as it was an implicit admission that the Fund would like to achieve the outlined goals but were not doing so.
    - The phrase “by creating” indicated that the “strong partnerships” mentioned by the mission statement were not yet established.
    - It would be better to refer to “ESG considerations” rather than “ESG factors”.
    - “Risk management” needed to be moved to start of the final sentence.
    - “LGPS” and “ESG” should be referred to in full rather than through the use of acronyms.
    - There was a discussion around whether “ESG factors are fundamental to our approach” should be reworded to “ESG factors are fundamental to our approach to investment”.

6. Discussion turned to the delivery objectives detailed on page 229, with a Member of the Committee questioning how these were measured. In response, the representative from Hymans Robertson said that this would take place through member surveys, workshops and any comments submitted to the Surrey Local Pension Board.

Actions/further information to be provided:

The Strategic Finance Manager is to circulate the reworded version of the mission statement to the Committee for approval.

Resolved:

The Committee:

1. Noted the governance report and recommendations from Hymans Robertson and agreed that the recommendations are included in the 2019/20 Business Plan.
2. Approved the mission statement for the Fund subject to rewording and subsequent sign off.
3. Approved the objectives for the Fund with regards to investments, funding, governance and delivery.
4. Approved the 2019/20 Business Plan.

29/19 PENSION FUND ACCOUNTS 2018/19 [Item 14]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Anna D’Alessandro, Director of Corporate Finance

Mamon Zaman, Senior Accountant
John Wright, Hymans Robertson

Key points raised during the discussion:

1. The Chairman questioned the information provided on page 323 that related to the "actuarial present value of future retirement benefits" and was told by the Strategic Finance Manager that the Committee had always seen the accounts but this was the first time it had seen them before the external audit had taken place. The Director of Corporate Finance also explained that she felt it was right for Members to see the difference between the draft and final versions as the role of the Committee was to be custodians of the Fund.
2. The Senior Accountant informed the Committee that the main changes had been summarised in the covering report under the 'Summary of Findings' heading. The officer went on to explain that the Fund had transitioned its first asset to Border to Coast and made improvements in terms of timing and efficiency in producing the accounts.
3. Responding to a question about the deadline for approving the accounts, the Senior Accountant informed the Committee that this would take place at the end of July 2019.
4. It was agreed that the recommendation should be amended to explicitly mention that the accounts had been presented to the Committee in draft form.

Actions/further information to be provided:

None.

Resolved:

The Committee approved the draft 2018/19 Pension Fund Accounts, subject to an unqualified opinion issued by audit.

30/19 LOCAL PENSION BOARD REPORT [Item 15]

Witnesses:

Nick Harrison, Chairman of the Surrey Local Pension Board
Andrew Marson, Pensions Lead Manager
Anna D'Alessandro, Director of Corporate Finance

Key points raised during the discussion:

1. The Committee heard from the Chairman of the Surrey Local Pension Board (the Board), who presented a summary of the administration and governance issues reviewed by the Board at its last meeting on 25 April 2019. He ran through the key issues that the Board had considered, which included the Pensions Administration problems highlighted at the last meeting of the Committee, the processing of death cases, the reconciliation project and the contract entered into with Jardine Lloyd Thompson to handle the backlog processing.
2. The Chairman of the Board informed the Committee that the Board had received a positive report on the annual benefit statement and that officers were on track to meet the 31 August 2019 deadline.

3. Members were directed to paragraph 19 of the report, which dealt with the Administration Risk Register and the changing of many residual risks from amber to green. The Chairman of the Board explained that there were plans in place to remedy the problems and that this had resulted in these risks being reduced from ratings of 3 to 2. However, he asked the Committee to treat this with caution as there was still work to do.
4. The Pensions Lead Manager stated his agreement with the points made by the Chairman of Board. He told the Committee that Pensions Administration was in a phase of stabilisation and recovery, and that this would be the case for the next 12 to 15 months.
5. A discussion was had about the Chartered Institute of Public Finance and Accountancy benchmarking report after a Member of the Committee expressed their concern that the cost per member remained below average. The Chairman of the Board suggested that underinvestment could have affected the quality of the service. However, he went on to explain that the number of complaints received from members had remained at a low level despite the problems exhibited.
6. The Director of Corporate Finance informed the Committee that it would receive further clarity on the standards of pension administration later in 2019, as Internal Audit would be undertaking a follow-up review in the autumn.

Actions/further information to be provided:

An update on the Internal Audit follow-up review is to be added to the Committee's forward plan.

Resolved:

The Committee:

1. Approved the recommendations from the Board.
2. Noted the progress and developments in improvements in the Pension Administration department, but also noted that the service improvement plan is in its infancy.
3. Endorsed relying on the legal opinion on the recovery of overpaid guaranteed minimum pensions prepared by Squire Patton Boggs for the Local Government Association.
4. Agreed that there are currently no projects or processes that the SLPB should be commissioned to undertake on behalf of the SPFC.

31/19 ADMINISTRATION MONITORING REPORT [Item 16]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Strategic Finance Manager explained to the Committee that he had undertaken constructive meetings with the Pensions Lead Manager and that the Pension Fund and Pension Administration teams were now meeting on a monthly basis.

2. The Committee also heard about the introduction of new metrics for KPIs and that progress against project milestones and business as usual performance would be reported to the Surrey Local Pension Board on a quarterly basis.

Actions/further information to be provided:

None.

Resolved:

The Committee noted the content of the report and approved the monitoring approach of the Fund.

32/19 PENSION FUND BUSINESS PLAN 2018/19: OUTTURN REPORT [Item 17]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Andrew Marson, Pensions Lead Manager
Nick Harrison, Chairman of the Surrey Local Pension Board

Key points raised during the discussion:

1. The Strategic Finance Manager introduced the report and highlighted the key areas of interest. The Committee heard that Items 7, 8 and 11 were partial achievements but that the Strategic Finance Manager had received assurance that Items 7 and 8 were in the project plan and that the Pensions Fund department were working with the Pensions Lead Manager. With regards to Item 11, he informed the Committee that the statutory deadline was not met due to employers failing to engage sufficiently with the Fund but that they were on course to make the deadline for all benefit statements that year.
2. The Committee heard from the Pensions Lead Manager, who explained that Pensions Administration were focusing on improving engagement with employers, timeliness of returns and the accuracy of the provided information. He went on to say that at the time of the publication the Pensions Administration update report noted that 216 out of 276 returns had been received from scheme employers but that there were now just six outstanding.
3. The Chairman of the Surrey Local Pension Board raised the issue of missing addresses for deferred members and explained that close attention needed to be paid to the problem.

Actions/further information to be provided:

None.

Resolved:

The Committee noted the achievements and progress made with regards to the Business Plan objectives shown in respect to the 2018/19 financial year and approved the outturn report.

33/19 MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) - STATUTORY GUIDANCE ON ASSET POOLING [Item 18]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Strategic Finance Manager expressed to the Committee the importance of the proposed changes to the current statutory investment pooling guidance outlined in the report and explained that both a response by the Border to Coast Joint Committee and an individual response on behalf of Surrey County Council from the Executive Director of Finance had been issued to MHCLG after consultation with the Chairman of the Committee.
2. The Committee heard about concerns that the government seemed to use passive funds as a default for the way adjusted returns are measured. A well-researched response to a previous government consultation had been issued by LGPS funds on this question.
3. The Strategic Finance Manager informed the Committee that he had recently found out that a follow-up consultation was going to take place.

Actions/further information to be provided:

None.

Resolved:

The Committee noted the report and annexes.

34/19 CASHFLOW ANALYSIS [Item 19]

Resolved:

The Committee:

1. Noted the cash-flow position for quarters three and four.
2. Determined that no change was required to the investment or funding strategy as a result of the current cash-flow position.

35/19 DATE OF NEXT MEETING [Item 20]

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

36/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 8]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Strategic Finance Manager introduced the Part 2 report to the Board and provided it with a summary of manager issues, an update on investment performance and the values of assets and liabilities.
2. Responding to a question from a Member of the Board, the Independent Advisor discussed the Manager Review Meeting of 26 April 2019 in more detail.
3. Referring to the information outlined in one of the tables included in the report, the Chairman asked that the reporting format was reviewed. Officers agreed to action this in consultation with the Chairman.

Actions/further information to be provided:

Officers are to meet with the Chairman to consider the format of future investment performance reports.

Resolved:

The Committee noted the main findings of the report.

Meeting ended at: 1:28 pm

Chairman

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SURREY PENSION FUND COMMITTEE – 7 JUNE 2019

PROCEDURAL MATTERS – QUESTIONS

1. Question submitted by Kathy Higham

As a resident and contributor to a Surrey Pension Fund I would like to know what percentage of this fund is being directly invested into renewable energy investments and ethical organisations?

Reply:

The Surrey Pension Fund currently invests £18,490,322.34 in the Capital Dynamics Clean Energy and Infrastructure Fund (with a commitment to a further £675,000), £10,596,907.25 in the Pantheon infrastructure fund (with a commitment to a further £46,712,000) and has a commitment of £40,000,000 in the Glennmont Clean Energy fund. It also invests £352,108,754 into the LGIM passive low carbon index tracker.

Our Low Carbon and Infrastructure Funds combined therefore make up 8.9% of our current Total Fund Value.

The Fund's policy on environmental, social and governance issues can be found in the Surrey Pension Fund's Investment Strategy Statement and also its policy on responsible investment.

This can be found at: https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

2. Question submitted by Stephen McDonald

Last week, climate movement history was made. On Friday, hundreds of thousands of students went on strike in over 1600 cities across the globe to demand bold steps to prevent climate breakdown. We are leaving it up to our children and teenagers to take actions whilst so called responsible adults in power seem oblivious to see the problem and continue, as the Surrey Pension Fund does, to invest c. £140m in climate wrecking fossil fuels. Whilst it is accepted that there is a fiduciary duty to seek strong investment returns – which to my knowledge has never been questioned – the moral implications of your irresponsible actions are rapidly being communicated across the county, as you are no doubt aware, and reflect on individual Trustees, the Pension Fund Committee as a whole and Surrey County Council, as was made very clear last week at the full Council meeting. When will the Trustees finally get the message and remove all direct investments in this industry?

3. Question submitted by Chris Neill

As a Surrey resident concerned about the climate crisis I am appalled at the Surrey Pension Fund in continuing to invest £145m directly into the fossil fuel industry. Given that the international scientific community has declared that we have less than 12 years to change course in order to avoid an ecological catastrophe, and given that the UK parliament has now declared a climate emergency, will the Committee confirm that it will take urgent and immediate steps to divest this very large sum of money from the fossil fuel industry and to invest it instead in infrastructure for renewable energy?

Page 13

4. Question submitted by Barry Staff

With parliament declaring a climate emergency and implementing policies to achieve a carbon neutral economy before 2050, what are you doing to dissuade the fossil fuel industries that you continue to invest in to desist from exploring for new oil reserves to exploit in the future?

5. Question submitted by Jeannette Bayliss

What is the earliest date by which it is technically and legally possible to divest pension fund monies from the fossil fuel industry, and what is your timetable for doing so?

COMBINED RESPONSE TO QUESTIONS 2-5:

Questions 2-5 address the same central theme of whether the Surrey Pension Fund considers a policy of divestment as the most effective way of managing its Environmental, Social and Governance (ESG) policy, specifically in relation to the issue of climate change.

The Surrey Pension Fund fully supports and incorporates ESG issues when making investment decisions. ESG includes a whole range of factors, including climate impact.

This is evident in the Fund's current investment in Private Equity Infrastructure funds, such as Capital Dynamics Clean Energy, Pantheon and Glennmont, in addition to the Fund's planned commitment to infrastructure through Border to Coast Pensions Partnership.

However, we believe that the best way to help influence ESG is through engagement and not divestment.

Divestment is a blunt tool. If this course of action is taken, management of these companies will not change and it may be counter-productive if a company is taking action to transition to a more sustainable model. In addition, if company valuations get lower, then private companies may be encouraged to enter the market. These buyers could potentially be more profit related and transparency could be diminished.

We will generally not divest from companies exclusively on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance and environmental policies by constructive shareholder engagement and the use of voting rights.

An example of the success of this approach was evidenced in December 2018 when our asset pool, Border to Coast's engagement partner, Robeco and Shell announced a joint statement with investors on how they would move forward. In March 2019, Shell announced their three-year target to reduce their net carbon footprint (NCF) by 2%-3% compared to 2016 and linking this to executive remuneration. They also announced that they will cease membership of American Fuel and Petrochemical Manufacturers and have started engagement with nine other industry bodies. Robeco believes that Shell now leads the sector in terms of planning and positioning for the energy transition and plans to ask other companies to follow suit.

Other examples include:

Page 14

- BP have agreed to back a shareholder resolution – they have committed to reducing emissions but still need to demonstrate the strategy to investors
- Glencore have also committed to cap coal production
- VW have made a complete turnaround – now largest investment on electric vehicles. Battery-electric vehicles will be their focus. They have persuaded the VDA, the German Association of Automotive Industry, to do so too

This is not to say that there must be a process and clear policies in place if a company does not act; divestment is the final action. Institutional investors should use their voting policies wisely to effect change by voting against the Chair or other members of the board. This is the best way as a responsible investor to achieve the goals that we set.

Engagement is an ongoing process and we always have the power to withdraw and re-engage at a later stage if the company improves.

The Quarterly Company Engagement and Voting Report summarises the engagement work the Fund has carried out, in addition to its Fund managers, BCPP, Robeco and the Local Authority Pension Fund Forum. The BCPP Climate Change Working Party is also doing work to understand how best to incorporate climate risk into its investment decision making.

Please refer to Committee meeting minutes on the Surrey County Council website to view previous and upcoming Company Engagement reports:
https://mycouncil.surreycc.gov.uk/ieListMeetings.aspx?CommitteeId=334

Please also refer to the Surrey Pension Fund website to view the Surrey Pension Fund's Investment Strategy Statement and also its policy on Responsible Investment:
https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

6. Question submitted by Ruth Allen

I would like to know what interests, if any, are held by the members of the Pensions Committee, as well as any fund managers brought in to oversee this fund. This refers to interests in fossil fuel companies or other investments, shares and interests in companies that may have a stake in the continued use of fossil fuels.

Reply:

Members of the Surrey Pension Fund Committee are required to regularly register their interests, and details of these can be found on the Surrey County Council website:
https://mycouncil.surreycc.gov.uk/mgDeclarationsHome.aspx

Likewise, our investment managers, consultants, actuaries and advisors are obliged to comply with the rules of various regulatory bodies, including the Financial Conduct Authority and MiFID II. These have prescribed rules regarding conflicts of interest including a requirement to produce and maintain a conflicts of interest policy.

Page 15

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **COMPANY ENGAGEMENT & VOTING**

SUMMARY OF ISSUE:

This report is a summary of various Environmental Social & Governance (ESG) issues that the LAPFF, Robeco, Border to Coast Pensions Partnership (BCPP) 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:

Reaffirms that ESG Factors are fundamental to the Fund's approach, consistent with the Mission Statement through:

- Becoming a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD) with the objective to begin to report against its disclosures for the 2019/20 Annual Report.
- Commending the outcomes achieved for quarter ending 30 June 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2019.
- Noting the positive results achieved in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 30 June 2019.
- Supporting the work carried out by BCPP as well as its Climate Change working party in understanding Climate Change Risk, and the outcomes achieved by Fund Managers during the quarter ending 30 June 2019.

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. 7 of the co-filers are among BP's top 20 individual investors. The resolution directed BP to include in its Strategic Report, a strategy in line with the Paris Agreement, along with annual progress reporting.

6. **UPDATE:** At BP's annual general meeting in Aberdeen on Tuesday 21 May 2019, 99.14 percent of shareholders voted for the binding climate change resolution filed by investors acting as part of the Climate Action 100+ investor initiative, and supported by the BP board. BP said it would make such disclosures later this year as well as in its annual report published around next April.

7. The resolution outcome emphasizes the effectiveness of collaborating with other institutional investors when engaging with companies and exercising shareholder power through voting. Climate Action 100+ have approximately 320 investor signatories, including BCPP, who collectively hold circa USD $33 trillion assets under management.

Task Force for Climate Related Financial Disclosures (TCFD)

8. The Fund has recently become a supporter of TCFD, a body which encourages organisations to voluntarily report on climate related financial disclosures. The Fund will aim to provide Climate Related Disclosures for the 2019/20 Annual Report.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

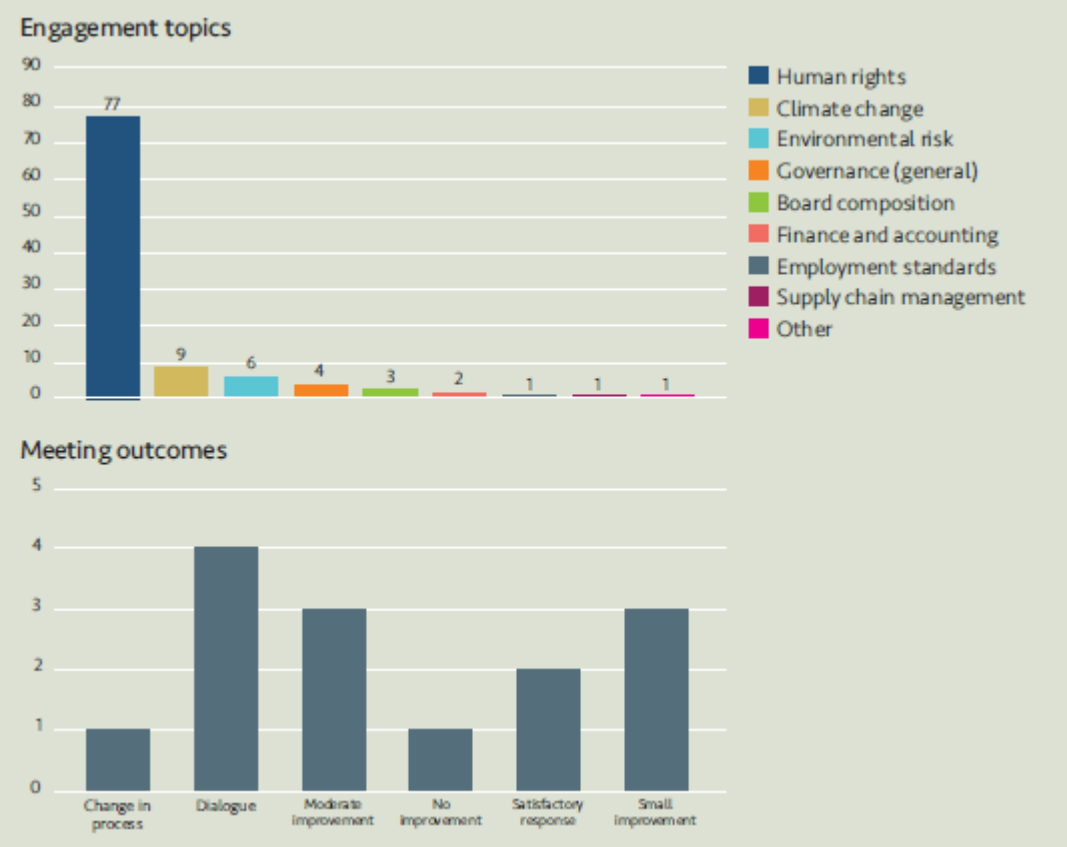
About Events Publications TCFD Knowledge Hub TCFD Supporters News

Companies

Name	Location	Region	Sector	Industry	Date
Surrey Pension Fund	United Kingdom	Europe	Financial	Pension	June 2019

Outcomes Achieved through Company Engagement

The LAPFF had engaged with 104 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 31 March 2019.



LAPFF Engagement Outcomes

9. Facebook, Google & Twitter – The LAPFF joined a number of institutional investors, alongside the New Zealand Super Fund to convince social media companies to strengthen controls to prevent the live streaming and distribution of objectionable content, such as the shootings that took place in Christchurch on Friday 15 March 2019.

10. Response to EU Consultation on Remuneration Report – The LAPFF responded to a targeted consultation on standardising the presentation of

remuneration reports under the Shareholders' Rights Directive. Standardising the reporting format will also help shareholders to assess directors' remuneration, to what extent that remuneration is linked to the performance of the company and how the company implements its remuneration policy in practice. As such, the response is largely supportive of the proposed reporting framework.

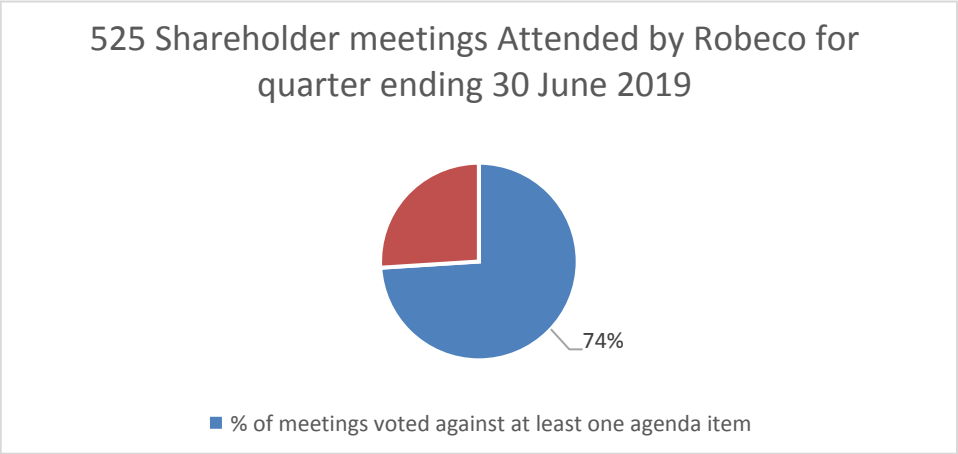
11. Arcelor Mittal – Met with executives from the company and pressed on whether the company would be setting science-based targets in line with the Paris Agreement, given that a major aspect involved in the production of steel is burning fossil fuels

12. Climate Majority Project - LAPFF joined other coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. The institutional investor statement called for a transition away from carbon intensive energy production and for companies to devise economically attractive ways to achieve net zero targets. Central to this was recommendations on governance reforms companies should adopt to maintain focus on the overall goal of net-zero emissions.

13. Tailings Dams - The LAPFF joined the Church of England and other Institutional Investors in working with companies, investors, industry groups and industry experts to prevent further collapses of tailings dams, after the collapse of the Brumadinho tailings dam. The LAPFF will continue to look for way to bring community representatives at future meetings.

Robeco Engagement Outcomes

Robeco had voted at 525 shareholder meetings, voting against at least one agenda item in 74% of cases during the quarter ending 30 June 2019.



Paying a Living Wage in the Garment Sector

<u>Reason for Engagement</u>

14. Robeco joined the Living Wage Financials Platform in 2018, which has initiated an engagement program which aims to encourage support and monitor investee companies regarding their commitment to paying a living wage to workers in their supply chains. This is in line with the United Nation's Sustainable Development Goal 8;

15. *United Nation's Sustainable Development Goal 8: 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.'*

16. Benefits for Investee Companies in Paying a Living Wage:

    - Improves productivity, lowers absenteeism, turnover rates and lowers recruitment/training costs

    - Could improve efficiency of company production models, by working with supply chain in improving performance and identifying production efficiencies

    - Positive impact on Company reputation as an intangible asset

    Engagement Outcome

17. Engagement firstly on whether the company identifies living wage as a key issue, encouraging companies to increase transparency on wage data at supplier facilities. Robeco will then undertake a wage gap analysis, enabling companies to work with suppliers to calculate the cost of raising salaries to a living wage level

    Environmental Challenges in the Oil and Gas Sector (3 Year Review)

    Reason for Engagement

18. At a time when there is a threat on tighter environmental legislation on a global level, Robeco launched a 3 year engagement program with 11 oil and gas companies to prompt companies on their energy transition plans.

    Engagement Outcome

19. Of the 11 companies during the engagement program, 7 were closed successfully based on their progress on the objectives set at the start of the program. For 3 companies, Robeco felt unable to make sufficient progress and were closed unsuccessfully. For the remaining company, although it had not made sufficient progress there was a positive trajectory made in its energy transition.

    - There is a marked difference between companies in Europe versus the US, in preparedness for a low-carbon energy transition. European companies have better engaged and are more successfully taking the necessary steps to limit their exposure to climate risk

    - National companies have also been more difficult to engage, as state-owned oil companies tended to have less capital flexibility to respond to increased climate regulation

    Border to Coast Pensions Partnership (BCPP)

    Climate Change Working Party

20. 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.

21. The goals of the Climate Change Working Party over the 6 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.

22. The session held on 5 June 2019, BCPP invited Legal & General Investment Managers (LGIM), to discuss the role of asset managers in managing climate change risk.

23. The Climate Group noted how climate change requires a holistic approach: divesting as a sector-wide strategy downplays the importance of all sectors. Given this, engaging with regulators, governments and across industries, as well as with individual companies who have an important part to play in the transition to a low carbon economy, was vital. In line with the third working party session on divestment vs engagement, the importance of an effective escalation process was also discussed, for example transparency of voting intentions, voting against resolutions and “naming and shaming”.

    The last scheduled Climate Change session is summarised below;

    - 9 September: Communication and Update to RI policy

    Engagement Outcomes by Fund Managers

24. Western Asset Management – Met with Republic of Kenya Treasurer, discussed the country's "Big 4 agenda" as the driver for its growth plans: 1) affordable housing 2) manufacturing 3) food security 4) health care. Went into detail on their plans to prepare for drought risks and move from subsistence to agribusiness

25. LGIM – Published second annual review of Climate Impact Pledge (Annex 3), engaging with 80 of the world’s largest companies, to improve their strategies in relation to climate change.

    Companies who scored low in the Climate Pledge last year and were cited as potentials for divestment, have re-engaged with LGIM to improve in this area to warrant reinvestment.

26. 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.

27. Newton – Was in discussion with PepsiCo, with a key positive from the meeting being that PepsiCo's healthier 'Everyday Nutrition' range is used as a sales target for annual bonuses

28. Majedie – Voted against various remuneration proposals over the quarter. An example being Premier Oil because of the low executive shareholding levels relative to the company's own shareholding requirement level of 250% of basic salary. Where this does occur, there is a risk that executives aren't acting in the interests of true owners of the company.

Surrey Share Voting

29. 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 20.27 % of the resolutions for which votes were cast during quarter ending 30 June 2019, compared to 4.65% by the average shareholder.

Company Resolutions defeated through Voting against Management

30. 10 management-proposed resolutions were defeated, and two shareholder-proposed resolutions were successful during the Quarter.

    - Governance/ Social - A resolution to approve the discharge of Bayer AG's Management Board was defeated receiving 55.52% dissent, Surrey voted against the resolution. Shareholders had held concerns with Bayer's mounting legal risks following its acquisition of glyphosate manufacturer Monsanto. In March of 2015, the World Health Organization surveyed the research on Monsanto's Roundup herbicide (which contains glyphosate) and its cancer links and concluded the blockbuster herbicide is "probably carcinogenic to humans."

    - Governance - At Mears Group plc the resolution to grant an authority to convene ordinary general meetings (other than AGMs) with a 14-day notice period was defeated after it received 69% support, below the 75% majority requirement, Surrey voted against the resolution.

    - Governance - Eight share issue authorities were defeated during the Quarter, six of which were due to the authority receiving an insufficient majority. Surrey voted against two defeated share issue authorities, both at Orange SA.

    - Environmental - A shareholder proposal requesting BP plc produce a report detailing how the Company's strategy is aligned with the Paris climate accord passed receiving 97% support, Surrey supported its adoption.

    - Governance - Surrey also supported a successful shareholder proposal at Citigroup Inc which requested the threshold required to call special meetings to be lowered to 15% of outstanding shares.

31. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 4.65%, Surrey opposed management on 20.27% of resolutions.

Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	153	11	7.19	1.44
Board	767	93	12.13	4.16
Capital	269	39	14.50	3.92
Corporate Actions	18	1	5.56	1.19
Remuneration	115	63	54.78	9.20
Shareholder Rights	58	35	60.34	7.51
Sustainability	51	48	94.12	12.76
Total	1,431	48	20.27	4.65

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

35. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

36. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

37. 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

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

WHAT HAPPENS NEXT

39. The Pension Fund will 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 – LGIM's Climate Pledge

Sources/background papers:
- LAPFF Quarterly Engagement Report QE 31 March 2019
- Robeco Active Ownership Report QE 30 June 2019

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Climate Impact Pledge: Tackling the climate emergency

The second annual results of our Climate Impact Pledge showcase the corporate leaders and laggards on climate action; we are encouraged by improvements across sectors but will continue to press companies to meet this era-defining challenge.

Meryam Omi
Head of Sustainability and Responsible Investment Strategy
Meryam is responsible for engaging on sustainability themes globally and the development of responsible investment solutions.

Public concern about the danger posed by climate change has reached unprecedented levels. More than a million students have walked out of classes worldwide, while protests have been held across dozens of countries, to call for swift action from governments[1].

This is no fad. The world is truly in the midst of a *climate emergency,* which could have drastic consequences for markets, companies and, therefore, our clients' assets.

With the UN warning that there is little over a decade in which global emissions must start to decline significantly, the window for action is closing fast[2]. That is why we have ratcheted up the pressure on companies globally, demanding to know how they will hasten the transition to a low-carbon economy.

We have done so as part of our **Climate Impact Pledge**, under which we assess and score over 80 of the world's largest companies, engaging with them to improve their strategies to address this era-defining challenge. And to underscore our seriousness, we divest within our **Future World funds** from those companies that fail to demonstrate sufficient action and vote against the re-election of their board chairs across all funds where we hold voting rights.

In our second annual review of the process, we report encouraging signs of progress, even though a vast amount of work remains to be done.

Sectors stepping up

Our assessment takes into account a wide range of indicators – from governance structures to business strategy, targets and lobbying activities – in order to gain a well-rounded view of companies' exposure to climate risks and opportunities[3].

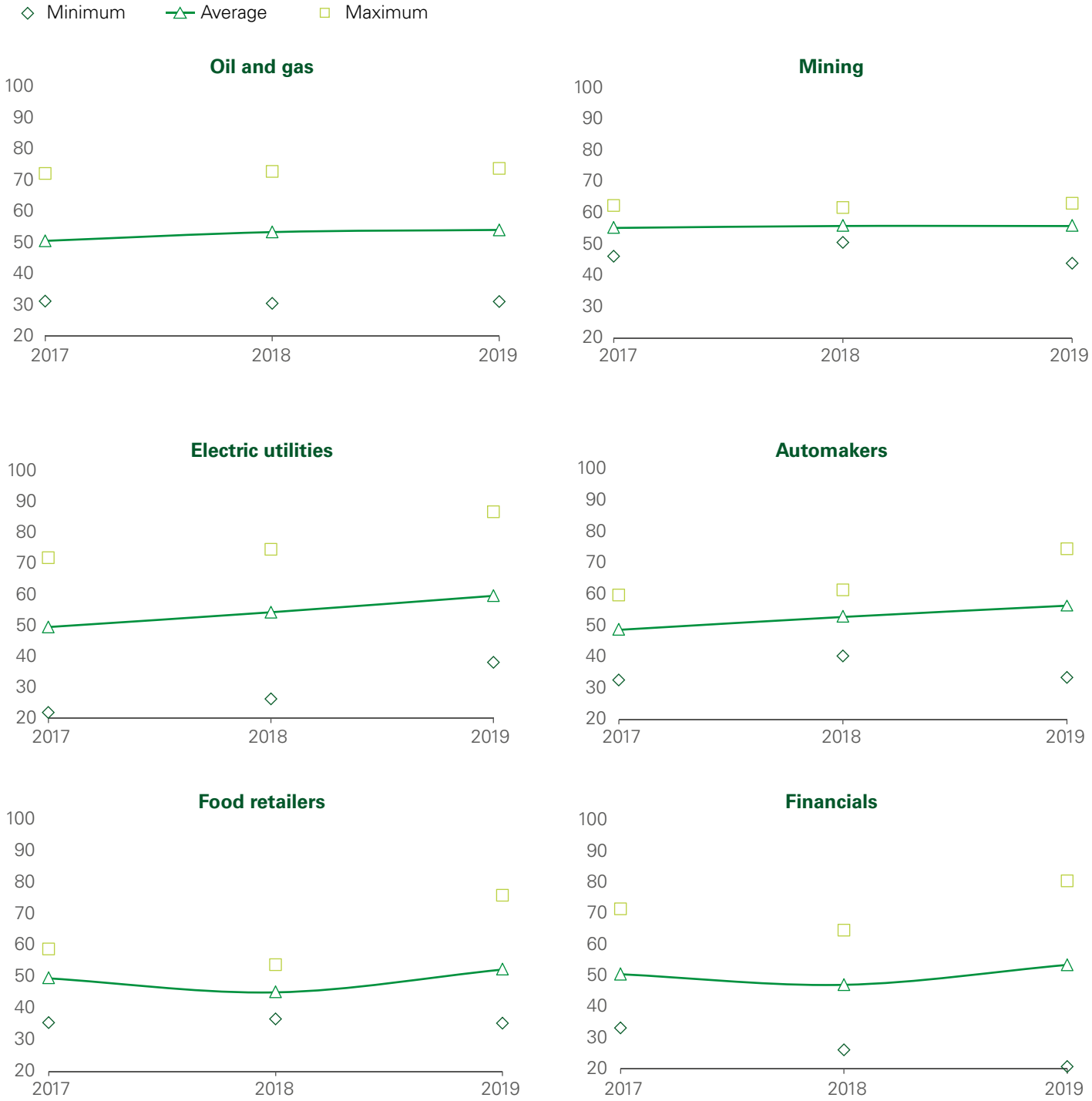
We have chosen companies that, due to their scale and public profile, have the potential to influence entire industries and markets. The stocks covered account for about half of the market value of six key sectors: oil and gas; mining; electric utilities; automakers; food retail; and financials.

Since last year's results, there has been an increase in the average scores across each of these sectors. In addition, previously high-scoring companies scored even higher, while others are clearly working to catch up.

Legal & General
INVESTMENT MANAGEMENT

5

Average Climate Impact Pledge scores (0-100) 2017-2019

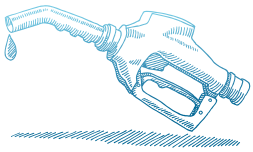


Source: LGIM calculations

We are also pleased to report that all eight companies we cited last year as candidates for divestment have engaged with us on our concerns, with some making sufficient progress to warrant reinvestment.

Other companies that scored low last year have significantly improved, as a result of our efforts and those of our peers. But we are also adding five new companies as candidates for divestment, which are detailed below, largely due to a lack of sufficient strategic awareness of climate change.

Oil and gas:
a transatlantic ambition gap



The oil and gas sector is under significant investor and public pressure to outline how it is taking into account the impact of climate change into its business plans.

We want to see stress-tests against a wide range of scenarios, recognising potential disruptions from renewable energy, electric vehicles, carbon taxes and constraints on plastic usage. The results of such tests should be made public, in our view, so they can be judged against targets set under the Paris Agreement to limit global temperature increases to 'well below' two degrees Celsius above pre-industrial levels.

We grant the highest scores for transparency on carbon emissions from operations and products, as well as for stringent targets. We also emphasise the need for companies to align lobbying activities to their official stances on climate change. Overall, the sector has improved on our metrics of disclosure and transparency, partly reflecting industry experience in modelling complex oil demand pathways, compared to sectors like food retail or financials, where such concepts are new.

- **Equinor** and **BP** have agreed to provide more details around how new, material investments in oil and gas exploration are consistent with the Paris Agreement. BP's decision followed a shareholder resolution put forward by LGIM and other investors.

- In an industry first, **Royal Dutch Shell** has adopted comprehensive emission targets, linked to executive pay, which include not just emissions from Shell's operations, but also from the burning of its oil and gas products. The company has also left a US trade lobbying group due to differences over climate policy.

We will continue to put pressure on oil and gas companies to alter 'business-as-usual' strategies, and close a transatlantic gap in ambition as our top-ranking producers are currently all European. Achieving a low-carbon economy requires a shift in mindset for the sector, with incentive structures no longer focused on continued growth in fossil fuel reserves. However, it does not necessarily mean such companies should reinvent themselves as renewable energy companies. We would welcome a strategy of disciplined capital allocation that is suited to the ex-growth era.

Exclusion/reinvestment candidates

- Reinstated after improvements: **Occidental Petroleum** has shown a step-change in engagement, backed by tangible actions. Recognising the importance of the issue to investors, the company now measures and discloses its total carbon emissions (including from the use of products), and is set to announce targets for the carbon and methane emissions from its operations and energy use (Scope 1 and 2) by the end of 2019. The company has committed to regularly assess its portfolio against climate risks, and its reporting is informed by the Task Force on Climate-related Financial Disclosures (TCFD) which LGIM supports. We look forward to further progress from the company over the coming year.

- New exclusion candidate: **ExxonMobil Corporation** has not met our key minimum requirements, including on emissions reporting and targets. The company stated that it will not disclose its total carbon emissions (to include scope 3, which many other oil companies are starting to disclose) and will not commit to setting company-wide targets for the carbon emissions under its more direct control (Scope 1 and 2)[4]. We appreciate the opportunity we have had to engage with Exxon and recognise the consideration of the TCFD in the company's reporting on climate. Yet we believe the lack of action in a number of areas, not least in what we see as basic, fundamental disclosures, leaves the company trailing its peers.

- Continuing exclusion candidate: We note improved responsiveness and disclosure from Russia's **Rosneft Oil,** but believe there are still important areas of improvement for a company of this scale.

Catherine Ogden
Manager, Sustainability and Responsible Investment
Leads the Pledge engagements with the oil and gas sector

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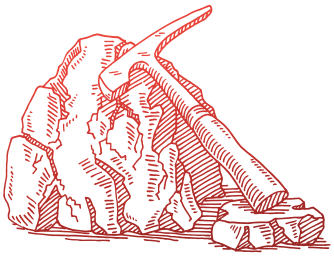


Mining:
digging for the future

The mining industry wants to reposition itself as the indispensable supplier for a low-carbon future. Company narratives are rapidly evolving around the metals needed to satiate the world's appetite for electric vehicles and batteries, such as copper, lithium and cobalt; by contrast, the supposed benefits of coal-burning receive fewer mentions.

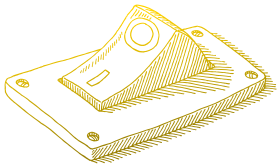
We expect the industry to follow through by phasing out thermal coal, but recognise this will require government support, not least for the displaced workers[5].

As all companies covered within this sector remain committed to positive engagements, and we expect further shifts in corporate strategies, we are not divesting from any of them. However, we would like to cite the world's two largest miners for commendation:

- **Rio Tinto** in 2018 became the first major miner to own no coal assets. The company has also signalled it will exit trade bodies that make public statements which are inconsistent with the goals of the Paris Agreement or seek to undermine the 'valuable contribution' of renewable energy. The move followed pressure by shareholders, including LGIM, for better lobbying disclosure.
- **BHP Billiton** has indicated that coal is to be 'phased out, possibly sooner than expected', with the company having 'no appetite for growth in energy coal regardless of asset attractiveness'.

Beyond the issue of coal, we expect companies to provide details around water scarcity risks, as well as full disclosure and targets for emissions. Following recent disasters in Brazil, which led to catastrophic loss of life, we have also joined an investor coalition to press for more clarity from miners around the safety of tailings dams.

Iancu Daramus
Sustainability Analyst
Leads the Pledge engagements with the mining sector



Electric utilities:

clean power struggles

Utilities were among the first companies to witness the investment implications of climate change, given the need to build grids resilient to extreme weather while withstanding disruption from renewable energy, digitalisation and decentralisation.

Following unprecedented wildfires, Californian utility **PG&E Corp**. – one of the companies covered by the Pledge – has regrettably filed for bankruptcy. Described by the Wall Street Journal as 'the first climate-change bankruptcy, probably not the last,' PG&E offers a stark warning of the challenges ahead.

In light of declining renewable energy prices, as well as a growing policy push for cleantech, we expect utilities to outline plans to decarbonise their generation mix, including a detailed breakdown of capital expenditure and research and development on cleantech. We also expect to see clear targets for emissions of carbon dioxide, methane and other pollutants.

A growing number of companies are realising that their regulated status does not offer indefinite protection, as market shifts make it less likely that politicians and the public will continue subsidising coal. In the US, **Xcel Energy** is the first major utility to announce plans to go 100% carbon-free, pledging to close its last coal plants a decade ahead of schedule.

Exclusion/reinvestment candidates

- Reinstated after improvements: **Dominion Energy** has shown a very positive response to our engagement. Since 2018, the company has published its first climate change report, improved carbon disclosure via the Carbon Disclosure Project and established a sustainability committee with board oversight. It has also publicly supported the Paris Agreement and adopted voluntary targets to halve methane emissions in the next decade, while its CEO has joined a coalition of fellow business leaders to push for federal climate action.
- New exclusion candidate: **Korean Electric Power Corporation** (KEPCO) is the lowest-scoring company in its sector, particularly on measures of strategy and board composition. The company has also failed to engage with us on our concerns.

Clare Payn
Head of Corporate Governance, North America
Leads the Pledge engagements with the utilities sector

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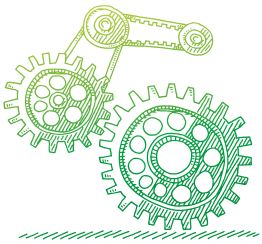


Automakers:
the road to net zero emissions

The auto sector is facing significant upheaval, as electric vehicles are likely to be soon cheaper as well as cleaner and, for quite a few drivers, cooler, than their gas-powered counterparts.

We expect companies to outline robust plans to reach net zero emissions, with due consideration to potential risks, including fines. **Renault** provides a good model for risk disclosures, in our analysis. Elsewhere, we commend **Daimler** for its commitment to making its new Mercedes-Benz passenger car fleet carbon-neutral by 2039, a target that covers key elements of manufacture, use and end-of-life for cars.

We also note improved engagements with **Tesla Motors**. Despite its sole focus on electric vehicles, the company last year failed to score high on transparency and governance metrics. Tesla has since published its first impact report and also separated the roles of CEO and chair, which we consider best practice.

Still, we are still concerned to see automakers support the Paris Agreement while remaining members of trade groups that, through their lobbying, seek to downplay the health and environmental impact of emissions. We have therefore supported resolutions calling for transparency on political lobbying at **Ford** and **GM**.

Exclusion/reinvestment candidates

- Continuing exclusion candidate: **Subaru** has shown a willingness to engage. Since last year, we have interacted with the company repeatedly, with the board formally committing to the Paris accord, but there are still areas for improvement.

Marion Plouhinec
Corporate Governance Analyst
Leads the Pledge engagements with the automakers sector

Food retailers:

appetite for innovation

Even though almost a quarter of the world's emissions derive from agriculture, land use and deforestation, the food retail sector has received comparably little public attention in relation to the role it plays in solving climate issues[6].

With only a handful of 'forest risk commodities' – palm oil, soy, cattle, timber and rubber – being the leading cause of deforestation worldwide, we want to understand how the sector is mitigating and managing the threats they pose.

We want companies to demonstrate high standards not just in their operations, but in their entire supply chain – down to disclosure and targets for all associated emissions (including Scope 3) as well a strategy to reduce food and non-food waste. We commend **General Mills** and **Danone** for adopting comprehensive emission targets.

While many companies are investing in agricultural innovation, we remain concerned that the sector overall does not show strategic awareness of climate risks, which is why food retailers make up a significant proportion of our divestment candidates.

Exclusion/reinvestment candidates

- New exclusion candidate: US-based **Hormel Foods** received the lowest scores of its sector, particularly on strategy and governance. It has displayed insufficient transparency around deforestation risk and its supply chain, lacks robust and ambitious targets for emissions and forest risk commodities. In addition, Hormel lacks independent verification of its emissions, timely engagement, and has poor supply chain traceability.
- New exclusion candidate: **Kroger**, the US retailer, scored poorly in the same areas. The company is insufficiently transparent around emissions, deforestation risk and supply chain. It has also displayed a lack of engagement.
- Continuing exclusion candidate: US food distributor **Sysco** has made some improvements in verifying operational emissions. But we would still like to see full reporting of emissions (Scope 3), and expect the company to set more ambitious targets. We remain concerned with the lack of a deforestation or environmental policy; Sysco also needs to discuss climate risks and opportunities in public reporting.
- Continuing exclusion candidate: **Loblaw**, the Canadian grocery chain, has made improvements in its governance, appointing a Lead Independent Director to ensure a counter-balancing voice to the Chair/CEO role. But we believe there are still a number of necessary steps for companies of such scale, and look forward to continuing engagement and support for substantive changes in the future.

Angeli Benham
Corporate Governance Manager
Leads the Pledge engagements with the food sector

5

Financials:
preparing for the climate test

The financial sector is directly responsible for a small proportion of the world's emissions. But its lending, corporate facilitation, insurance and asset management activities are key to speeding up or delaying the low-carbon economy.

We expect companies to consider climate change in their business strategies, with particular regard to the risks it poses. As a result, we believe climate change 'stress-tests' are an essential component for prudent risk management; a growing number of regulators agree and are pushing forward new measures in this area[7]. We note several banks are piloting climate scenario analysis, including **Westpac**, **Citigroup**, **Commonwealth Bank of Australia**, **BNP Paribas**.

BNP Paribas, HSBC and Commonwealth Bank of Australia disclose a breakdown of their exposure to emissions-intensive clients, with a notable reduction in coal exposure for the latter. A number of institutions, including **HSBC**, **Citi**, **US Bancorp** and **Lloyds Bank**, are also introducing restrictions on their financing of the most-polluting fossil fuels such as coal. Overall, though, we approach the climate policies adopted by the sector with caution, given the existence of worrisome loopholes.

Among insurers, European companies rank highest. **AXA** and **Allianz** are conducting climate scenario analysis on assets and have introduced stringent restrictions on coal investments and insurance. Allianz is exploring means to set a science-based target for its asset portfolio[8] to drive climate action, while AXA has a target to grow 'green' investments to €12 billion by 2020.

Chubb stands out as an American insurer that discusses climate risks and opportunities quite extensively, especially the impact of changing weather on its catastrophe losses, and the green/renewable business opportunities it is pursuing.

Looking ahead, we would like more companies to improve reporting on green revenues, so investors can assess the extent to which they represent a meaningful departure from a business-as-usual trajectory. Similarly, we would benefit from more clarity around the extent to which the outputs of scenario analysis are used to inform company strategy. Lastly, we remain concerned that most financial companies still do not disclose, let alone have targets for, their total emissions.

Exclusion/reinvestment candidates

- New exclusion candidate: **Metlife** has not responded to our attempts to engage and has scored poorly across most categories of assessment, including strategy and governance. The US insurer lacks robust climate governance, with oversight relegated just to the 'corporate social responsibility' committee; has poor risk disclosures; and offers limited visibility over climate-related opportunities, despite having a property and casualty insurance division.

- Continuing exclusion candidate: **China Construction Bank** has engaged with us productively over the past year and improved areas of its reporting, particularly around green opportunities. We note a commitment to report in line with the TCFD, but remain concerned that requests for other basic disclosures remain unmet. These include changes in absolute, not relative exposure to high-carbon sectors and more details on sector lending policies.

- Continuing exclusion candidate: **Japan Post Holdings** has also shown increased responsiveness to our engagements, but its public reporting is yet to reflect substantial changes on climate change risks and opportunities, as well as the full disclosure of emissions. In our view, this still falls short of the high standard expected for a financial services provider of it size in Japan.

Yasmine Svan
Sustainability Analyst

James Malone
Corporate Governance ESG Analyst

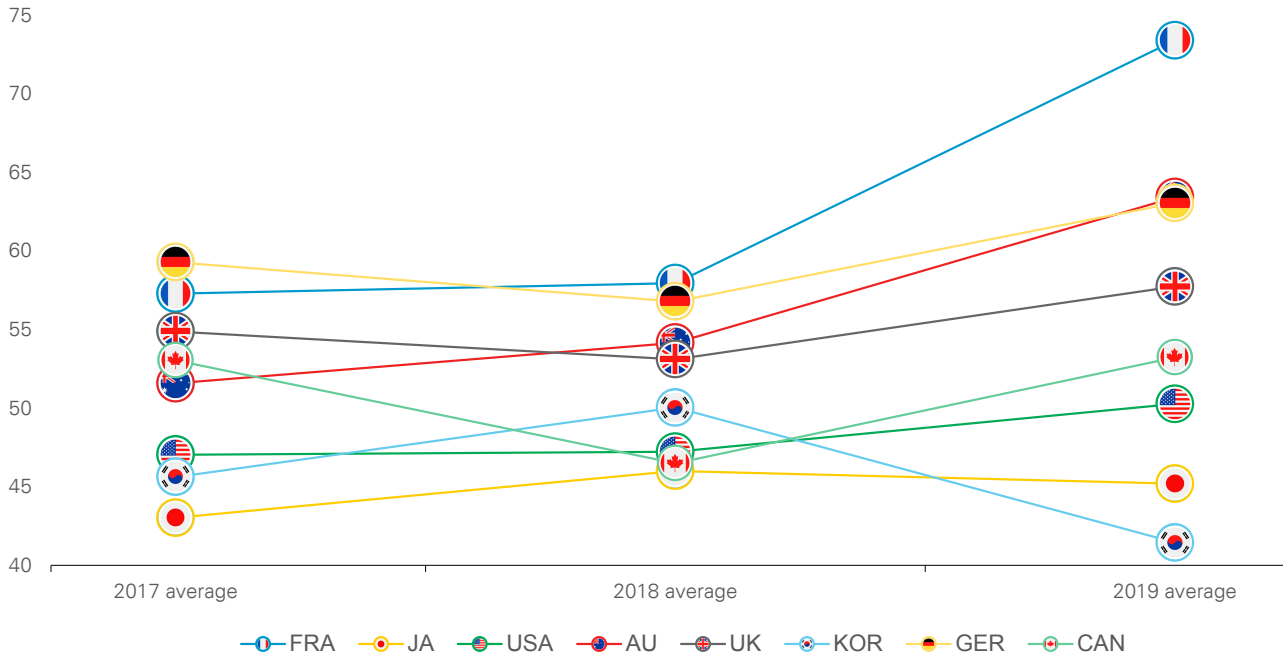
Yasmine and James lead the Pledge engagements with the financials sector

We'll always have Paris

International ambition has not subsided, with every country in the world now having passed legislation in support of the Paris Agreement and a cleaner energy system[9].

In terms of regions, there has been an increase in average company scores across all those we analyse – North America, UK, Europe and Asia-Pacific. The same is true at a country level, with the exception of Japan and Korea, where there is regrettably a downward trend.

Average country Climate Impact Pledge scores (0-100) 2017-2019



Source: LGIM calculations

A question still remains around the US, where President Donald Trump's stated aim of withdrawing from the accord contrasts with the positive state- and city-level support embodied by the #WeAreStillIn movement.

This division is reflected in our scores, as average US company scores are on the rise, even though there was a disproportionate number of companies from the world's biggest economy among the lowest-scoring companies, too.

However, the continued growth in global emissions since 2018 means decisive action and implementation remains critical.

5

Sacha Sadan
Director of Corporate Governance

Averting the climate catastrophe

In our latest Corporate Governance annual report, for 2019, we spoke about the risks of a climate catastrophe facing the world – and the millions of people whose retirement savings and investments we manage.

Indeed, so urgent is the need for action, we developed the Climate Impact Pledge to create positive change where it can have the greatest impact. But as genuinely 'active owners', who seek to raise standards across companies and entire markets, we are also stepping up the pressure on all companies to meet the climate challenge, regardless of sector.

In our interactions with peers, regulators and policy makers, we are advocating strongly in support of the aim of the Paris Agreement. And through our Future World funds, we are providing investors with the opportunity to express a conviction on environmental, social and governance themes such as climate change, across a broad range of asset classes.

We are encouraged that our pragmatic approach of engagement with consequences is starting to yield tangible results. But we recognise that because climate change is a truly global problem, it requires a global solution – with everyone playing a part in securing a prosperous, healthy and vibrant economy for the 21st century and beyond.

Notes

1. https://www.theguardian.com/environment/2019/mar/19/school-climate-strikes-more-than-1-million-took-part-say-campaigners-greta-thunberg

2. https://www.ipcc.ch/sr15

3. For more details see: http://www.lgim.com/uk/en/insights/our-thinking/market-insights/lgims-climate-impact-pledge-the-results-so-far.html

4. See more details around LGIM's modelling work on the energy transition: https://www.legalandgeneralgroup.com/media-centre/press-releases/lgim-research-into-the-energy-transition-reveals-trillion-dollar-investment-opportunity/

5.See LGIM and other investors' joint statement to policymakers: https://www.iigcc.org/resource/global-investor-statement-to-governments-on-climate-change/

6. Source: IPCC

7. See the work done by a key coalition of central banks and supervisors: https://www.banque-france.fr/en/communique-de-presse/ngfs-calls-action-central-banks-supervisors-and-all-relevant-stakeholders-greening-financial-system

8. Our parent company, Legal & General, is also looking at the adoption of Science-Based Targets and has committed to phase out its exposure to thermal coal. More information is available here: https://www.legalandgeneralgroup.com/csr/our-approach/climate-change-the-environment/tcfd-reports/

9. Source: http://www.lse.ac.uk/GranthamInstitute/news/new-study-reveals-all-countries-that-have-signed-or-ratified-the-paris-agreement-have-at-least-one-national-law-or-policy-on-climate-change/

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM sales representative

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LGIM Talks

FUTURE WORLD blog

Legal & General Investment Management Ltd, One Coleman Street, London, EC2R 5AA

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

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

SUBJECT: **DRAFT ANNUAL REPORT & AUDITED STATEMENT OF ACCOUNTS**

SUMMARY OF ISSUE:

The Pension Fund Committee's role is to approve the Annual Report, which contains the audited statement of accounts together with other information about the Fund's performance during 2018/19. The Annual Report is included as Annex 1.

The external auditor (Grant Thornton) has issued an unqualified opinion on the accounts and this is outlined in the External Audit Findings Report (Annex 2).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes and approves the Draft Annual Report with the Audited Pension Fund Accounts for publication subject to audit approval.

    - The Audited Pension Fund Accounts are included as a hyperlink in the Draft Annual Report and can be found using the link below on pages 137-179. The Full Pension Fund Accounts will be included in the Annual Report when sent to Audit for approval.

      https://www.surreycc.gov.uk/__data/assets/pdf_file/0018/203634/Statement-of-Accounts-2018-19-signed-full-size-compressed.pdf

    - The Annual Report to be sent to audit will also contain the statutory inclusion of the Fund's full Investment Strategy Statement, approved by the Pension Fund Committee on 8 February 2019, and the 2016 Funding Strategy Statement.

2. Notes the content of the 'External Audit Findings for Surrey Pension Fund' Report as set out in Annex 2, which reviewed the Pension Fund Statement of Accounts 2018/19; Grant Thornton found no material misstatements in the accounts and issued an unqualified opinion

3. Notes the Letter of Representation with regard to the Surrey Pension Fund Statement of Accounts as set out in Annex 3.

REASON FOR RECOMMENDATIONS:

Under the Local Government Pension Scheme (Administration) Regulations 2008, administering authorities of LGPS funds are required to prepare a pension fund annual report.

The Pension Fund Committee must approve all financial statements produced for the Pension Fund.

DETAILS:

1. The Surrey Pension Fund Statement of Accounts was presented to the Audit and Governance Committee at its meeting on 29 July 2019.

2. The external auditor is required to report on the Pension Fund Financial Statements. During the external audit, Grant Thornton identified some minor issues, which led to minor amendments being made to the 2018/19 draft financial statements and related notes to the accounts.

3. A link to the financial statements and notes to the accounts is included as part of the Pension Fund Annual Report 2018/19 in Annex 1.

4. The External Audit Findings for the Surrey Pension Fund is presented at Annex 2 and sets out a summary of the work carried out, the conclusion reached and recommendations made. The Pension Fund Committee will note that Grant Thornton issued an unqualified opinion on the financial statements.

5. In line with good governance, the letter of representation, signed by the Section 151 Officer is included at Annex 3. The letter of representation confirms that the financial statements have been presented fairly and in accordance with International Financial Reporting Standards and the CIPFA Code of Practice

6. The Audit and Governance Committee approved the report and associated attachments at the 29 July 2019 meeting.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9. Financial and value for money implications are contained within the financial statements and the External Audit Findings Report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

10. The Director of Corporate Finance has overseen the full process of the compilation of the financial statements and the external audit process.

LEGAL IMPLICATIONS – MONITORING OFFICER

11. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

12. The approval of the financial statements does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14. The following next steps are planned:

- Approval of the audited financial statements
- Inclusion of the Investment Strategy Statement and Funding Strategy Statement in the Pension Fund Annual Report 2018/19
- Review by External Auditors, Grant Thornton, to provide Statement of Consistency of Pension Fund Accounts 2018/19 and Pension Fund Annual Report 2018/19

Contact Officer:
Mamon Zaman, Senior Accountant

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – Surrey Pension Fund Annual Report 2018/19
Annex 2 – External Audit Findings Report
Annex 3 – Section 151 Officer Letter of Representation

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Surrey Pension Fund

Summarised Annual Report 2018/19

SURREY PENSION FUND

Contents Page

Chairman's Introduction

2018/19 has been a very busy and successful year for Surrey Pension Fund with strong investment performance and growth in the number of employers in the Fund. The value of the Fund has increased from £4.1bn to £4.3 bn and while we await the results of the Triennial Valuation as at 31 March 2019, our 31 December 2018 funding level was 93.3%. The number of employers in the fund is now over 270 and we service over 100,000 members.

Investment pooling within the LGPS

Surrey Pension Fund continues to make methodical and carefully considered progress towards pooling the Fund's assets with other LGPS funds in the Border to Coast Pensions Partnership (BCPP). Our UK Equity holdings were successfully transitioned in November 2018.

The Committee is prudent in ensuring that the BCPP sub funds provide the asset class and mix to suit the fund's investment strategy. Border to Coast operates investment funds for its Partner Funds to invest in based on their strategic asset allocations. The assets under management across the twelve Partner Funds total approximately £46 billion

Changes in the Investment Strategy

The Fund has continued with its total overhaul of its investment strategy to ensure a fully diversified portfolio, appropriate to the Fund's long term objectives having regard to the fund's size, the opportunities presented by pooling with BCPP, and the minimisation of risk. This has involved further adjustments in asset allocation.

Investing Responsibly

The Fund continues to take an increasingly active role in ensuring it invests with due attention to our environmental, social and

governance (ESG) responsibilities. Our focus remains on maintaining appropriate investments having every regard to Climate Change implications and our responsibilities in helping maintain a sustainable world. We believe that our ESG objectives are best served by engagement so, in addition to the commitments in our own investment strategy statement, the Fund is a party to the BCPP Responsibility Investment Policy and a member of the BCPP Climate Change Working Party. The Fund also offers its full support to the Local Authority Pension Fund Forum as well as BCPP's Engagement Lead, Robeco. More widely the Fund is signed up to the Taskforce for Climate Related Financial Disclosures (TCFD) and will begin to report against these disclosures for the 2019/20 Annual Report.

Funding Strategy

Our successful funding strategy remains unchanged while we await the results of the 2019 triennial valuation.

Management

Neil Mason and his team have been outstanding over the year in dealing with the increasingly heavy work load. So much so that the Surrey Pension Fund received the Local Authorities Pension Forum's Award for Scheme Governance in September 2018.

6

Membership of the Pension Fund Committee

The current membership of the Pension Fund Committee is as follows:

	**Tim Evans: Chairman** Party: Conservative Borough and District: Spelthorne E:tim.evans@surreycc.gov.uk T:01932 785138
	**Ben Carrasco: Vice Chairman** Party: Conservative Borough and District: Woking E: ben.carasco@surreycc.gov.uk T: 07733 307525
	**Ayesha Azad** Party: Conservative Borough and District: Woking E: a.azad@surreycc.gov.uk T: 01483 757646

	**John Beckett** Party: Residents Association Borough and District: Epsom and Ewell E: john.beckett@surreycc.gov.uk T: 020 8393 8208
	**David Mansfield** Party: Conservative Borough and District: Surrey Heath E:david.mansfield@surreycc.gov.uk T: 01483 799328
	**Hazel Watson** Party: Liberal Democrats Borough and District: Mole Valley E: h.watson@surreycc.gov.uk T: 01306 880120
	**Ruth Mitchell** Party: Independent Borough and District: Elmbridge, Hersham Village E: rmitchell@elmbridge.gov.uk T: 01932 220557

	**Tony Elias** Party: Conservative Borough and District: Tandridge E:Cllr.tony.elias@tandridgedc.gov.uk T: 01883742685
	**Margaret Janes** Head of Pensions University of Surrey
	Philip Walker Employee & Pensioners Representative

Membership of the Local Pension Board

	**Nick Harrison: Chairman** Party: Residents' Association and Independent Borough and District: Reigate and Banstead E: nicholas.harrison@surreycc.gov.uk T: 01737 215405
	**Graham Ellwood: Vice Chairman** Party: Conservative Borough and District: Guildford E: graham.ellwood@surreycc.gov.uk T: 07899 846626
	**Paul Bundy** Head of Finance Surrey Police E: Paul.Bundy@surrey.pnn.police.uk
	**Tina Hood** Surrey LGPS Members **E:** tina.hood@surreycc.gov.uk

	**Paresh Rajani** Surrey LGPS Members
	David Stewart Surrey LGPS Members
	**Katy Meakin** Human Resources Manager Waverley Borough Council E: Katy.Meakin@waverley.gov.uk
	**Trevor Willington** Surrey LGPS Members

Officer Contact Details

	**Leigh Whitehouse** Director of Finance E: leigh.whitehouse@surreycc.gov.uk T: 020 8541 7012
	**Anna D'Alessandro** Interim Director, Corporate Finance E:anna.dalessandro@surreycc.gov.uk T: 07885 434034
	**Neil Mason** Head of Pensions E: neil.mason@surreycc.gov.uk T: 020 8213 2739
	**Steve Turner** Professional Advisor - Mercer E: steve.j.turner@mercer.com T: 01483 777035

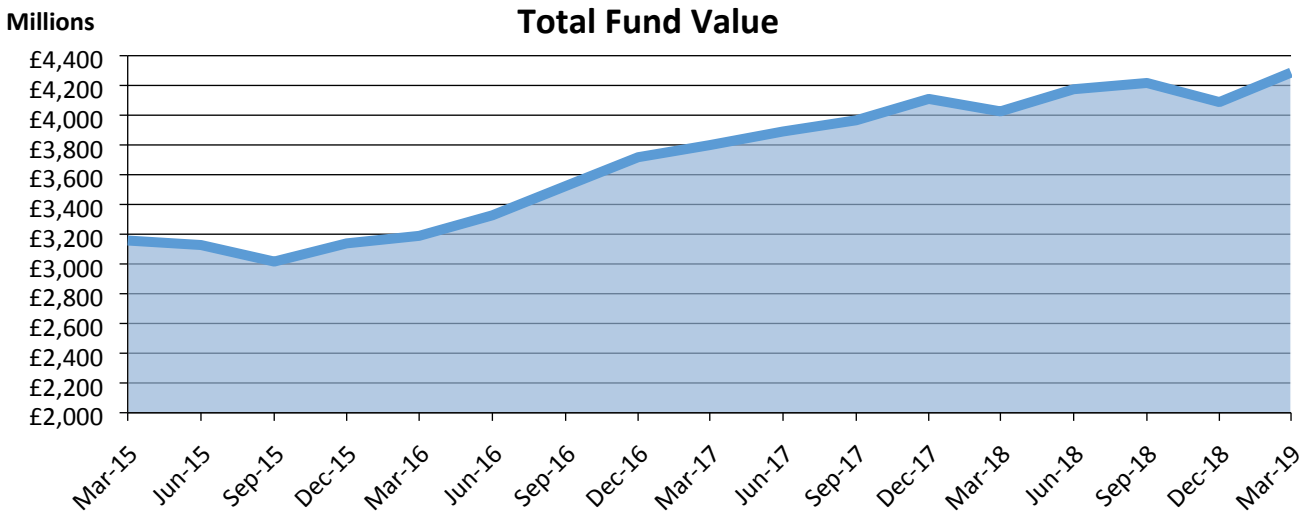
	**Anthony Fletcher** Professional Advisor - Independent E: Anthony.Fletcher@MJHudson.com T: 020 7079 1000
	**Gemma Sefton** Fund Actuary T: 0141 566 7568 E: gemma.sefton@hymans.co.uk

Bankers	HSBC
Fund Managers	LGPS Pool: Border to Coast Pensions Partnership Baillie Gifford CBRE Global Investors Franklin Templeton Investments Legal and General Investment Management Majedie Asset Management Marathon Asset Management Newton Investment Management Western Asset Management Aviva Investors Ruffer
Global Custodian	Northern Trust
Private Equity Advisors	BlackRock Capital Dynamics Goldman Sachs Asset Management Hg Capital Livingbridge Equity Partners Standard Life Capital Partners Pantheon Global Infrastructure Glennmont Partners Darwin Property Investment Management
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Grant Thornton UK LLP

Overview

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19
Contributions and transfers in	192,419	199,650	191,164	191,730
Less benefits and expenses paid	-139,213	-157,645	-167,521	-176,248
Net additions	**53,206**	**42,005**	**23,643**	**15,482**
Net investment income*	45,592	61,238	64,719	58,270
Change in market value	-68,655	541,953	98,662	185,943
Net return on investments	**-28,063**	**603,191**	**163,381**	**244,213**
Net increase in Fund	30,143	645,196	187,024	259,695
Fund value at 31 March	3,223,663	3,868,859	4,055,883	4,315,578

*Net of Investment and governance expenses and tax withheld expenses



	31 March 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
Contributory Employees	30,023	32,530	32,851	34,072	34,298	35,802	34,292
Pensioners and Dependants	20,572	21,598	22,481	23,197	24,025	25,135	25,929
Deferred Pensions	28,256	30,639	33,833	34,158	41,573	45,079	49,874
Total	**78,851**	**84,767**	**89,165**	**91,427**	**99,896**	**106,016**	**110,195**

LGPS Scheme Details

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme for future benefit accrual.

The new Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits

Key LGPS Facts England and Wales

- Made up of 90 regional funds
- Around 5.3 million members
- Total fund assets are £217 billion
- Total expenditure on benefits is over £9.4 billion p.a.

Key LGPS Facts SCC

- Made up of 271 employers
- Around 100,000 members
- Total fund assets are £4.3 billion
- Total expenditure on benefits is over £176 million p.a.

The following pay ranges and employee contribution rates will apply from April 2019 as follows:

Actual Pensionable Pay	Contribution Rate
Up to £14,400	5.5%
£14,401 to £22,500	5.8%
£22,501 to £36,500	6.5%
£36,501 to £46,200	6.8%
£46,201 to £64,600	8.5%
£64,601 to £91,500	9.9%
£91,501 to £107,700	10.5%

£107,701 to £161,500	11.4%
£161,501 or more	12.5%

The regulations for the pre-April 2014 and post-April 2014 scheme are shown below:

Pre-2014: www.lgpsregs.org/timelineregs/Default.html

Post-2014: http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php

More information on the LGPS can be found on pages 109 to 112.

The Fund is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits currently being paid is invested.

The pay bands above increase each April in line with increases in the Consumer Prices Index (CPI).

Employers' contribution rates are set following each Actuarial Valuation. A valuation of the Fund's financial position must be made every three years when the Actuary certifies the employers' rates payable until the results of the next valuation are known.

Under the Regulations employer contributions are determined in two parts.

- A common rate based on the existing and prospective liabilities of the Fund having regard to the circumstances common to all the participating employers and to the desirability of maintaining as nearly constant a rate as possible
- Individual adjustments arising from circumstances peculiar to an individual employer.

Pensions paid to retired employees, and benefits with a deferred payment date, are subject to mandatory increases under pensions increase legislation. The cost of inflation-proofing benefits is funded through the employers' contribution rate.

Pensions Committee:

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

• Six nominated members of the County Council;
• Two representatives from the Borough/District Councils nominated by the Surrey Local Government Association;
• One representative from the external employers;
• One representative of the members of the Fund.

The Pension Fund Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Director of Finance and the Head of Pensions. The Pension Fund Committee meets on a quarterly basis.

Local Board:

The governance arrangements of the Local Government Pension Scheme are changing. From 1 April 2015 the Surrey Pension Fund Committee has been assisted in its management of the Surrey Pension Fund by a Local Pension Board made up from representatives of members and employers of the scheme.

The role of the local Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013 is to assist the County Council as Administering Authority:

(a) to secure compliance with:

I. the scheme regulations;
II. any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
III. any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.

(b) to ensure the effective and efficient governance and administration of the LGPS Scheme.

The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board will also help ensure that the Surrey Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Local Pension Board has power to do anything that is calculated to

facilitate or is conducive or incidental to the discharge of any of its functions but should always act within its terms of reference.
The Local Board is made up of representatives of the employers and members within the Surrey Fund and that the representation between employees and employers should be equal. The terms of reference of the board outlines the constitution of members as follows:

Employer representatives
- 2 x Surrey County Councilors
- 2 x Other employer representatives

Member representatives
- 1 x GMB nominated representative
- 1 x Unison nominated representative
- 2 x Other member representatives

The first meeting of the year for the Local Pensions Board was the 25 July 2018. The Board papers and minutes of meetings, as well as those for the Pension Fund Committee, are available on the Surrey County Council website.

The annual report of the Local Pension board is overleaf.

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Local Pensions Board Chairman's Statement to be confirmed for 2018/19

6

Local Pensions Board Chairman's Statement to be confirmed 2018/19

Compliance Checklist

To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme.	How the Board does this
a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.	The Board and Committee receive regular updates regarding their respective activities. The Board and Committee are committed to working together.
b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.	The Board has oversight of Pension Fund policies and processes. The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis.
c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.	The Board reviewed employer pension discretions in July 2016, and have continued to monitor compliance over the past year.
d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.	This was reviewed as part of the Fund Annual Report on 23 October 2018, with specific policies also reviewed periodically in 2018/19 meetings. The Board will review these on an annual basis as part of the Fund Annual Report and as part of its Forward Plan.
e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.	The Board was provided with an outline of the current communications channels for members and employers as part of a training session in October 2015. This is an item for fuller consideration 2018/19.
f) Monitor complaints and performance on the administration and governance of the scheme.	The Board reviews complaints on a quarterly basis.
g) Assist with the application of the Internal Dispute Resolution Process.	The Board receives a quarterly update on the number of Internal Dispute Resolution Process cases and monitors any key themes emerging from these.
h) Review the complete and proper exercise of Pensions Ombudsman cases.	N/A – No current or outstanding Ombudsman cases to consider.

i) Review the implementation of revised policies and procedures following changes to the Scheme.	N/A – No changes. The Board is fully conversant on current proposed changes to the LGPS regulations through regular bulletins.
j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.	The Board will review its own training needs on an annual basis. A knowledge and understanding log is included in the Board's annual report. All Board members are required to complete the Pension Regulator Public Sector toolkit in order to comply with the Board's Attendance, Knowledge and Understanding policy.
k) Review the complete and proper exercise of employer and administering authority discretions.	The Board reviewed these discretions on July 2018.
l) Review the outcome of internal and external audit reports.	The Board complies with Surrey County Council's agreed process for internal audit reports being considered by scrutiny boards. This means all relevant audit reports are circulated to the Chairman, and any report with one or more high priority recommendation will be considered for discussion at the Board. The results of any external audit are shared with the Board.
m) Review draft accounts and scheme annual report.	The Board received both the draft accounts and fund annual report on 23 October 2018.
n) Review the compliance of particular cases, projects or process on request of the Committee.	N/A
o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.	N/A.

25 July 2018

- Pension Fund Committee update
- Administration Performance Report: 1 April 2018 to 30 June 2018
- Administration Update: 1 April 2018 to 30 June 2018
- Review of Internal Dispute Resolution Cases in 2018/19: Quarter One
- Customer Complaints Report: Quarter One
- Communications Update
- Cyber Security
- Risk Registers 2018/19: Quarter One
- Local Pension Board Annual Report
- Training Bulletin: Quarter One
- Pre-Valuation Project Plan
- Border to Coast Update

23 October 2018

- Annual Report/Statement of Accounts 2017/18
- Administration Update: 1 July 2018 to 30 September 2018
- Administration Performance Report: 1 July 2017 to 31 August 2018
- Risk Registers 2018/19: Quarter Two
- Customer Complaints Report: Quarter Two
- Annual Benefit Statements Exercise 2018
- Summary of the Pension Fund Committee Meeting of 14 September 2018
- Border to Coast Update
- Review of Internal Dispute Resolution Cases in 2018/19: Quarter Two

17 January 2019

- Governance Review
- Pension Committee Update
- Border to Coast
- Administration Update
- Administration Performance Report
- Risk Registers 2018/19: Quarter Three
- Discretions Exercise Report
- Additional Voluntary Contributions Governance Review Exercise
- Review of Internal Dispute Resolution Cases 2018/19: Quarter Three
- Recent Developments in the LGPS

25 April 2019

- Summary of Pension Fund Committee Meeting of 8 February 2019
- Administration Update (1 January 2019 to 31 March 2019)
- Administration Performance Report (1 January 2019 to 31 March 2019 - Quarter Four)
- Risk Registers 2018/19 (Quarter Four)
- Training Policy
- Compliance With the Pensions Regulator's Code of Practice No. 14
- Review of Internal Dispute Resolution Cases in 2018/19 (Quarter Four)
- Recent Developments in the LGPS
- Ministry of Housing, Communities and Local Government (MHCLG) - Statutory Guidance on Asset Pooling
- Border to Coast Update

Members of the Local Pension Board

Name	Representing	Appointed	Appointment ended
(NH) Nick Harrison (Chairman)	Scheme employers	17 July 2015	N/A
(GE) Graham Ellwood (Vice Chairman)	Scheme employers	14 June 2017	N/A
(PB) Paul Bundy	Scheme employers	17 July 2015	N/A
(TH) Tina Hood	Scheme members	29 January 2016	N/A
(PR) Paresh Rajani	Scheme members	3 May 2016	N/A
(DS) David Stewart	Scheme members	17 July 2015	N/A
(CW) Claire Williams-Morris	Scheme employers	17 July 2015	17 January 2019
(TW) Trevor Willington	Scheme members	17 July 2015	N/A

Meeting attendance

Meeting date	In attendance	Apologies
25 July 2018	NH, GE, DS, PR, PB, TH	CW, TW
23 October 2018	NH, GE, PR, TW, PB, TH	DS, CW
17 January 2019	NH, PB, PR, TW	GE, TH, DS, CW
25 April 2019	NH, PB, DS	GE, TH, PR, TW

Compulsory training

Training	Attained
The Pensions Regulator Public Sector Toolkit	NH, PB, PR, DS, CW TW
Local Government Association Fundamentals 1	NH, PB, TH, PR, DS, CW TW
Local Government Association Fundamentals 2	NH, PB, TH, PR, DS, CW TW
Local Government Association Fundamentals 3	NH, PB, TH, PR, DS, CW TW

Additional training

Training	In attendance
Pension Committee and Pension Board Member Training (5 July 2018)	PB
Pension Committee and Pension Board Member Training (30 July 2017)	PB
Goldman Sachs Pensions Investment Training	NH, GE, CW, PR
Hymans Training	NH, GE, TW, PB, PR, TH

Publications distributed to all Local Pension Board members

Local Government Pension Secretariat bulletins	170-183

The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a "conflict of interest", which is defined in Section 5(5) as a "financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme."

A conflict of interest exists where there is a divergence between the individual interests of a person and their responsibility towards the Local Pension Board, such that it might be reasonably questioned whether the actions or decisions of that person are influenced by their own interests.

A conflict of interest would prejudice an individual's ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.
An example of a potential conflict of interest could be:

A Local Pension Board member may be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility; e.g(s):

- a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment;

- a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review;

- an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.

Name	LGPS Member/ Employer Representative	Date of Appointment / Termination (if applicable)	Relevant employment or positions held	In receipt of a LGPS pension ?	Stated Conflict with Employment ?	Additional note	Other Conflicts of Interest
Nick Harrison	Employer	17/07/2015	Elected Member of Surrey County Council; Trustee director of a company pension scheme, DB Pension Fund Trustee Ltd.	No	No	Deutsche Bank itself has no role in relation to the Surrey Pension Fund and no role more generally in providing banking, investment or other services to Surrey County Council.	N/A
Graham Ellwood	Employer	14/06/2017	Elected Member of Surrey County Council; RI of Wilton Wealth Management Ltd	No	No	N/A	N/A
Paul Bundy	Employer	17/07/2015	Service Director Finance, Surrey & Sussex Police	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing himself from the discussion.	N/A
Tina Hood	Member	29/01/2016	GMB Branch Secretary Surrey County Branch County Hall	Yes	No	N/A	N/A

Paresh Rajani	Member	03/05/2016	Electrical Services Engineer, Neighbourhood & Housing Management Services, Guildford Borough Council; Unison representative	No	No	Employer not involved in financial business.	N/A
David Stewart	Member	17/07/2015	Shared Performance and Reward Manager (LBHF and RBKC), Shared Human Resources London Borough of Hammersmith & Fulham/Royal Borough of Kensington & Chelsea	Yes	No	Employer's pension services are administered by Orbis - this is actively managed by being recorded at every meeting, and any likelihood of conflict arising would be mitigated by the member removing himself from the discussion.	N/A
Trevor Willington	Member	17/07/2015		Yes	No	Employer not involved in financial business.	N/A
Claire Morris	Employer	17/07/2015 – 17/01/2019	Head of Financial Services and Deputy Chief Financial Officer, Guildford Borough Council	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing herself from the discussion.	N/A

Knowledge and Skills Policy

The administrators of the Surrey Pension Fund are committed to the implementation of the Code of Practice on public sector pensions finance knowledge and skills. The Pension Fund Committee has agreed the following knowledge and skills policy statement.

1. The Pension Fund Committee recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the responsibilities allocated to them.

2. It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills

.

The members of the Committee are to partake in the CIPFA Knowledge and Skills Framework in order to identify areas where further training is required.

Communication Policy Statement

1 Communication Objectives

- To accurately communicate the provisions and requirements of the Local Government Pension Scheme (LGPS) to all stakeholders.
- To identify and meet all regulatory requirements regarding provision of information.
- To promote appropriately membership of the LGPS Scheme to employees of participating employers.
- To communicate clearly to all stakeholders their own responsibility for communication and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications.
- To ensure communications are made in a timely manner.
- To use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.

2 Stakeholders

The various stakeholders for the purpose of this communication policy are identified below:

- Active members
- Prospective members
- Deferred members
- Pensioners
- Employers

3 Website

The Pension Fund has an established website:

surreypensionfund.org

6

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group (Active, Prospective, Deferred, Pensioner, Employer or All)
Scheme overview and joiner form	Paper based and on website	On commencing employment and by request	Via employer	Active and prospective
Scheme booklet and joiner pack	Paper based and on website	On joining the scheme and by request	Home address or via employer	Active and prospective
Factsheets	Paper based and on website	On request	Post to home address or email	Active and deferred
Newsletters	Paper based and on website	After material scheme changes	Via employer	Active and Pensioner
Annual benefit Statements*	Paper based	Annually	Post to employer or home address	Active and Deferred
Pension clinics/roadshows and drop-in events	Face to face	As requested by employer and employee	Via employer	Active and prospective
Pre-retirement Courses	Face to face	As requested by employer	Via employer	Active
Briefing reports	Paper based and electronic	Ad hoc	Email or hard copy	Employers
Formal dispute resolution procedure	Paper based or electronic	As and when a dispute arises	Email or hard copy	All
Investment Updates	Website	Quarterly	On request	Employers
Annual report and accounts	Paper based, electronic or website	Annually	Email or hard copy	All
Annual general Meeting	Face to face	Annually	Email invitation	Employers
Actuarial valuation Report	Electronic or website	Triennial	Email	All

1. Legislative Framework

1.1 This strategy statement has been prepared by Surrey County Council as the administering authority to the Surrey Pension Fund in accordance with Regulation 59 of the Local Government Pension Scheme) Regulations 2013.

2. Review

2.1 This strategy will be kept under review and will be revised, after consultation with scheme employers, following any material changes in legislation or policies that relate to the strategy.

3. Purpose

3.1 The purpose of the strategy is to establish levels of performance and procedures for liaison and communication for both the administering authority (AA) and the employers participating in the fund with a view to maintaining good working relationships, transparency and efficient administration.

4. Employer Duties & Responsibilities

4.1 The employer should nominate a person or persons to liaise with the AA on pension administration matters.

4.2 The employer should ensure that any information passed on behalf of the employer to the AA or any requests for information made on behalf of the employer to the AA are undertaken by a duly authorised officer of the employer.

4.3 The employer should notify the AA in respect of the following changes in a scheme member's status and within the required timescale by completing the appropriate pension form or secure on-line submission:

- New Joiner
  Within one month of joining

- Change in member's details e.g. hours, maternity etc
  Within one month of the change

- Retirements
  Two months prior to the date of retirement. It is however recognised that there will be occasions where this time limit cannot be met, for example, because the member has

retired with little or no notice or details of pensionable pay cannot be provided until the member has left employment.

- Death in Service
  Within five working days of the member's death

- Leavers
  Within one month of the member leaving

- TUPE transfer of scheme member
  At least two months before the transfer date. This is to allow adequate time for pension protection to be put in place as appropriate.

4.4 The employer must determine the pension contribution rate at which its employees should contribute to the scheme from 1 April each year and, where there is a change to the member's pensionable pay during the year, from that date. Where an employee holds more than one post, the employer must determine the rate applicable for each post.

4.5 The employer will ensure that member and employer pension contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave and any additional contributions the member has requested to pay.

4.6 The employer will ensure that pension contributions are paid to the AA within seven days of the end of each month.

4.7 The employer will ensure that additional voluntary contributions are paid to the relevant provider within seven days of being deducted from the member's pay.

4.8 The employer must, no later than 30 April each year, provide the AA with year-end information to 31 March in an approved format in respect of each post the member holds.

4.9 The employer is responsible for exercising the discretionary powers given to employers by the LGPS regulations. The employer is also responsible for publishing its policy in respect of these discretions to its employees and forwarding a copy to the AA.

4.10 The AA is not required to verify the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. Therefore, employers should ensure that all information provided is accurate.

4.11 Any over-payment resulting from inaccurate information supplied by the employer may be recovered from the employer if it cannot be recovered from the scheme member.

4.12 In the event of the AA being fined by The Pensions Regulator, this fine may be passed on to the relevant employer where that employer's action or inaction resulted in the fine.

4.13 The employer must nominate a person to hear complaints made under Stage 1 of the Internal Disputes Resolution Procedure and should provide this person's name, job title, and

office address. When an amendment to these details is made, a notification of the change should be sent to the AA immediately.

4.14 The employer must obtain the approval of the AA as to its choice of registered medical practitioner for the purposes of awarding ill health retirement under the Scheme regulations.

4.15 The employer must pay to the AA any cost identified by the AA as a result of the employing authority's decision to release any pension benefits prior to a member's normal retirement age. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

4.16 The employer must also pay to the AA any charge identified by the AA as a result of the employing authority's decision to award any additional benefits to a scheme member in accordance with its statement of policy regarding the exercise of certain discretionary functions. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

5. Administering Authority Duties & Responsibilities

New Joiners

5.1 *Confirmation letter of scheme admittance to all members*.
Within 20 days

5.2 *Transfers from previous pension schemes.*
Within 20 days

Existing Active Members

5.3 *Annual Benefit Statement*
By 30 September providing year end data has been received from the employer

5.4 *Benefit estimates to employers*
Within ten days of receipt of request

5.5 *Retirements*
Within ten days of retirement

5.6 *Death in Service*
Death Benefits and dependants' pensions
Within five days

Early Leavers

5.7 *Deferred Benefit statement*
Within one month of leaving

5.8 *Refunds*
Within ten days

5.9 *Transfer to new pension scheme*
Within 20 days

Deferred Benefit Members

5.10 *Annual Benefit Statement*
By 30 June

5.11 *Benefits put into payment*
Within ten days

5.12 *Death Benefits and dependants' pensions*
Within five days

Pensioner Members

5.13 *Changes in personal details*
Payroll record updated before next payroll run

5.14 *Death benefits and dependants' pensions*
Within five days

*The timescales for completing the tasks above are measured from the date the AA is in receipt of all the relevant information required to complete the task is expressed in "working days"

Communication

5.15 The AA will provide employers with the necessary forms and documents for it to carry-out its pension administration responsibilities. These forms to be available in paper and electronic format, where appropriate
.

5.16 The AA will provide a guide to the Local Government Pension Scheme for scheme members for employer to issue.

5.17 The AA will provide a joiner pack to new scheme members.

5.18 The AA will issue a newsletter for active scheme members at least once a year

5.19 The AA will issue regular employer newsletters and provide training at County Hall for employers to comply with their pension administration responsibilities.

5.20 The AA will enable scheme members and employers to visit Pension Services during normal working hours from 8.30am to 5.30pm.

5.21 The AA will maintain a Pension Fund Website which will include:

- General information on the LGPS
- Copies of all the publications of the pension fund including newsletters, scheme guides, strategy statements, annual reports and accounts.

- Standard forms to be used by employers when providing information to the pensions team

5.22 The AA will arrange a Pension Fund Annual General meeting for employers and produce an annual report.

Data Quality and Security

5.23 The AA will ensure that the data held on the systems used to administer the scheme will be secure and regularly backed up to an off-site location. The AA will apply year end data quality control and review processes.

6. Unsatisfactory Performance by an Employer

6.1 Where an employer materially or consistently fails to operate in accordance with the standards laid down in this strategy, which results in additional administration costs being incurred by the AA, the AA may issue a written notice to the employer requiring that these extra costs are met by the employer. Steps to recover additional administration costs would normally only be pursued after support and training had been offered by the AA to address the underperformance.

Investment Report

Annual Investment Review

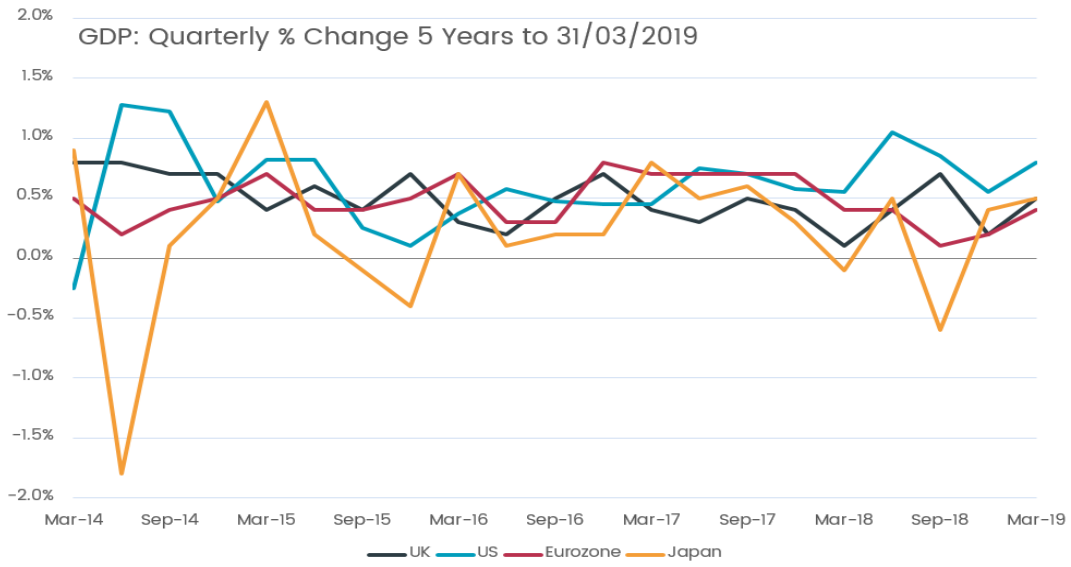
6

This report has been prepared by the Independent Investment Advisor to Surrey County Council Pension Fund (the Fund). At the request of the Pension and Investment Committee the purpose of the report is to fulfil the following aims: -

- Provide a review of the economic and market background over the 12 months to 31st March 2019.
- Provide an overview of market returns by asset class over the last 12 months.
- Provide an overview of the Fund's performance versus the Fund specific benchmark for the last 12 months.
- An overview of the outlook for markets and how this may impact the performance of the Fund.

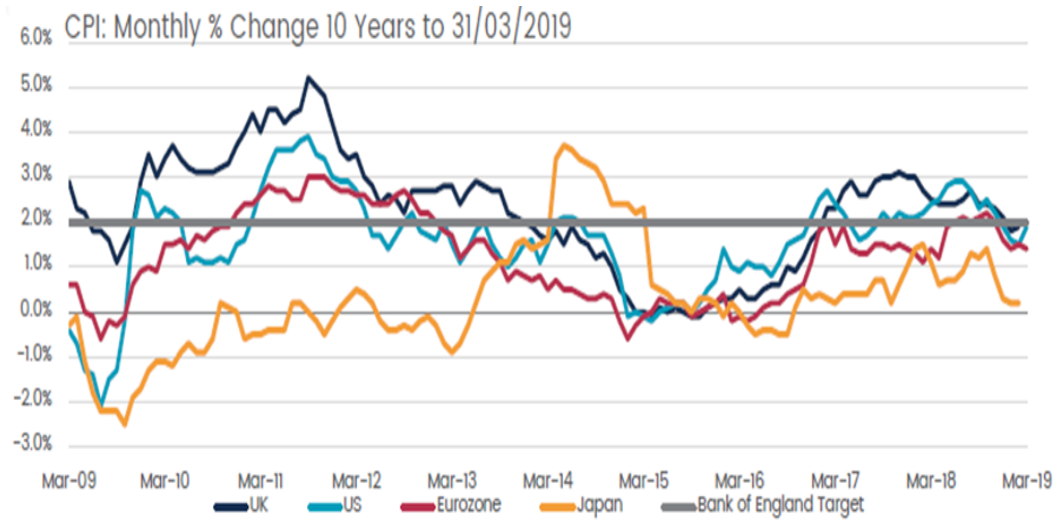
Over the financial year to the end of March 2019 global economic growth, outside of the USA, slowed and became more mixed by region. In the USA, growth improved from an annual rate of 2.3% to 2.9%, mainly due to the one-off stimulus provided by Mr Trump's tax cuts. The UK economy grew by 1.4%, the Eurozone by 1.9%, and even China's official growth rate of 6.6% represented a slowdown from previous years. Japan only achieved a growth rate of 0.3%, as the economy was impacted by a number of natural disasters over the summer months.

Chart 1: - GDP growth, quarterly % change. (Source: - Bloomberg.)



Over the year the rate of inflation fell despite the volatility of the oil price and the impact of higher real wage growth in the US, UK and Europe. The unemployment rate has steadily fallen over the year and is at reported lows in the US and the UK. Despite this, central banks seem unable to achieve normalisation around their target inflation rates of 2%.

Chart 2: - Headline CPI inflation and the Central bank target rate. (Source: - Bloomberg.)



The US Federal Reserve (the Fed) raised interest rates by 0.25% four times during 2018 and further tightened monetary policy via its Quantitative Tightening (QT) programme. Following the bout of extreme equity market volatility in the fourth quarter of 2018, and in December in particular, the Fed decided to cancel its two planned rate increases for 2019 and to also end its QT programme in September 2019. This effectively means that the Fed's balance sheet will not return to its former level at the start of its QE programme, which means the Fed has permanently expanded the money supply and debased the currency. The Bank of England raised the base rate from 0.5% to 0.75% in August 2018, its highest level since 2009. The European Central Bank ended its QE programme in December 2018 but was then forced to re-open a loan support programme early in 2019 in an effort to stimulate the flagging Eurozone economies. The Bank of Japan did not change its very easy monetary policy stance throughout the year.

The political scene has again been dominated by Mr Trump together with the UK government's attempts to negotiate an exit from the EU. At home Mr Trump has continued to try and find a way of funding the construction of the wall on the US/Mexico border. His dispute over congressional funding led to the longest ever partial shutdown of the US government, but after 35 business days he backed down and the Budget was passed. In February however he declared a national emergency, enabling him to use Presidential powers to fund construction. Furthermore, he claimed that Mr Mueller's investigation into his links with Russia "completely exonerated" him. On the global scene, realising the negative impact his trade negotiations were having on the global economy and stock markets, he started to sound more conciliatory.

In the UK the Brexit negotiations have turned into a complete impasse. With the government failing three times to get the Withdrawal Agreement passed, it was forced to seek an extension to the negotiations. The EU granted a flexible deadline that has moved the final date for departure from the 29th March to the 31st October 2019. In the House of Commons, the debates that followed showed that there is no majority in Parliament for anything and the cross-party negotiations also delivered no compromise solution. As a result, the UK government has been forced to hold European Parliamentary elections. In Europe there is a lame duck leader in Mrs Merkel in Germany and an under-pressure President in France. The elections are widely expected to lead to a fragmentation of representation across most member countries, not just in the UK.

Equity markets rose by more than 10% between March and September 2018, but then relinquished all these gains in the fourth quarter on worries about rising US bond yields and trade tensions, resulting in the first negative calendar year for equity markets since 2015. The significant change in the Fed's policy from tightening to neutral and the more conciliatory tone of Mr Trump's rhetoric on the US/China trade negotiations were mainly responsible for a sharp rally from January to March 2019. As can be seen in table 1 below, the very strong first quarter returns lifted the 12 month returns into positive territory in all equity markets except Japan in Sterling terms. The continued weakness of Sterling against the US dollar means that US equity markets dominated global equity market returns for Sterling based investors.

Table 1, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the 3 and 12 months to the end of March 2019.

% TOTAL RETURN DIVIDENDS REINVESTED

MARKET RETURNS

	Period end 31st March 2019	
	3 months	**12 months**
FTSE UK All-Share	9.4	6.4
MSCI ACWI – Global Equities	10.1	12.6
FTSE Regional Indices		
North America	11.3	17.5
Europe ex UK	8.0	2.6
Japan	4.5	-0.9
Pacific Basin	4.0	3.9
Emerging Equity Markets	8.0	1.9
UK Gilts - Conventional All Stocks	3.4	3.7
UK Gilts - Index Linked All Stocks	5.9	5.5
UK Corporate bonds*	4.8	4.1
Overseas Bonds**	2.2	2.9
Property IPD quarterly	0.3	4.3
Cash 7 day LIBID	0.2	0.8

(Source: - * iBoxx £ Corporate Bond; **Citigroup WGBI ex UK hedged)

Bond markets also had a roller coaster year, US 10 year government bond yields peaked in November 2018 at 3.24%, having started the year at 2.74%. By the 31st March 2019 they had been driven down 0.3% to 2.41%, by moderating growth, lower inflation and the change in the Fed's policy stance. This fall in yields was matched by UK 10 year Gilts, which fell to 1%, but the weakness and political uncertainty in Europe drove 10 year German government yields down by 0.55% and into negative territory at -0.07%.

Chart 3, below, shows the performance of the major equity market indices over the year, the pale blue line is the US S&P 500 which has outperformed both the UK and MSCI global index, the green line is the MSCI Emerging market index, which has performed poorly on the back of Mr Trump's trade negotiations and the strength of the US dollar. Chart 4 shows how the UK bond and equity market indices have moved over the last 12 months.

Chart 3: - Global Equity market indices since 31st March 2018 local currency terms.

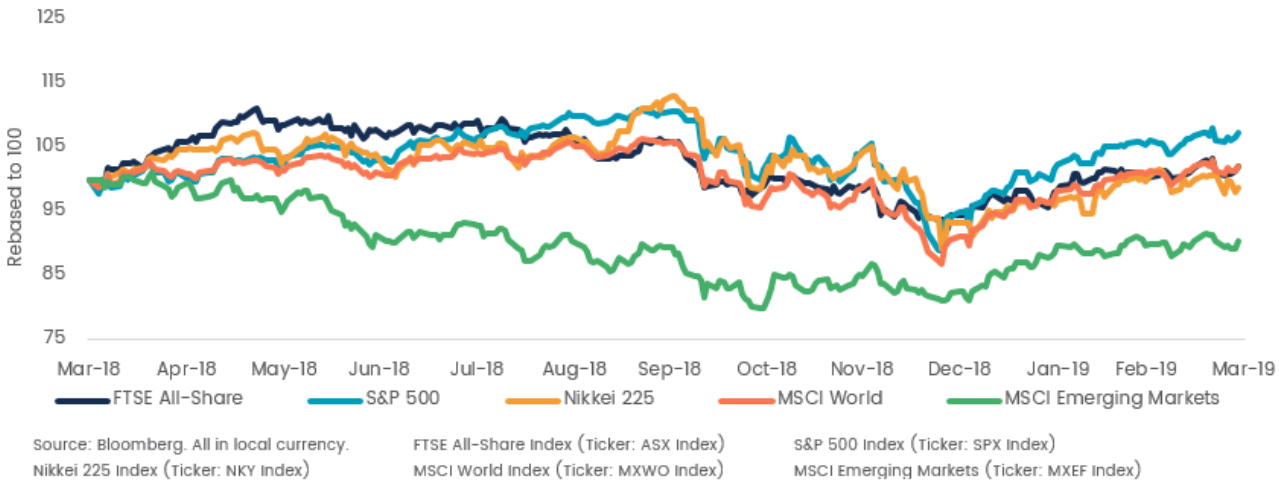
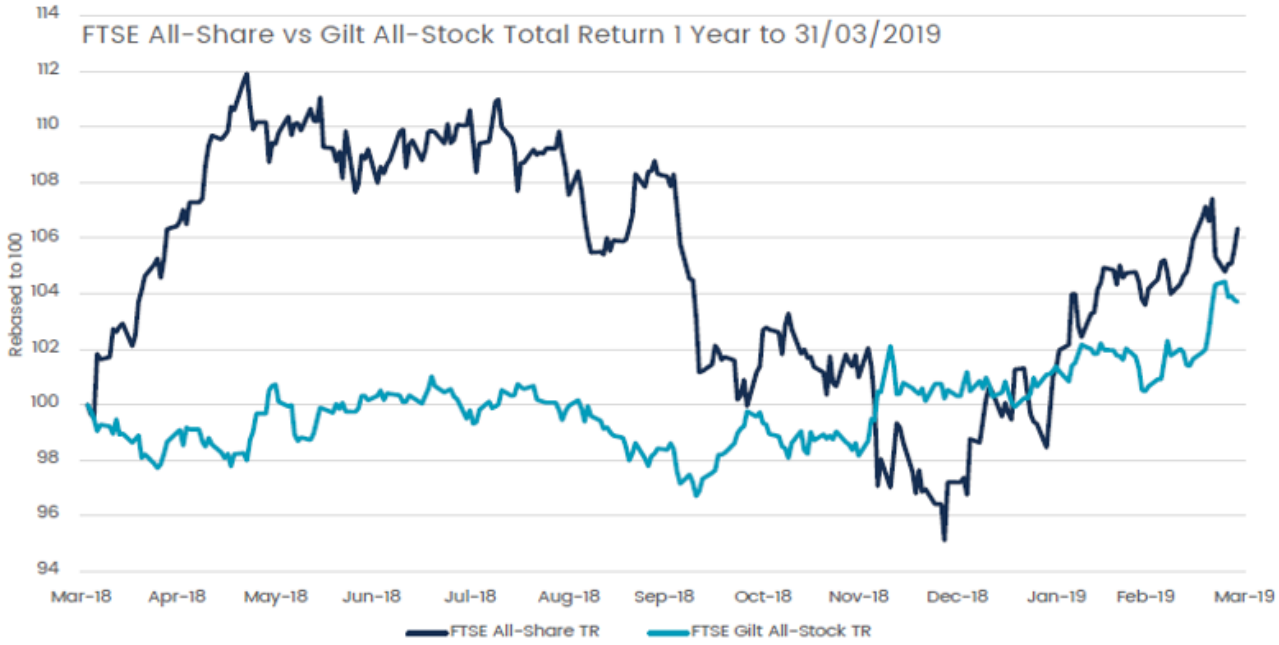


Chart 4: - UK bond and Equity market prices since 31st March 2018



Source: - Bloomberg

Brexit was the main driver of the value of Sterling vs US dollar, by May 2018 Sterling had rallied on the expectation of a "deal" but as the year went on the currency gradually weakened and has been range bound between US$ 1.25 and 1.33 in the first quarter of 2019. Being invested outside the UK was a benefit to the Fund.

At the end of March 2019, the Surrey Pension Fund was valued at £4,286.4 million, this represents a total increase in value of £260.8 million since 31st March 2018. The Fund achieved a total net investment return of 5.7% for the year, outperforming both the benchmark return of 3.7% and the target return of 4.7%. Over the last 3 years the Fund has achieved a total return of 9.3% p.a. which is ahead of the benchmark return of 8.3% and slightly behind the target return of 9.4%. This 3 year annualised return is well ahead of

the actuarial assumptions made in 2016 and as a result the “funding level” of the Surrey Pension Fund has improved from 83% to 93% funded.

Over the financial year the structure of the Fund has been reviewed and some changes have been made. Research was carried out to discover the Fund’s “Carbon Intensity”. It was found that in aggregate the Fund’s investments had a much lower carbon intensity that the benchmark indices and the market. As part of this discovery process each of the Fund’s external managers, including the Border to Coast Pensions Partnership (BCPP) Surrey’s chosen LGPS pooling partner, was asked to demonstrate how they took Environmental, Social and Governance (ESG) criteria into consideration when making investment decisions. It was found that all of Surrey’s Active managers used ESG factors as a core part of their investment due diligence process and to a greater or lesser extent they were able to demonstrate how they measured ESG and how it altered investment decisions. All of Surrey’s active equity managers use engagement with investee companies directly, and in partnership with others, to seek to constantly improve the ESG rating of their investments.

As part of the Fund’s ongoing strategic review of investments, the Fund increased its allocation to Global equity and reduced its exposure to UK equity. The opportunity was taken to further reduce the Fund’s carbon intensity by investing in a Low Carbon passive global equity fund and a RAFI indexed factor-based fund. The Low Carbon fund will in particular have a significantly lower carbon intensity than the previous market cap weighted passive investments. Also, through its allocation to Private markets the Fund has committed capital for investment in a Renewables Infrastructure Fund. The Fund has also made its first investment using BCPP. In November 2018, the majority of the UK active equity portfolio managed by Majedie and UBS was transitioned to the BCPP UK Equity Alpha Fund. In the new financial year it is expected that further investment solutions provided by BCPP will be used, this will involve the transition of active global equity from Marathon and Newton and new commitments to Private Equity, Debt and Infrastructure.

While the overall Fund enjoyed a strong outperformance of the benchmark and outperformance target, the performance of the Fund’s external active asset managers was quite varied. The Diversified Growth Fund and the Bond Fund managers had a difficult year and significantly underperformed their benchmarks. Whereas the active global equity managers in aggregate outperformed the benchmark and the outperformance target. CBRE, the property fund manager, had another good year and also beat its benchmark and target. There is no 12 month data for the BCPP UK Equity Alpha Fund, the LGIM Low Carbon passive fund and the RAFI factor fund as these investments have only recently been made. Over the fourth quarter the BCPP UK Equity Alpha Fund outperformed the benchmark, but slightly underperformed the outperformance target. and Market Outlook

A more Dovish Fed has increased the chance of a soft landing in the US which, combined with economic stimulus from China, has given this very long economic expansion a new lease of life. Add to this the fact that first quarter 2019 earnings have outperformed their dramatically lowered expectations. This leads one to the conclusion that most of the good news is probably already in the price at this level of equity markets.

I believe that equity markets can continue to outperform bonds, but there are a number of dark clouds on the horizon that could make equity markets more volatile over the next 12 months; the reality of mixed and lower economic performance, the risk of a harder line on the trade negotiations, the fading positive impact of the tax cuts and the US Bond market yield curve is inverted (long dated yields are lower than short dated yields), this historically is a sign that the bond market is indicating a US recession is on the horizon.

The US trade dispute with China has had a big impact on growth and remains a major concern for equity markets. After it appeared that some form of agreement might be reached, in May 2019 President Trump suddenly increased tariffs on a wide range of Chinese exports from 10% to 25% and threatened to impose new tariffs on other goods. China has responded with its own tariffs on US foodstuffs and other items. In recent days Mr Trump has launched an all-out attack on the global telecoms giant Huawei effectively making it illegal for US companies to trade with them. Given Huawei's 30% share for the global mobile telecoms market, this could have serious implications for investment and growth. Elsewhere, the US has withdrawn from the Iran Nuclear Agreement sponsored by Mr Obama and Europe and imposed sanctions on Iran, further raising tensions in the Middle East.

In the European Parliamentary elections, the newly formed "Brexit Party" was the main beneficiary of the electorate's unhappiness with the UK Parliament, but other Parties that promoted "Remain" agendas among their policies were also beneficiaries at the cost of the Conservative and Labour parties. This pattern was repeated across Europe with the majority centre right coalition in the European Parliament losing ground to a more fragmented group made up more right wing and populist politicians. Against this backdrop, trying to agree something between the UK and the EU over the summer months is going to be very difficult unless it is to accept the Withdrawal Agreement or Revoke article 50.

In the UK, the failure to deliver Brexit and the inability of the main parties to find an agreement on the way forward has cost the Conservative party its fourth Prime Minister over the UK's relationship with the EU and it now has its third since the referendum. The process of electing a new leader, who will automatically become the new Prime Minister, started with eleven candidates, from whom Conservative MP's chose Mr Hunt and Mr Johnson, to go forward to a vote of the full membership of the party. In the end the party membership chose the favourite, Mr Johnson as their leader and our new Prime Minister. With 98 calendar days to go before the next deadline for leaving the EU expires Mr Johnson has pledged to negotiate a new deal with the EU that is both better and does not require the "Backstop". Needless to say, the new leadership of the EU have said the only deal available is the Withdrawal Agreement, negotiated by the last UK Prime Minister. If we are to believe the new PM then this has significantly increased the risk of a "No Deal" exit on the 31st October 2019.

Over the next twelve months I expect low returns from most investment markets and the potential for higher volatility. This emphasises the importance of a diversified portfolio of assets where the sources of return are genuinely diverse and lowly correlated. I note that the Fund is already reasonably diverse, and that progress has been made to increase diversification over the last 12 months. The outcome of the Triennial Valuation needs to be taken into consideration and the continuing strategy review is expected to lead to a wider set of asset classes being employed by the Fund. The closer collaboration with the Border to Coast Pension Partnership, to find investment solutions, should lead to a wider range of investment opportunities, which could help mitigate the risk and volatility of returns over the medium to long term. Diversification is not a guarantee of positive returns but it should lead to lower correlation and better risk adjusted returns.

Anthony Fletcher, Senior Adviser – MJ Hudson Allenbridge

Independent Investment Adviser to the Surrey Pension Fund.

24th July 2019

6 Investment Arrangements, Performance & Post Pool Reporting

The Fund is managed on both an active and passive basis.

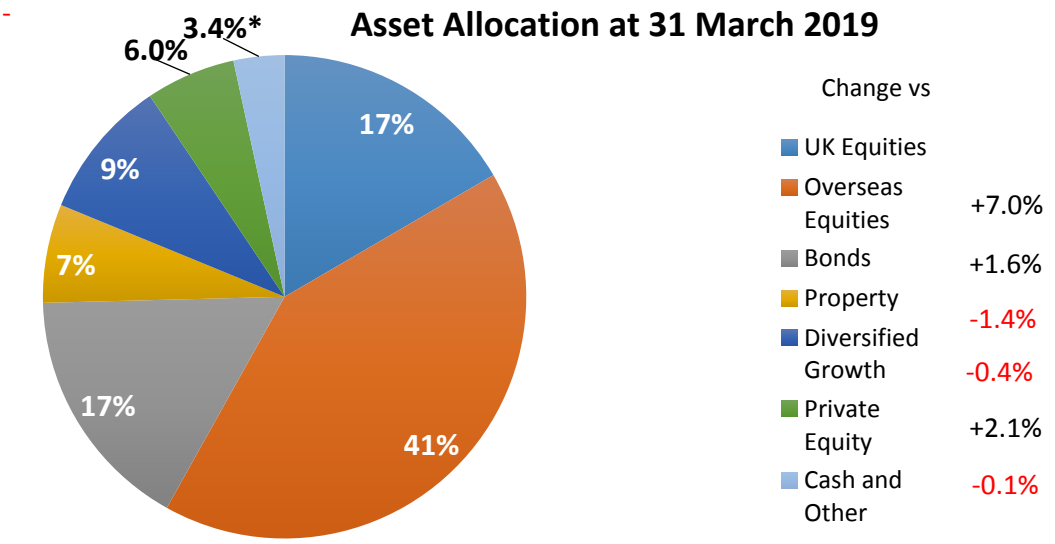
There are a number of external investment managers, who have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual stocks within approved classes. They are required to take a long-term view, balancing risk against return and are remunerated on scales related to the value of funds under management and in certain cases for performance over and above benchmark return. Regular meetings are held with external managers to assess performance.

In addition the Fund has investments in private equity funds managed by Blackrock, Goldman Sachs, Hg Capital, Living Bridge Equity Partners, Capital Dynamics, Standard Life Capital Partners as well as Infrastructure funds, Pantheon Access as well as a new clean energy infrastructure fund, Glennmont Partners.

At 31 March 2019 the market value of assets under management was £3.9bn, excluding the private equity portfolio, internally managed cash, and residual cash held by the custodian. The proportion with each of the investment managers is shown below.

Portfolio Distribution

The distribution of the Fund investments into different asset classes within the portfolio at 31 March 2019 is shown in the below chart, with the prior year allocation shown in the table below. There has been a reduction in allocation to UK Equities with a target allocation of 17.4% of the whole portfolio (excluding cash), with the reduction offset by an increase in Overseas Equities. The Fund has also restructured its Passive LGIM Funds, transitioning into a RAFI Multi Factor Fund and Low Carbon Fund in January 2019.



*Difference of 1dp in Cash Allocation above to table below due to rounding differences.

The chart below shows the investment breakdown by asset class over the last two years and the change in actual asset allocation over the year.

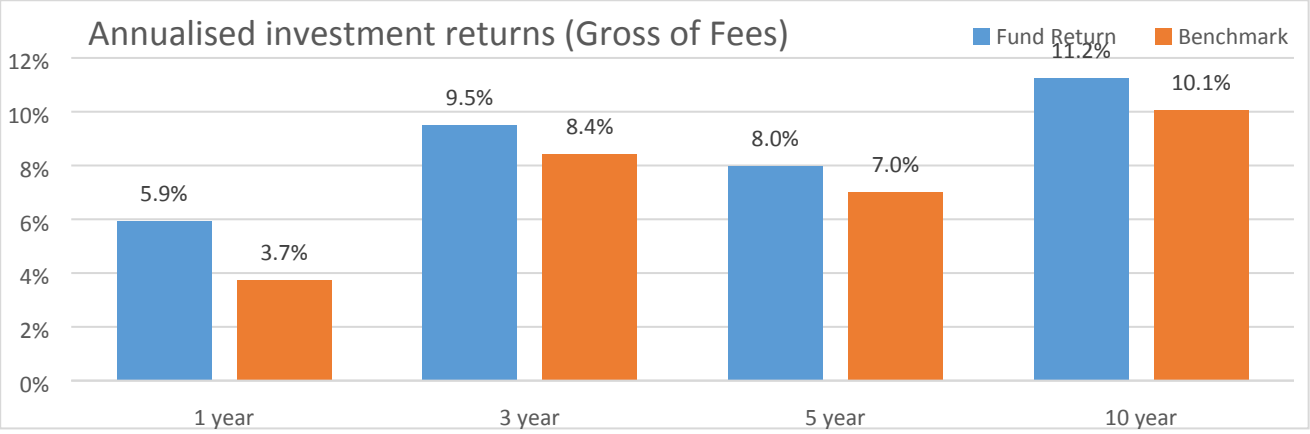
	Market Value as at 31 March 2018 £000	Actual Allocation 31 March 2018	Asset Allocation Target as at 31 March 2019	Market Value as at 31 March 2019 £000	Actual Allocation 31 March 2019	Movement in Year
Local Assets						
Fixed interest securities	396,093	9.8%	12.10%	495,283	11.55%	1.72%
Index linked securities	205,115	5.1%	5.50%	211,246	4.93%	-0.16%
Equities	2,413,734	59.9%	47.80%	2,025,606	47.23%	-12.66%
Property unit trusts	321,738	8.0%	6.20%	283,240	6.60%	-1.38%
Diversified growth	394,288	9.8%	11.40%	402,589	9.39%	-0.39%
Private equity	155,781	3.9%	5.00%	255,964	5.97%	2.10%
Cash and other	143,309	3.6%	0.00%	150,519	3.51%*	-0.05%
Pooled Assets						
BCPP UK Equity Alpha	0	0	12.00%	464,200	10.82%	10.82%
Total		**100.0%**			**100.0%**	

Eleven fund managers undertook the management of investments during 2018/2019 in a mix of passive and active investment. A summary of investment managers and the value of the assets under management is shown on page 31.

The Fund assess investment performance against a customized benchmark provided by the Fund custodian Northern Trust. This benchmark is derived from a series of investment indices weighted by the Funds asset allocation. This allows the Fund to measure performance against a 100% passive allocation.

Performance against target and benchmark is continually reviewed at regular intervals, as stated in the Fund's Investment Strategy Statement.

The graph below shows how the Fund performed against the benchmark, on an annualized basis, for the previous 1, 3, 5 and 10 year periods.



The fund recorded investment performance above that of the benchmark for the previous 12 months to 31 March 2019 as well as outperformance over the longer term 3 year period, shown in the above chart. The outperformance above the benchmark is partly a result of strong investment returns generated by actively managed portfolios. The annual investment returns as at 31 March 2019 for each fund manager are shown in the below table.

Investment Manager	Mandate	Market value 31 March 2019	Percentage of Funds Under Management as at 31 March 2019
		£000	
Active Funds Managed within Border to Coast Pensions Partnership (BCPP)			
Border to Coast UK Equity Alpha	UK Equity	464,200	11.1%
Passive Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)			
Legal & General Investment Managers	Multi Asset	1,190,723	28.3%
Active Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)			
Majedie Asset Management	UK Equities	243,621	5.8%
Marathon Asset Management	Global Equities	505,222	12.0%
Newton Investment Management	Global Equities	333,760	7.9%
Western Asset Management	Multi Asset Credit	422,967	10.1%
Franklin Templeton Investments	Unconstrained Fixed Income	72,316	1.7%
CBRE Global Multi Manager	Property	287,636	6.8%
Baillie Gifford Life Limited	Diversified Growth	161,151	3.8%
Ruffer	Diversified Growth	121,748	2.9%
Aviva	Diversified Growth	119,691	2.8%
Total		**3,923,035**	
Total Funds Under Management		**4,200,699**	

Transition of Assets onto Border to Coast Pensions Partnership (BCPP)

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds. Surrey Pension Fund, along with 12 other funds, is now a partner fund of Border to Coast Pensions Partnership.

Some of the risks associated with LGPS Asset Pooling as a whole include:

- Less flexibility in terminating underperforming managers
- Conflicting strategic goals of different partner funds affecting funds on offer
- Lack of transparency in funds managed from pool, from Partner Funds

Assets transitioned in 2018/19
The Fund transitioned its first asset into Border to Coast's UK Equity Alpha Fund in November 2018 worth approximately £464m as at 31 March 2019.

Future Transition Plans
The Fund has also subscribed to BCPP's Alternative Investment offerings with £50m committed in Private Equity in May 2019 and a further £100m committed in Infrastructure in June 2019. These funds are expected to generate savings in fees compares to previously subscribing to Private Equity and Infrastructure as a single fund.

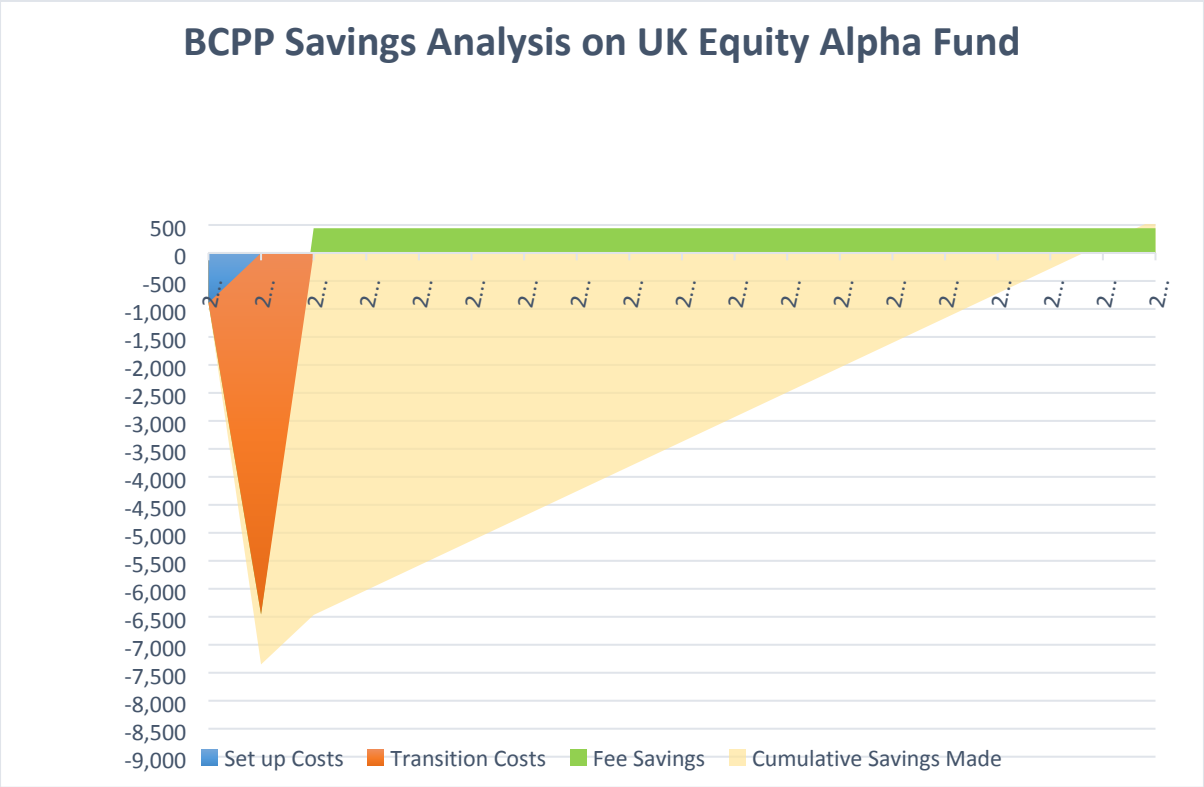
In terms of future transition plans in 2019/20, The Fund expects to transition into BCPP's Global Equity Funds as well as its Multi Asset Credit Portfolio.

Transition Costs and Fee Savings

The initial transition costs are highlighted below with the expected savings from fee rates.

Pooling Costs	Direct £000s	Indirect £000s	Total £000s	Cumulative £000s
Set up Costs:				
Other Costs	893		893	893
Transition Costs				
Transition Fees	62		62	62
Other Transition Costs Commissions	101		101	101
Other Transition Costs Taxes and Stamp Duty	752		752	752
Other Transition Costs Implicit		5,544	5,544	5,544
Total Transition Costs	1,807	5,544	7,351	7,351

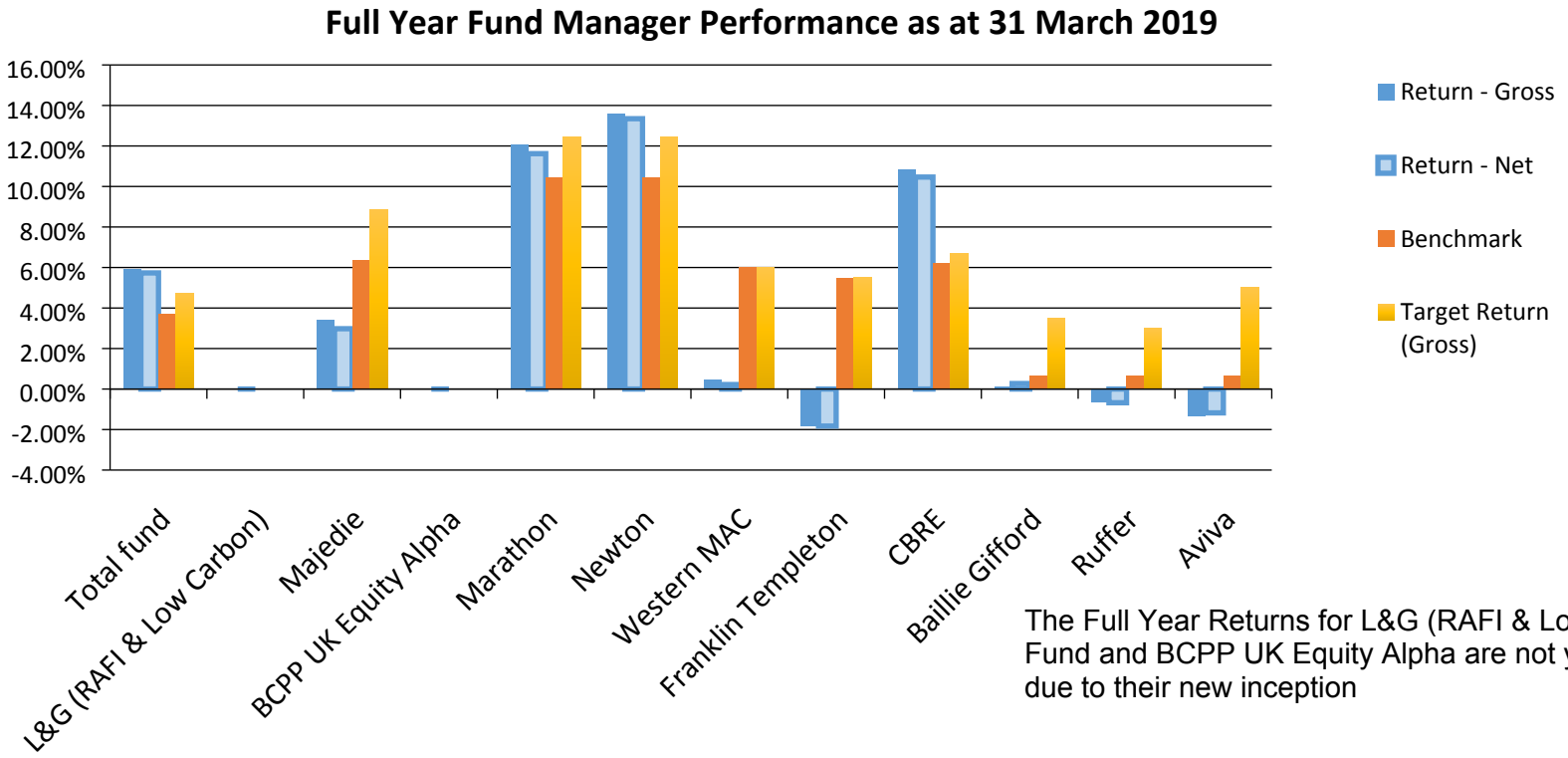
Based on current projections of Manager Fee savings from the BCPP UK Equity Alpha Fund against its initial set up and transition costs, the Fund expects to realise savings in approximately 16.6 years. The Fee Savings analysis is shown in Annex 1 (p114-p115)



	Pooled Assets: Border to Coast Pensions Partnership			Local Assets		
2018-19 Investment Management Expenses	**Direct £000s**	**Indirect £000s**	**Total £000s**	**Direct £000s**	**Indirect £000s**	**Total £000s**
Management Fees	**355**		**355**	**9,687**		**9,687**
Transaction Costs	**136**		**136**	**569**		**569**
Commissions	130		130			
Taxes and stamp duty	53		53			
Implicit Costs	-47		-47			
Custody	**20**		**20**	**171**		**171**
Other	**6**		**6**			
Total Investment Management Expenses	**654**		**654**	**10,427**		**10,427**

Manager	Asset Category	Net of Fees Performance 1 Year (%)	Gross of Fees Performance 1 Year (%)	Benchmark Index	Benchmark Performance 1 Year (%)	Target Return Relative to Benchmark (Gross) 1 Year (%)
Total fund		5.73%	5.95%	Customised	3.73%	4.73%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
Non-asset pool managed investments						
L&G (RAFI Multi Factor & Low Carbon)	Passive Listed Equity	-	-	MSCI World/ MSCI World Low Carbon	-	-
Majedie	Active Listed Equity	2.98%	3.42%	FTSE All Share	6.36%	8.86%
Marathon	Active Listed Equity	11.62%	12.08%	MSCI AC World	10.45%	12.45%
Newton	Active Listed Equity	13.35%	13.58%	MSCI AC World	10.46%	12.46%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	0.22%	0.49%	Total Return Fund (+6% target return)	6.00%	6.00%
Franklin Templeton*	Absolute Return Fund	-1.83%	-1.83%	Barclays Multiverse Index (+5.5% target return)	5.50%	5.50%

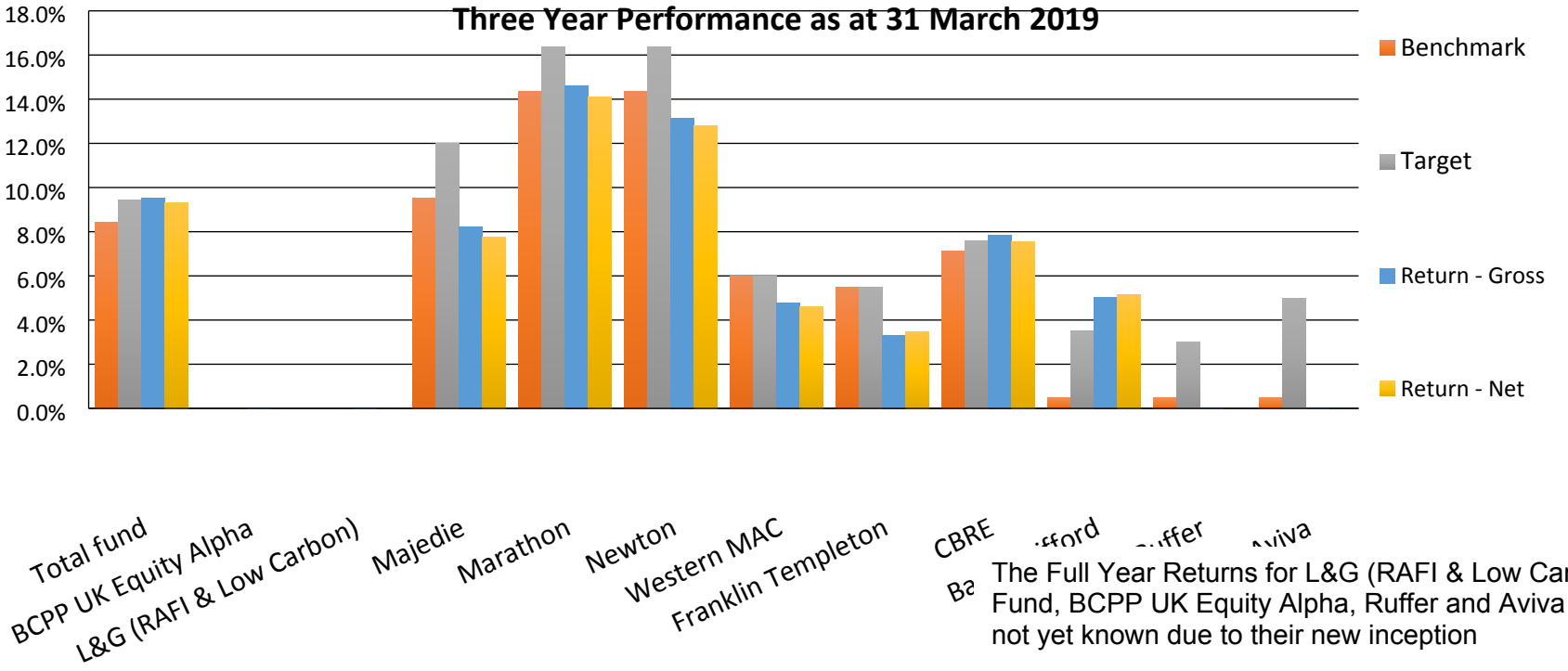
CBRE	Property Fund	10.46%	10.82%	IPD UK All Balanced Funds	6.20%	6.70%
Baillie Gifford	Diversified Growth Fund	0.27%	0.14%	UK Base Rate	0.67%	3.50%
Ruffer	Diversified Growth Fund	-0.68%	-0.68%	UK Base Rate	0.67%	3.00%
Aviva	Diversified Growth Fund	-1.18%	-1.36%	UK Base Rate	0.67%	5.00%
Alternatives	Private Equity/ Infrastructure	18.04%	18.04%	MSCI World Index	20.76%	5.00%



The Full Year Returns for L&G (RAFI & Low Carbon) Fund and BCPP UK Equity Alpha are not yet known due to their new inception

Manager	Asset Category	Net of Fees Performance 3 Year (%)	Gross of Fees Performance 3 Year (%)	Benchmark Index	Benchmark Performance 3 Year (%)	Target Return Relative to Benchmark (Gross) 3 Year (%)
Total fund		9.30%	9.50%	Customised	8.40%	9.40%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
Non-asset pool managed investments						
L&G (RAFI Multi Factor & Low Carbon)	Passive Listed Equity	-		MSCI World/ MSCI World Low Carbon	-	-
Majedie	Active Listed Equity	7.8%	8.2%	FTSE All Share	9.5%	12.0%
Marathon	Active Listed Equity	14.1%	14.6%	MSCI AC World	14.3%	16.3%
Newton	Active Listed Equity	12.8%	13.1%	MSCI AC World	14.4%	16.4%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	4.6%	4.8%	Total Return Fund (+6% target return)	6.0%	6.0%
Franklin Templeton*	Absolute Return Fund	3.5%	3.3%	Barclays Multiverse Index (+5.5% target return)	5.5%	5.5%

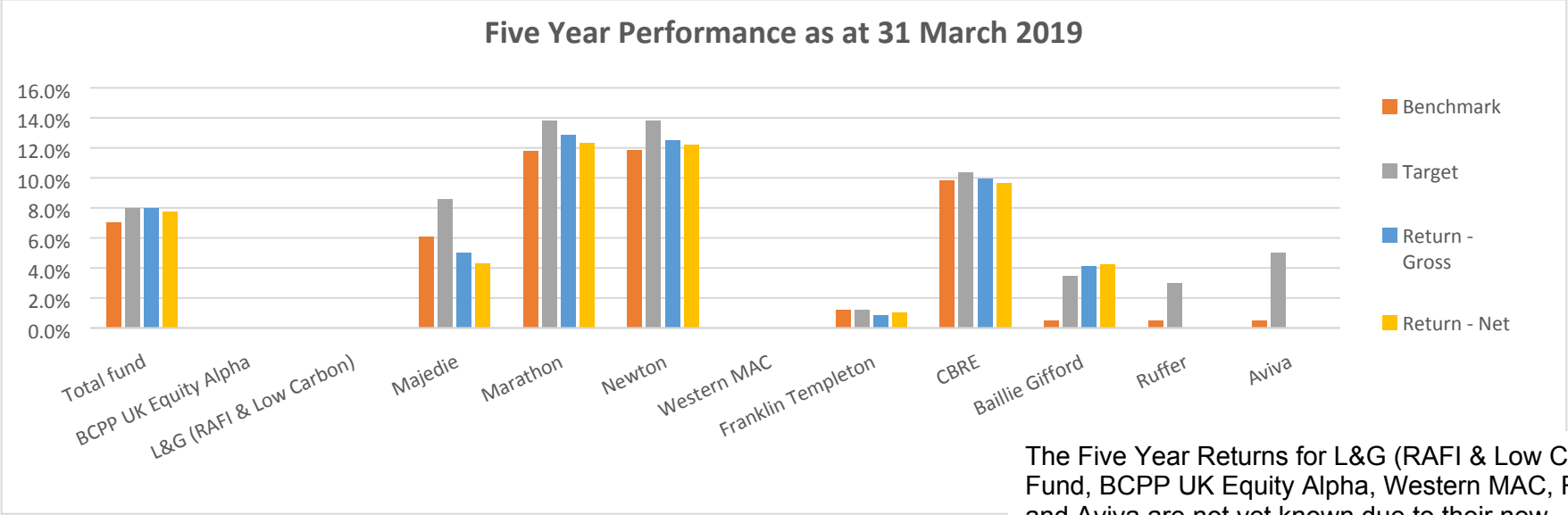
Manager	Asset	Net of Fees	Gross of Fees	Benchmark Index	Benchmark	Target Return
CBRE	Property Fund	7.5%	7.8%	IPD UK All Balanced Funds	7.1%	7.6%
Baillie Gifford	Diversified Growth Fund	5.2%	5.0%	UK Base Rate	0.5%	4.0%
Ruffer	Diversified Growth Fund	-	-	UK Base Rate	0.5%	-
Aviva	Diversified Growth Fund	-	-	UK Base Rate	0.5%	-
Alternative Funds	Private Equity/ Infrastructure	14.83%	14.83%	MSCI World Index	21.66%	5.00%



The Full Year Returns for L&G (RAFI & Low Carbon) Fund, BCPP UK Equity Alpha, Ruffer and Aviva are not yet known due to their new inception

	Category	Performance 5 Year (%)	Performance 5 Year (%)		Performance 5 Year (%)	Relative to Benchmark (Gross) 5 Year (%)
Total fund		7.7%	8.00%	Customised	7.00%	8.00%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
Non-asset pool managed investments						
L&G (RAFI Multi Factor & Low Carbon)	Passive Listed Equity	-		MSCI World/ MSCI World Low Carbon		
Majedie	Active Listed Equity	4.3%	5.0%	FTSE All Share	6.1%	8.6%
Marathon	Active Listed Equity	12.3%	12.9%	MSCI AC World	11.8%	13.8%
Newton	Active Listed Equity	12.2%	12.5%	MSCI AC World	11.8%	13.8%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	-	-	Total Return Fund (+6% target return)		6.00%
Franklin Templeton*	Absolute Return Fund	1.0%	0.8%	Barclays Multiverse Index (+5.5% target return)	1.2%	1.2%
CBRE	Property	9.7%	10.0%	IPD UK All Balanced	9.9%	10.4%

	Fund			Funds		
Baillie Gifford	Diversified Growth Fund	4.3%	4.1%	UK Base Rate	0.5%	4.0%
Ruffer	Diversified Growth Fund	-	-	UK Base Rate	0.5%	0.5%
Aviva	Diversified Growth Fund	-	-	UK Base Rate	0.5%	0.5%
Alternative Funds	Private Equity/ Infrastructure	15.49%	15.49%	MSCI World Index	16.67%	5.00%



The Five Year Returns for L&G (RAFI & Low Carbon) Fund, BCPP UK Equity Alpha, Western MAC, Ruffer and Aviva are not yet known due to their new inception

Fund Policies

Surrey Pension Fund's full Investment Strategy Statement, approved by the Pension Fund Committee on 8 February 2019 can be found on the Surrey Pension Fund Website using the link below.

https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

Responsible Investment Policy

The Fund aims to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles.

For assets managed in the BCPP pool, the Fund supports the Responsible Investment Policy of BCPP (shown as Appendix C). BCPP undertake voting on these assets in accordance with the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

For assets managed outside of the BCPP pool, the Fund will comply with the principles of the Responsible Investment Policy of BCPP.Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues. Assets held within BCPP are managed in accordance with the engagement principles as outline in the BCPP Responsible Investment Policy. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

Appendix C: BCPP Responsible Investment Policy (November 2018)

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Bribery & corruption

5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. Border to Coast will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review its fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we will become a signatory to the UK Stewardship Code[2] and the UN Principles of Responsible Investment[3].

6.1. Voting

[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
https://www.fsb-tcfd.org/publications/finalrecommendations-report/

[2] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.
https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

[3] The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed here xxxxxxx.

A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depositary.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As

responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible. Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[4] breaches.

We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.3. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

7. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies;

[4]UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

8. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

9. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Appendix D: BCPP Corporate Governance and Voting Guidelines (November 2018)

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

• We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.

- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

• Annual bonus

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped.

Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

• Long-term incentives

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater

disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

Funding Strategy Statement

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The FSS is reviewed in detail at least every three years as part of the triennial valuation. The full Funding Strategy Statement can be found using the link below;

https://www.surreypensionfund.org/media/2783/2016-funding-strategy-statement-draft.pdf

This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

Governance Compliance Statement

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provided the statutory framework within which LGPS administering authorities were required to publish a governance policy statement by 1 April 2006. The policy intention was that the statement also described and explained the administering authority's arrangements for the representation and participation of Scheme stakeholders. A copy of the Surrey Pension Fund's current governance policy statement can be found on Surrey CC's website.

The Local Government Pension Scheme (Amendment)/(No 3) Regulations 2007 (SI 2007 No 1561) provided further statutory framework, including the provision that administering authorities produce a statement disclosing the degree to which it complies with best practice in its governance procedures. This statement is reproduced in full below:

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

Principle	**Surrey's Approach**	**Compliance**
STRUCTURE		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Surrey County Council delegates the management of the Surrey Pension Fund to the Pension Fund Committee. The Committee is responsible for these areas under the terms of reference contained in the Council's Constitution.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Surrey is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Committee. The Committee comprises county councilors, borough/district councilors, an external employer representative and a union representative to	Comply

	represent employees and pensioners. All Committee members have full voting rights.	
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	There is currently no secondary committee..	n/a
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	There is currently no secondary committee.. Should a secondary committee be established, all members of that secondary committee would sit on the main Pension Fund Committee.	n/a
Principle	**Surrey's Approach**	**Compliance**
REPRESENTATION		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme	With over 150 employer bodies, not all stakeholders are directly represented on the Pension Fund Committee. All stakeholders are free to make representations in writing to the Committee. The County	Explain

employers, e.g., admitted bodies);	Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Committee.	
• scheme members (including deferred and pensioner scheme members);	The Pension Fund Committee membership includes a trade union representative.	Comply
• independent professional observers; and	The Committee employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Committee meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Committee as required, depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions and investment matters are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Committee processes.	Comply

Principle	**Surrey's Approach**	**Compliance**

SELECTION AND ROLE OF LAY MEMBERS		
That Committee or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Committee members are given initial and ongoing training to support them in their role as trustees.	Comply
VOTING		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Surrey is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with the Pension Fund Committee because the Council retains legal responsibility as the administering authority.	Comply
TRAINING/FACILITY TIME/EXPENSES		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. Pension Fund Committee members receive expenses. Training has been referred to above.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all members of the Pension Fund Committee. All members currently enjoy voting rights.	Comply

Principle	Surrey's Approach	Compliance
MEETINGS (FREQUENCY/QUORUM)		
That an administering authority's main committee or committees meet at least quarterly.	Surrey is fully compliant with this principle by holding quarterly and special appointment meetings. The Chief Finance Officer sends performance data and relevant information as appropriate. The quorum for the committee is three.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	There is currently no secondary committee.	n/a
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views. The Committee welcomes representations on any issue in writing at any time.	Comply
ACCESS		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the Pension Fund Committee have equal access to committee papers, documents and advice.	Comply

Principle	Surrey's Approach	Compliance
SCOPE		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Surrey is fully compliant with this principle by bringing all investment, liability, benefit and governance issues to the Pension Fund Committee. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment, administration and governance issues. A business plan is approved each year.	Comply
PUBLICITY		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Surrey is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Governance Policy Statement

6

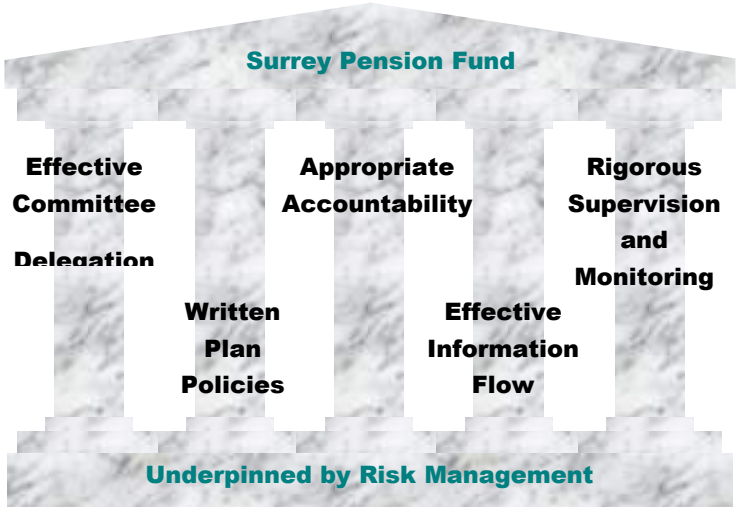
Governance Policy Statement for the Purposes of The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005

This Statement is prepared for the purposes of the above Regulations. It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

Contents

1. Overall Governance Framework

The Administering Authority with its advisors has identified the following key areas (the "five principles") to support its overall governance framework.



The governance framework focuses on:

- The effectiveness of the Pension Fund Committee and officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between officers and Pension Fund Committee members.
- The ability of the Pension Fund Committee and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Fund Committee and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.

2. Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective Committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund administration implementation)

Funding

Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective Information Flow; written plan policies

Including setting of a communication strategy, issuing or arranging to be issued re benefit statements, annual newsletters and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Effective Committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

3 Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective Committee delegation; written plan policies

The Pension Fund Committee's Terms of Reference as approved by Full Council on 19 March 2013.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund investments, the overall management of the Fund, the governance surrounding the Fund, and the administration of the Pension Scheme.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective Committee delegation

The Pension Fund Committee shall be made up of:

4 Conservative members;

1 Liberal Democrat member;

1 Independent member;

2 Districts and Boroughs Members

1 Employer Representative;

1 Employee Representative

Decision Making:

Governance Principle: Effective Committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers.

Each member of the Pension Fund Committee shall have full voting rights.

4. Operational Procedures

Frequency of Meetings:

Governance Principle: Effective Committee delegation; effective information flow

The Pension Fund Committee shall convene no less frequently than four times per year. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer and any matters requested by members of the Pension Fund Committee.

Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective Committee delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency is evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

The Pension Fund Committee shall report to the Audit and Governance Committee on a frequency, and with such information as shall be agreed and documented, on a no less than annual basis, the minimum provision being the Pension Fund's annual report.

5 Review of this policy statement

Responsibility for this document resides with the Chief Finance Officer. It will be reviewed by the Chief Finance Officer no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Pension Fund Committee: Terms of Reference

a) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.

b) To determine policy for the investment, funding and administration of the pension fund.

c) To consider issues arising and make decisions to secure efficient and effective performance and service delivery.

d) To appoint and monitor all relevant external service providers:

- fund managers;
- custodian;
- corporate advisors;
- independent advisors;
- actuaries;
- governance advisors;
- all other professional services associated with the pension fund.

e) To monitor performance across all aspects of the service.

f) To ensure that arrangements are in place for consultation with stakeholders as necessary

g) To consider and approve the annual statement of pension fund accounts.

h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.

F10	Director of Finance/ Strategic Finance Manager (Pensions)	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Committee. Delegated authority to the Chief Finance Officer to take any urgent action as required between Committee meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Committee and any relevant Consultant and/or Independent Advisor.
H4	Lead Pensions Manager	To exercise discretion (excluding decisions on admitted body status) in

H5	Director of Finance	relation to the Local Government Pension Scheme where no policy on the matter has been agreed by the Council and included in the Discretionary Pension Policy Statement published by the Council, subject to any limitations imposed and confirmed in writing from time to time by the Chief Finance Officer. To determine decisions conferring 'admitted body' status to the Pension Fund where such requests are submitted by external bodies.

The Responsibilities of the County Council

The County Council is required:

• to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer & Deputy Director for Business Services (Chief Finance Officer).
• to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
• to approve the statement of accounts.

The Responsibilities of the Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice").

In preparing this statement of accounts, the Chief Finance Officer has:
•selected suitable accounting policies and then applied them consistently;
• made judgements and estimates that were reasonable and prudent;
• complied with the Code of Practice

The Chief Finance Officer has also:

• kept proper accounting records which were up to date;
• taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts set out in this report present a true and fair view of the Surrey County Council Pension Fund at 31 March 2019 and its income and expenditure for the year then ended.

Leigh Whitehouse

SECTION 151 OFFICER

Independent auditor's report to the members of Surrey County Council on the consistency of the pension fund financial statements included in the Surrey Pension Fund Annual Report

To be confirmed

Independent auditor's report to the members of Surrey County Council on the consistency of the pension fund financial statements included in the Surrey Pension Fund Annual Report

To be confirmed

Surrey Pension Fund Accounts 2018/19

The Pension Fund Draft Accounts 2018/19 were presented to and approved by the Pension Fund Committee on 7 June 2019. Upon review of the draft accounts, there have been no material misstatements in the financial statements and the external auditor (Grant Thornton) has issued an unqualified opinion having completed their audit. The audited accounts were then presented and approved by the Audit and Governance Committee on 29 July 2019.

The full Surrey Pension Fund Accounts can be found using the link below on pages 137-179.

https://www.surreycc.gov.uk/__data/assets/pdf_file/0018/203634/Statement-of-Accounts-2018-19-signed-full-size-compressed.pdf

Scheme Advisory Board Statistics

Financial Performance and Forecast:

	2018/19 Budget £000	2018/19 Actuals £000	2018/19 Variance £000	2019/20 Budget £000
Income				
Employers contributions	145,067	138,274	-6,793	139,783
Members contributions	38,693	38,502	-191	38,117
Total contributions	**183,760**	**176,776**	**-6,984**	**177,900**
Transfers in	**8,416**	**14,954**	**6,538**	**17,361**
Investment income	**77,691**	**59,055**	**-18,636**	**60,236**
Total income	**269,867**	**250,785**	**-19,082**	**255,496**
Expenditure				
Pensions	-127,825	-126,014	1,811	-134,198
Commutation and lump sum retirement benefits	-19,300	-19,571	-271	-20,100
Other benefits	-3,732	-4,247	-515	-4,523
Total benefits	**-150,857**	**-149,832**	**1,025**	**-158,821**
Leavers	**-7661**	**-10,946**	**-3,285**	**-12,576**
Administrative expenses	**-1,467**	**-1,829**	**-362**	**-2,225**
Oversight and governance costs	**-1006**	**-3,214**	**-2,208**	**-2,717**
Investment expenses	**-17,690**	**-10,427**	**7,263**	**-9,559**
Taxes on income	**-1,476**	**-785**	**691**	**-1,144**
Total expenditure	**-180,157**	**-177,033**	**3,124**	**-187,042**
Net income	**89,710**	**73,752**	**-15,958**	**68,454**
Change in market value	**80,601**	**185,943**	**105,342**	**85,773**
Net increase in Fund Value	**170,311**	**259,695**	**89,384**	**154,227**
Net Asset Value	**4,226,194**	**4,315,578**		**4,469,805**

Surrey Pension Fund 2019-20 Operational Budget

2019/20 Operational Budget	£000
Orbis Pensions Administration Baseline	
Staffing	1,250
Non-Staffing	300
Overheads	280
Total Orbis Pensions Administration Baseline	**1,830**
Orbis Pensions Administration Projects	
Backlog	300
I-Connect	60
GMP Reconciliation	35
Total Orbis Pensions Administration Projects	**395**
Oversight & Governance	
Fund Officers & Management	307.2
Advisers	224.3
Audit	21
Memberships and Benchmarking	137.8
Legal Costs	23.5
Pooling Costs (including Governance)	2,000
Training Budget	3
Total Oversight & Governance	**2,716.8**
Investment & Custody	
Custody Fees	150
Investment Management Fees	9,339
Total Investment & Custody	**9,489**
Total 2019/20 Operational Budget	**14,430.8**

The most significant variances between budget and actuals for 2018/19 financial year were related to employer contributions, transfers into the fund, investment management expenses and the change in market value of investments.

Investment management expenses incurred was below forecast, weaker investment performance for the year led to a reduction of performance fees.

Three Year Forecast:

	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000	2019/22 Budget £000
Income				
Contributions	177,900	177,445	177,759	**533,104**
Transfers in	17,361	20,155	23,398	**60,913**
Investment income	60,236	61,441	62,670	**184,347**
Total income	**255,496**	**259,040**	**263,827**	**778,364**
Expenditure				
Benefits	158,821	167,954	177,231	**504,006**
Transfer out	12,576	14,450	16,602	**43,628**
Management expenses	15,646	14,932	14,296	**44,874**
Total expenditure	**187,042**	**197,336**	**208,129**	**592,508**
Net income	**68,454**	**61,704**	**55,698**	**185,856**

A table of the active employers with employee and employer contributions made during the year is shown overleaf.

Employing Organisation	Employees Contributions £000	Employers Contributions £000
A2 Dominion	9	230
Ability Housing Association	5	17
Academy of Contemporary Music	5	15
Achieve Lifestyle	13	45
Amey LTD (Mole Valley)	3	6
Ash Parish Council	7	23
Ashley CofE Aided Primary School	30	108
Auriol Junior School	21	71
Babcock 4S	128	176
Banstead Infant School	10	35
Barnsbury Primary School	28	91
Beaufort Primary School	35	114
Bisley Parish Council	2	5
Blenheim High School	56	218
Bletchingley Village Primary School	19	75
Boxgrove Primary School	46	192
Bramley Parish Council (Quarterly)	2	5
Broadmere Primary Academy	22	68
Brooklands College	149	706
Brookwood Primary School	16	53
Burstow Parish Council	2	5
Busy Bees Daycare (Caring Daycare)	2	6
Cardinal Newman Catholic Primary School	20	70
Care Quality Commission	4	-
Carwarden House Community School	27	92
Catalyst (Southern Addictions Advisory Service (SADAS))	22	85

Chaldon Village Council	-	-
Chartwood	13	54
Chertsey High School	6	25
Chiddingfold Parish Council	3	6
Childhood First (Pepper Harrow Foundation)	18	84
Christ's College	34	116
Clarion Housing Group	11	48
Cleves Academy Trust	30	115
Cobham Free School	29	86
Collingwood College	88	314
Compass Contract Services	4	17
Connaught Junior School	22	80
Cordwalles Junior School	10	33
Cranleigh Parish Council	8	23
Crawley Ridge Infant School	9	33
Crawley Ridge Junior School	16	62
Cross Farm Infant School	9	33
Crowhurst Parish Council	0	-
Cuddington Com Prim Sch	10	33
Cuddington Croft Primary School	20	68
Danetree Primary School	34	116
De Stafford School	39	122
Dormansland Parish Council	1	3
Dovers Green School	32	120
Dunsfold Parish Council	0	2
East Horsley Parish Council	2	4
East Surrey College	176	720
East Surrey Rural Transport	3	11
Eastwick infant	48	169
Effingham Parish Council (6 Months)	1	6

Elmbridge Borough Council	705	2,924
Elmbridge Building Control	18	49
Elmbridge Housing Trust	-	60
Energykidz Ltd	-	-
Epsom & Ewell Borough Council	528	2,082
Epsom and Ewell High School	65	187
Esher Church of England High School	89	310
Esher Church School	15	50
Esher College	68	241
Farnham Heath End	35	111
Farnham Town Council	22	47
Freedom Leisure - Guildford (Wealden Leisure)	39	89
Freedom Leisure - Woking (Wealden Leisure)	19	49
Frensham Parish Council	1	2
Fullbrook School	69	259
Fusion Lifestyle	2	7
George Abbot School	119	440
GLF	103	267
Glyn School	62	192
Godalming College	74	229
Godalming Town Council	15	37
Godstone Parish Council	-	-
Goldsworth Primary School	41	129
Good Shepherd Trust	15	37
Gordons School Academy Trust	29	109
Guildford Borough council	1,481	5,420
Guildford College	305	1,497
Guildford County School	52	185
Guildford Grove Primary School	50	206
Hammond School	8	26

Hamsey Green Primary	23	93
Hanover Housing Association	94	790
Haslemere Town Council	5	10
Hawkedale School	6	25
Heathside School	59	215
Hillcroft Primary School	28	92
Hinchley Wood School	71	274
Hoe Valley Free School	28	67
Holly Lodge Primary School	16	62
Holmesdale Comm Inf Sch	19	71
Holy Family Catholic Primary School	10	35
Holy Trinity C of E Primary Sch	16	59
Horley Town Council	7	17
Howard of Effingham School	49	163
IESE ltd	72	129
Innovate (Weydon MAT)	0	-
Jubilee High School	38	119
Kenyngton Manor Primary Schl (Academy)	32	108
Kier (May Gurney)	8	37
Kings College Gldfrd	26	110
Knaphill School	17	51
Lakeside Primary School	21	81
Leatherhead Trinity School and Children's Centre	37	158
Lightwater Village School	13	42
Lime Tree Primary School	28	92
Linden Bridge School	64	240
Lingfield Parish Council	1	3
Loseley Fields Primary School	19	81
Lumen Learning Trust	45	126
Marden Lodge Primary School and Nursery	20	63

Meadhurst Primary school	10	34
Meadow Primary School	24	83
Merstham Park School	1	4
Merstham Primary School	10	35
Merton & Sutton Joint Cemetery Board	0	1
Mole Valley Borough Council	535	1,687
Moor House School	36	223
Morrisson Facilities	-	-
Mytchett Primary School	15	55
Nescot	271	1,095
New Haw Community Junior School	24	82
New Monument Primary Academy	19	58
Northmead Junior	12	56
Northmead Junior	12	56
Oaks Academy Trust	10	35
Ottershaw Cof E Infant & Juniors	2	6
Oxted Parish Council	-	-
Oxted School	70	231
Pabulum Ltd	2	9
Peaslake Free School	3	13
Pine Ridge Infant School	25	82
Pinnacle Housing	8	29
Pirbright Village School	12	47
Pond Meadow School	59	195
Potters Gate C Of E Prm	26	92
Pyrcroft Grange Primary School	21	72
Pyrford Church of England Aided Primary School	36	127
Queen Eleanor's Church of England School	15	55
Ravenscote Junior School	24	81
Reef Cleaning Solutions (GSO Ltd)	0	1

Reigate School	60	206
Reigate & Banstead Borough Council	885	3,682
Reigate College	96	328
Reigate Grammar School	115	457
Riverbridge Primary School	25	73
Riverside Housing	-	186
Rodborough	41	165
Rosebery Housing Association	4	208
Rosebery School	53	162
Runnymede Borough Council	726	2,550
Russell Education Trust	26	71
Rydens Enterprise School	38	129
S Farnham Ed Tt	66	195
Salesian School, Chertsey	91	271
Salfords Primary School	16	54
Sandcross Primary School	37	150
Sandfield Primary School	13	52
Sandringham School	11	45
SAVI	13	53
Saxon Primary School	19	56
Sayes Court School	19	63
Send Parish Council	2	5
SERCO	18	72
Shalford Parish Council	1	5
Shere Parish Council	-	-
Sir William Perkins School	17	82
Skanska Construction Ltd	22	81
Skanska Rashleigh Weather Foil	-	-
South Camberley Prm and Nursery	57	205
Spelthorne Borough Council	691	2,695

Springfield Primary School	24	81
St Alban's Catholic Primary School	16	57
St Andrew;s CofE Primary School	14	51
St Andrew's Church of England Infant School	6	21
St Anne's Catholic Primary School	22	75
St Augustine's Catholic Primary School	22	74
St Charles Borromeo Catholic Primary School, Weybridge	14	49
St Cuthbert Mayne	4	13
St Hugh of Lincoln Catholic Primary School	8	29
St John the Baptist Catholic Comprehensive School, Woking	72	230
St John's Church of England Primary School	23	83
St John's Pri Sch	3	10
St Lawrence Primary School	12	41
St Mary's C of E (Aided) Junior School (Oxted)	26	112
St Mary's CofE Junior School	9	33
St Matthews CoE Sch	26	102
St Paul's Catholic College/ Pavilion - yqwY&g8d	51	198
St Paul's CofE Primary School	23	78
St Stephens CoE Sch	21	82
Stanwell Fields CofE Primary School	18	55
Staywell	6	30
Stoughton Infant School	11	41
Surrey Choices	61	
Strodes College	-	-
Surrey County Council Pool	19,516	62,371
Sunbury Manor School	62	216
Surrey Heath	583	2,168
Surrey Hills Pri Sch	4	15
Surrey Police	-	-
Surrey Sports Park	9	20

Surrey Wildlife Trust	4	19
Sythwood Primary School	56	187
Tandridge District Council	632	2,735
Tatsfield Primary School	8	35
Thamesmead School	60	216
The Abbey School	14	49
The Ashcombe School	59	187
The Beacon School	54	166
The Bishop David Brown School	42	152
The Bishop Wand Church of England School	44	161
The Echelford Primary School	19	55
The Grove Primary School	23	87
The Hermitage School	21	67
The Horsell Village School	18	57
The Howard Partnership Trust	133	379
The Kite Academy Tru	23	75
The Magna Carta School	48	182
The Marist Catholic Primary Schl	27	94
The Matthew Arnold School	39	124
The Oaktree School	20	65
The Raleigh School	15	43
The Ridgeway School	52	180
The Royal Grammar School	28	167
The Vale Primary School	4	15
The Warwick School	49	158
The Weald CofE Primary School	13	45
Therfield School	41	128
Thomas Knyvett College	35	115
Tomlinscote School and Sixth Form College	74	269
Tongham PC	-	-

University of Creative Arts	980	3,400
University of Surrey	589	3,046
Wallace Fields Junior School	18	78
Warlingham Parish Council	1	2
Warlingham School	84	316
Warlingham Village Primary School	13	41
Warren MD CFS B'nstd	1	4
Warren Mead Infant School	10	35
Waverley Borough Council	794	3,403
Waverley Abbey CofE Junior School	17	61
Waverley Hoppa Transport	10	37
West End PC	2	5
West Ewell Primary School	26	87
West Hill School	21	78
Westfield Primary School	20	72
Weydon School	71	233
Weyfield Academy	23	73
Whyteleafe Primary School	17	58
Whyteleafe Village Council	1	2
WilsonJones	1	4
Windlesham Parish Council	4	8
Windlesham Village Infant School	6	22
Wishmore Cross Academy	32	108
Witley Parish Council	4	12
Woking Borough Council	710	3,173
Woking College	37	147
Woking Community Transport	-	53
Woking High School	67	258
Woodlea Primary School	9	35
Woolmer Hill School	24	80

Worplesdon Parish Council	4	12
Wray Common Primary School	25	91
Wyke Primary School	7	26

Benefits and Contributions

Enquiries should be directed in writing to Pension Services at the following address:

Pensions Unit
Room 218
Kingston Upon Thames
Surrey KT1 2EB
Telephone: 020 8541 9289 or 9292
E Mail: mypensions@surreycc.gov.uk
Fax: 020 8541 9287

Accounts and Investments

Information regarding the accounts and investments can be obtained from The Pension Fund Team at

Pension.fund@surreycc.gov.uk

Pension Scheme Regulations

1997 Regulations S.I. 1997/1612
Copies may be obtained from:

The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

Website:
www.opsi.gov.uk/si/si1997/19971612.htm

Useful Addresses

Occupational Pensions Board

PO Box 1NN
Newcastle upon Tyne
NE99 1NN
Tel: 0191 225 6316

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London
SW1V 1RB

Tel: 0845 601 2923
Email:enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Tel: 0207 630 2200
Email:enquiries@pensions-ombudson.org.uk

Employee and Employer Guides

The Department for Community and Local Government has produced guides to the Pension Scheme Regulations. These are available on request from Pension Services.

National Website
www.lgps.org.uk

Active Management
A style of management where the fund manager aims to outperform a benchmark **by superior** asset allocation**, market timing or** stock selection **(or a combination of these). Compare with** passive management

Actuary
An independent consultant who advises the County Council on the financial position of the Fund. See **actuarial valuation.**

Actuarial Valuation
This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)
An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-7.5% of basic earnings payable.

Admitted Bodies
Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Asset Allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through **tactical asset allocation** decisions.

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared. The Surrey Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

Bond
A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost
The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

Broker
An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

Commission
A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond
A debt security issued by a corporation, as opposed to those issued by the government.

Corporate Governance
The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Creditors
Amounts owed by the pension fund.

Custody
Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

Debtors
Amounts owed to the pension fund.

Derivative
Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification
A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Dividend
Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield
An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

Emerging Markets
There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity
Stock or any other security representing an ownership interest.

Ex-dividend
Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Final Salary Scheme
An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest
A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level
A comparison of a scheme's assets and liabilities.

Futures Contract
A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and

seller must follow the contract by law.

Gilts
The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge
Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

Index Linked

A **bond** which pays a **coupon** that varies according to some underlying index, usually the Consumer Price Index.

LGPS
Local Government Pension Scheme.

LSE
London Stock Exchange

Mandate
The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value

A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option
The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management
A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with **active management**.

Pension Fund
A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity
When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

Property Unit Trusts
Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

Return
Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk
The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers
Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund.

Security
An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity.

Socially Responsible Investment (SRI)
Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager
A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock
A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity.**

Stock Selection
The process of deciding which stocks to buy within an asset class.

Tracking Error
An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs

Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value
The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition
To move from one set of investment managers to another.

Underwriting
The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

Unit Trust
A pooled fund in which investors can buy and sell units on an ongoing basis.

Unlisted Security
A security which is not traded on an **exchange.**

Unrealised Gains/(losses)
The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield
The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

Annex 1: Techniques for Calculating Fee Savings from BCPP UK Equity Alpha Fund

Savings Analysis from Asset Pooling **Calculating price and quantity variances for an asset portfolio transferred to BCPP UK Equity Alpha Fund using 31/10/2018 valuations, as at 31/03/2019**			**Rounded to nearest £1000**
		%	
Value of UK Equities as at as at 31/10/2018	£316m	70.38%	
Value of UK Equities as at as at 31/10/2018	£133m	29.62%	
Total Value of UK Equities	**£449m**	**100.00%**	
Ad valorem fee rate			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019	£464m		
Ad valorem fee rate	33bps per £1m		
Price Variance Workings			
Current Fund Values at old fee rate:	(£464m x 70.38%) x £0.0024		£784,000
	(£464m x 29.62%) x £0.0035		£481,000
			£1,265,000
Current Fund Value at new fee rate:	£464m x £0.0033		**£1,531,000**
Price Variance			**£266,000**
Quantity Variance Workings			
Old fee rate x (old fund value - new fund value):	£0.0024 x (£449m - £464m) x 70.38%		-£25,000
	£0.0035 x (£449m - £464m) x 29.62%		-£16,000
Quantity Variance			**-£41,000**
Total Variance Workings			
Old fees - new fees:	£1,224,000 - £1,531,000 =		-£307,000
Total Variance			**-£307,000**

6

Savings Analysis from Asset Pooling **Calculating price and quantity variances for an asset portfolio transferred to BCPP UK Equity Alpha Fund using 31/10/2018 valuations, as at 31/03/2019**			**Rounded to £000s**
		%	
Value of UK Equities as at as at 31/10/2018	£316m	70.38%	
Value of UK Equities as at as at 31/10/2018	£133m	29.62%	
Total Value of UK Equities	**£449m**	**100.00%**	
Ad valorem old fee rate			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019	£464m		
Ad valorem new fee rate	0bps per £1m		
Price Variance Workings			
Current Fund Values at old fee rate:	(£464m x 70.38%) x £0.0024		£653,000
	(£464m x 29.62%) x £0.0035		£137,000
			£790,000
Current Fund Value at new fee rate:	£464m x £0.0000bps		**£0**
Price Variance			**-£790,000**
Quantity Variance Workings			
Old fee rate x (old fund value - new fund value):	£0.0024 x (£449m - £464m) x 70.38%		-£25,000
	£0.0035 x (£449m - £464m) x 29.62%		-£16,000
Quantity Variance			**-£41,000**
Total Variance Workings			
Old fees - new fees:	£790,000 - £0 =		£749,000
Total Variance			**£749,000**

Total Manager Fee Savings per annum	**£442,000**

The Audit Findings for Surrey Pension Fund

Year ended 31 March 2019

July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Surrey Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 10. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the following outstanding matters; *Outstanding items include the following matters where we are awaiting information as at the date of writing this report in order to complete our work:* • A sample for our testing of benefits payables; and • A small number of fund manager confirmations *We are still completing work in the following areas, in addition to those areas above where we are awaiting information:* • Complete our review of the IAS 26 actuarial valuation including the impact of McCloud and our work on the management and auditor's expert; • Complete our review of financial Instruments; • For a sample of level 3 investments check a sample back to audited accounts for the funds and review the nature and basis of estimated values; • Processing the response to a sample of contributions receivable; and • Processing the responses to our journals testing. *We are still to complete the following closing procedures, which are concluded at the end of the audit:* • Receipt of management representation letter; • Receipt of confirmation whether there are no reportable post balance sheet events; and • Review of the final set of financial statements. Our anticipated audit report opinion will be unmodified.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in April 2019

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Pension Fund Amount (£)
Materiality for the financial statements	40,000,000
Performance materiality	24,000,000
Trivial matters	2,000,000

Materiality calculations remain the same as reported in our audit plan. Whilst net assets have increased by £259.7 million when compared with the 2017/18 figures that we used as a basis of our calculation of materiality in the audit plan, we felt it was prudent to keep materiality at the same level. We detail in the table below our determination of materiality for Surrey Pension Fund.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** During our risk assessment, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because; • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Surrey County Council as the Administering Authority of Surrey Pension Fund, mean that all forms of fraud are see as unacceptable. Therefore we did not consider this to be a significant risk for Surrey Pension Fund. We have not made any changes to this assessment reported to you in the Audit Plan. We have performed our usual procedures on contributions and investment income and have not identified any issues to report.
2	**Management override of controls** Under ISA (UK) 240 there is non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • Evaluated the design effectiveness of management controls over journals • Analysed the journals listing and determine the criteria for selecting high risk unusual journals • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. Based on the work completed to date, we have not identified any issues in respect of the risk of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**The valuation of Level 3 investments** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We have identified the valuation of Level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** We have: • gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and • for all investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known cash movements in the intervening period. Based on the work completed to date, we have not identified any issues in respect of the valuation of Level 3 investments.

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have reviewed the Fund's funding position and cash flows.	• The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions. • There are no known plans for the Ministry of Housing, Communities and Local Government to wind up the Surrey Pension Fund. • Next triennial valuation of the Fund is due to be completed in 2019 as at 31 March 2019 by the fund's actuary and review of communications between the Council , Surrey PF and Actuary has not identified any going concern issues or difficulties. • The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.
Work performed	**Auditor commentary**
Detail audit work performed on management's assessment	• We have reviewed management's assessment that the financial statements are prepared on a going concern basis. • We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2016 showed the funding level of 83% with a plan to achieve 100% solvency over the 20 years from that valuation. • The fund continues to operate as usual.
Concluding comments	**Auditor commentary**
	• We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Potential impact of the McCloud and GMP judgements** The Court of Appeal has ruled that there was age discrimination in the judicial and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. **Guaranteed Minimum Pension (GMP)** The High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. This will lead to increased costs for sponsors of defined benefit schemes (ie the LGPS) that were contracted out of the State Second Pension in the period from 17 May 1990 to 5 April 1997.	Discussions are ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government Pension Schemes. The Council requested an estimate from its actuary of the potential impact of the McCloud and GMP ruling. The actuary's estimate was of a possible increase in pension liabilities of £22m. This increase also includes the impact of GMP equalisation. Management's view is that the impact of the ruling is material for Surrey Pension Fund so the disclosure of the present value of future retirement benefits will be updated in Note 25 to reflect the position including the impact of the McCloud judgement.	We have reviewed the analysis performed by the actuary, and considered whether the approach that has been taken to arrive at this estimate is reasonable. We are of the view that there is sufficient evidence to indicate that any liability related to the McCloud and GMP judgements is probable. Whilst the impact of the McCloud and GMP judgements is below our performance materiality, management have opted to update the disclosure to reflect it. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability. We have included this as a disclosure change within Appendix B.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in hedge funds and unquoted equities that in total are valued on the balance sheet as at 31 March 2019 at £398,668k. These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management adjust the value of the hedge fund at their last audited financial statements for cashflows and use comparable valuation of similar companies for unquoted equities. The value of the investment has increased by £175,123k in 2018/19, largely due to market movements..	We have assessed management's estimate by considering: • An assessment of management's expert • The appropriateness of the underlying information used to determine the estimate • The consistency of estimate against peers/industry practice • The reasonableness of increase in estimate • The adequacy of disclosure of estimate in the financial statements	●
Level 2 Investment	The Pension Fund have investments in unquoted bonds, foreign exchange derivatives, overseas bond options and pooled investments, that in total are valued on the balance sheet as at 31 March 2019 at £1,332,588k. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use the average of broker prices, market forward exchange rates at year end, option price modelling, closing bid or single price. The value of the investment has decreased by £25,025k in 2018/19 due to market movements.	We have assessed management's estimate by considering: • An assessment of management's expert • The appropriateness of the underlying information used to determine the estimate • The consistency of estimate against peers/industry practice • The reasonableness of increase in estimate • The adequacy of disclosure of estimate in the financial statements	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• Surrey County Council, as the administrating authority of the Surrey Pension Fund voluntarily reported itself to the Pension Regulator for failing to provide all of their active and deferred members with annual benefit statements by the 31st August 2018 deadline..
4	**Written representations**	• A letter of representation has been requested from the Pension Fund, which is included in the Audit and Governance Committee papers. We have included a specific representation about the minimal assurance report from Internal Audit on Pensions Administration.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your custodian, investment fund managers and banks. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however one request for controls gap letter for a fund manager has not been received so we have chased with management's support.
6	**Disclosures**	• Our review found material omissions in the financial statements. These are detailed in Appendix C.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2019 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

- Marcus Ward was the audit manager for Surrey Pension Fund up until May 2019. In May 2019, Marcus' father was appointed Leader of Waverley Borough Council. As discussed and agreed with PSAA, Grant Thornton UK LLP rotated Marcus Ward off the audit of Surrey County Council prior to the commencement of the final accounts audit of Surrey Pension Fund in order to mitigate against any perceived or actual threat to the independence of the audit team as regards the financial statements of Surrey Pension Fund for the year ended 31 March 2019.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed below.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Fees

We set out below our fees charged for the audit. We confirm there were no fees for the provision of non-audit or audit-related services. We have incurred additional fees during the year, from the consideration of the McCloud and GMP judgements and have been asked by auditors of the 11 Surrey districts to provide IAS 19 assurance letters, for which we charge £3,000 for doing the work and £500 for each assurance letter requested. We will confirm the final audit fee with management in August 2019 once the audit has been completed.

Audit Fees

	Proposed fee (£)	Final fee (£)
Pension Fund Audit	20,871	TBC
Total audit fees (excluding VAT)	**20,871**	**TBC**

Action plan

We have identified one of recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	• We completed our interim testing of member data of new starters in March 2019. We found that supporting documents such as evidence of sending out the welcome pack were not available due to a backlog of sending them out. When we returned to finalise our testing in July 2019 these were available. However, this shows that there has been delay of up to 4-6 months for supporting documentation to be uploaded to Altair. This supports the findings of an Internal Audit Report during 2018/19 into the pension fund administration which provided a minimal assurance opinion. Part of this was due to a large backlog of tasks that were incomplete.	• Supporting evidence for changes to member data should be uploaded as soon as practically possible and a plan put in place to clear the back log of tasks. **Management response** • New Starter records are up to date on the pensions system and the New Starter process has been improved so that the risk of backlog is mitigated through improved reporting to management. The backlog found in fieldwork relates to welcome letters that are generated. A plan is in place to remove the backlog and is well progressed.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Surrey Pension Fund's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	**New starter members** Not all members received letters to inform them of their enrolment to their pension scheme. This has been an issue since approximately July 2017. This process is to be started again due to new processes and procedures being in place. We recommended that the Pension Fund should Ensure new starters receive notification of their enrolment into the scheme.	**Management Response** The Trainee Team are now working through the backlog of new starter notifications. All those for whom we hold a postal address are being written to. For those we hold an e-mail address we are working with Heywoods to develop a bulk e-mail functionality out of the system. It should be noted that the majority of employers send out pensions correspondence with contracts that we don't necessarily have sight of. For members who joined prior to 31 March 2018 they would have received an ABS in August 2018 confirming their membership of the scheme and detailing their service history. We have a robust process now in place for any new joiners so a backlog will not build up again. Statutory Notifications are no longer supported by the system provider so are no longer sent.
2	✓	**Leavers (members)** Only 10 of the 25 leavers sampled had the expected documents (equite form and LG5.24 form) attached to their profiles. Therefore 15 people had no clear audit trail as to why they had been set as a leaver on the system. There should be a clear protocol to be followed by pension operations colleagues to ensure there is a clear audit trails as to why a member has been set as a leaver	**Management Response** Leaver tasks are created either by a leaver form being received or a bulk extract being received. Individual leaver forms will be saved to records but bulk extract cannot be as they contain data for multiple members so will be stored centrally. There are records that have leaver tasks set up due to being interfaced as a status 2 at year end but the employer has not sent in a leaver form yet.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusted misstatements with an impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
McCloud, GMP and IAS 26 disclosure	As detailed in the Significant findings - other issues section on page 8, there may be a change in the disclosure of the IAS 26 Actuarial present value of promised retirement benefits in Note 25 due to an updated estimate from your actuary following the McCloud Adjustment.	• Management should use the updated estimate of the IAS 26 Actuarial present value of promised retirement benefits as at 31 March 2019 taking into account the findings from the McCloud judgement to update this disclosure.	✓
Outstanding commitments	The disclosure of the outstanding commitments as at 31 March 2019 (note 19) was incorrect by £34m.	• The outstanding commitments note should be updated.	✓
Investments greater than 5% of net assets	The calculation for the disclosure of the Investments greater than 5% of net assets (note 17 d)) was calculated on the percentage of net *investment* assets rather than net assets. The disclosure to be adjusted to 'net assets' rather than net investment assets, percentages to be recalculated on this basis.	• The disclosure should be corrected.	✓
IFRS 9 disclosures	Some of the disclosures relating to investments and financial instruments had not been updated for the new terminology of IFRS 9 which was applicable for the first time this year.	• Management should review the disclosure requirements for new financial reporting standards and ensure draft accounts include all required disclosures and terminology.	✓
Assumptions made about the future and other major sources of estimation uncertainty	A sensitivity analysis showing the impact of a 1% change on value of pension promise should be shown.	• Sensitivity analysis should be included in the statement of accounts	✓
Split of benefits	The draft accounts did not include a split of benefits between normal, deficit, augmentation and additional classes.	• The benefits note should show analysis of benefits split between the different types/	✓
Borders to Coast Equity Alpha	Further narrative explaining the nature of the Borders to Nature Equity Alpha is required.	• Further narrative should be added to the statement of accounts.	✓

Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Prior year figures	A number of the 2017/18 figures for investment balances had been changed to match mapping that had changed for 2018/19. the prior year figures in the accounts should always match the audited financial statements unless there has been a prior period adjustment and restatement.	• 2017/18 figures should match those in the audited 2017/18 accounts.	✓

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
1	**Level 3 investments overstated**				Not considered material
	DR Change in market value of investments	3,564			
	CR Investment Assets		(3,564)	(3,564)	
	Overall impact	**3,654**	**(3,654)**	**(3,654)**	

Impact of prior year unadjusted misstatements

We have not identified any adjustments relating to the prior year audit which had not been made within the final set of 2017/18 financial statements.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Surrey County Council on the pension fund financial statements of Surrey Pension Fund

Opinion

We have audited the financial statements of Surrey Pension Fund (the 'pension fund') administered by Surrey County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Audit opinion

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Ciaran McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

Grant Thornton

SURREY
COUNTY COUNCIL

Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AY

29th July 2019

Dear Sirs

Surrey Pension Fund
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Surrey Pension Fund ('the Fund) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was

necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end

The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xv. We have taken actions to address the findings of the 'Minimal Assurance' Internal Audit review of Surrey Pension Fund Administration and offer assurance that the backlog of tasks identified do not have a material impact on the actuarial valuation.

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have drawn to your attention all correspondence and notes of meetings with regulators.

xxiv. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by Audit and Governance Committee at its meeting on 29th July 2019.

Yours faithfully

Name. LEIGH WHITEHOUSE

Position. EXECUTIVE DIRECTOR OF RESOURCES

Date. 31 JULY 2019

Name.....

Position.....

Date.....

Signed on behalf of Surrey County Council as administering body of the Surrey Pension Fund

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **LOCAL PENSION 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 18 July 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 following governance steps in order to expedite progress of the administration service improvement plan and provide appropriate assurance:

    - Pension Administration Officers to provide cost estimates to Pension Fund Officers for each project in the Service Improvement Plan
    - Fund Officers set out and agree with Pensions Administration Officers the appropriate assurances in support of the projects in the Service Improvement Plan
    - The Business Case for the Service Improvement Plan is written and agreed by the Pension Administration Officers and Fund Officers
    - Authorisation of the Business Case to be delegated to officers (including the Director of Corporate Finance) in consultation with the Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board

2. Approve proposed changes to the risk register, as noted in the Risk Register section of this report.

REASONS 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.

This meets the Fund's strategic governance objectives.

DETAILS:

Internal audit and pension administration report

1. In the light of the significant issues reported, the Chairman, on behalf of the Board, was delegated to put in writing his thoughts on the pensions administration issues and raise them with the Cabinet Member for Corporate Support, the Section 151 Officer and the Surrey Pension Fund Committee.

2. The Chairman reported on 22 July as follows:

   "At the meeting of the Surrey Local Pension Board last Thursday we spent the majority of our time on the administration of the Fund. This included a review of the internal audit report, scrutiny of the many and varied projects as well as performance against the new set of KPI's. We were also able to look at the high level improvement plan prepared by the Service and the backlog of cases – please see Annex 2.

   The current backlog equates to more than one year's worth of work, and even for the last month reported, the work completed was less than the new work arriving in the department. The Board has asked that the Service determines if there are deadlines missed which would amount to breaches which should be reported to the Pensions Regulator. Some of the delays may also mean that scheme members are being disadvantaged financially.

   Some work has been put out to an external provider, and it is clear that more should be dealt with in this fashion if serious inroads are going to be made into the backlog in a reasonable period of time.

   We also point out that one quarter of the current team is at or nearing retirement age. A deficit in knowledge and experience will develop unless radical steps are taken to address this.

   The role of the Pensions Board is to advise and assist the County Council in its role as the Administering Authority of the Surrey LGPS. We ask that the Service, officers and cabinet members, address the issues identified, provide the resources and commit to their resolution in a reasonable period. We ask that a response to this email and the Improvement Plan is provided to the Board."

3. The service improvement plan as referred to by the Chairman of the Local Board is attached as Annex 1.

4. The Section 151 Officer responded on 2 August 2019 as follows:

   "The Service Improvement Plan has been established as a programme of work being delivered by the Pensions Administration Team with support from across Surrey CC where needed. There is clear project governance led by diverse and senior representation and the LPB receives highlight reports as part of meeting papers. Progress is good, particularly with:

   BAU stabilised as a result of three key leadership appointments, the recruitment of 9 trainees and the restructure to specialist teams.

   First stage of backlog clearance progressing to plan with 3,232 Surrey cases sent for processing by JLT.

A successful end of year exercise and the delivery of Valuation data to the actuary on 26 July.

Benefit Statements being generated and on plan to complete ahead of the 31 August deadline.

The milestone actions in response to the findings of the Internal Audit are being delivered to agreed times, with a follow up audit being planned for October 2019.

As discussed at the Service Improvement workshop, there are also many opportunities to improve the efficiency and effectiveness of the service in the next phase, which are being assessed as business cases and planned in for the coming months.

As the Service Improvement Plan has developed, further analysis shows the additional projects to be done in order to complete the backlog at pace and build a service which is resilient for the future.

The additional projects were introduced in the Improvement Plan discussed at the LPB and is attached to my response so everyone has sight of it. In particular, the recommendations of greater use of external resource to address the backlog, service resilience by growing expertise and key technical appointments, and robust reporting. With staged delivery, our target, subject to planning, is to complete the new projects within two years from commencement.

We are committed to working through the proposed next actions urgently in order to verify the analysis, and agree what assurances are appropriate in support of the work by 9 August. The due governance process will be followed for full visibility and approval of the funding needed. The Pensions Administration Team will complete the work and have a detailed plan in good time for the LPB meeting on 24th October with support from Fund and Surrey CC Officers. The second attachment shows the current programme plan on a page and continues with a timeline of how we will progress with the additional projects to form and set the new Service Improvement Plan.

I'm aware that Andrew Marson has organised two update sessions to keep you and the LPB involved and informed of our progress, the first on 4 September, aligned to PFC on 13 September and the second on 9 October, aligned to LPB on 24 October.

I hope that my response provides you with the necessary reassurances of our commitment to Surrey Pension Fund and the provision of a highly valued pension administration service."

5. An update meeting between officers and the Chairman and Vice Chairman of the Local Board is scheduled for the 4 September 2019.

6. The following governance steps are proposed order to expedite progress of the administration service improvement plan and provide appropriate assurance:

   - Pension Administration Officers to provide cost estimates to Pension Fund Officers for each project in the Service Improvement Plan Stage 2 (SIP2).
   - Fund Officers set out and agree with Pensions Administration Officers the appropriate assurances in support of the projects in the SIP2.
   - The Business Case for the SIP2 is written and agreed by the Pension Administration Officers and Fund Officers.

7. It is recommended that the Pension Fund Committee delegates authorisation of the Business Case to officers in consultation with the Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board

Risk register

8. A change of Section 151 Officer (risk 8 in the fund risk register, investment section) is to be removed from the fund risk register.

9. The net risk score of too much knowledge concentrated in a small number of officers (risk 28 in the fund risk register, delivery section) is to be raised from green to amber.

10. The net risk score of the Lead Pension Manager leaving (risk 33 in the fund risk register, delivery section) is to be raised from green to amber.

11. The total risk and net risk scores of the failure to provide an accurate and efficient pension administration service (risk 34 in the fund risk register, delivery section) are to be raised from amber to red.

12. In addition to the above specific changes, the Chairman and Vice-Chairman met with officers, and the results of their review are included in the revised risk registers.

AVC review

13. Based on advice from Barnett Waddingham, the Board recommended allowing the Prudential to transfer members from the closing life-style funds to the ones suggested, provided that members are alerted to their option to transfer to any other funds in Surrey's portfolio free of charge.

14. The Chairman requested that the Board was presented with a draft version of the letter that would be sent to members to alert them of the aforementioned changes.

Breach of law report

15. The Board agreed that a breach of law should not be reported to the Pension Regulator, unless it is considered material and provided that the Fund and/or members are not disadvantaged.

Action tracker

16. The Chairman has set out the actions required to comply with the Pension Regulator's code of practice No 14 and recommended the actions required in order to comply.

17. The Pension Account Advisor is to investigate further toolkit training for members of the Board.

18. Officers are to keep the Surrey Pension website up-to-date and a new member of staff has been recruited to lead on this. The Board is to be updated on progress at October's meeting.

Pension administration report

19. There was a lengthy discussion about pension administration and it was noted that the backlog amounted to more than a year's output for the whole section. The Chairman has set out his thoughts in writing for submission to key stakeholders and the Pension Fund Committee.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

22. 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.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

23. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

24. 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

25. 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

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

WHAT HAPPENS NEXT

27. 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

Annexes:
Annex 1 – Service Improvement Plan

Sources/background papers:
Local Pension Board minutes
Barnett Waddingham's Interim Report on Equitable Life
Barnett Waddingham's Interim Report on the Prudential
Pension Fund risk registers

Surrey Pension Fund
Pension Administration Improvement Plan

orbis

Surrey Pension Fund is a circa £4 billion fund with some 95,000 members. Pensions Administration Service has the following main operational challenges:

- Work outstanding of 26,600 cases. Made up of:

Type of work	Volume
Deferred leavers	5,331
Transfer In	1,097
Refunds	2,990
Transfer In	1,097
Other KPI work	1,402
KPI sub total	**10,820**
Plus,	
Unidentified leavers without tasks assigned	10,968
Non KPI outstanding work	4,771
Total work outstanding	**26,559**

Brighton & Hove City Council East Sussex County Council SURREY

- 18,900 BAU cases done in 2018/19 so over a years' worth of work. Membership and demand is growing.

- Service Resilience
  - LGPS experience risk – 25% of the team are at or near retirement age, equating to 45% of LGPS knowledge.

  - Performance impact of Employer activity such as admissions, cessations and restructures. Ad-hoc and unplanned events directly impact BAU.

- Data Quality
  - tPR requirements are increasingly demanding.
  - End of Year, ABS, Valuation. The main reason backlog happened.
  - Legacy queries need resolving. High risk of error and inefficient processing.

- Assurance
  - Compliance. LGPS is complex and always changing. We must have technical expertise to manage change into the service.
  - Controls are needed to evidence quality.

Approach to addressing the challenges:

- ✓ Understand the Disclosure breach position, Regulator reporting and member impact.

- ✓ Clear the backlog using an external provider

Backlog is significant but temporary. Resolving at pace requires prompt access to expertise which can also be flexed following efficiency improvements.

- ✓ Resilient BAU

Grow LGPS expertise now to mitigate future loss. Increase capacity to satisfy growing demand of members and employers.

- ✓ Data Quality

Create a dedicated data quality improvement team.

- ✓ Service Improvement Plan

Technology and process efficiency to generate BAU capacity.

- ✓ Operational Assurance and Quality

Procedures and Controls to evidence compliance and performance

Next steps:

- ✓ Refine the KPI reporting process so it is robust and accurate.
- ✓ Estimates of investment required have been completed but requires independent checking.
- ✓ The estimates also set out a timeline to address the historic problems and transform the service so it is future-proofed.
- ✓ Work with the Fund Officers to review the estimates in detail and agree assurances.
- ✓ Follow robust governance to achieve agreement of Officers, PFC and LPB.

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO**

SUBJECT: **GOVERNANCE COMPLIANCE STATEMENT**

SUMMARY OF ISSUE:

Local authority pension funds are required to publish and keep under review a Governance Compliance Statement. The Governance Compliance Statement of the Surrey Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement.

The Governance Compliance Statement was last reviewed by the Pension Fund Committee at its meeting of 22 May 2015. This paper notes any changes to the Governance Compliance Statement since the last review.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee notes the amendments to the Compliance to Statutory Guidance Statement and the Governance Policy Statement.

REASON FOR RECOMMENDATIONS:

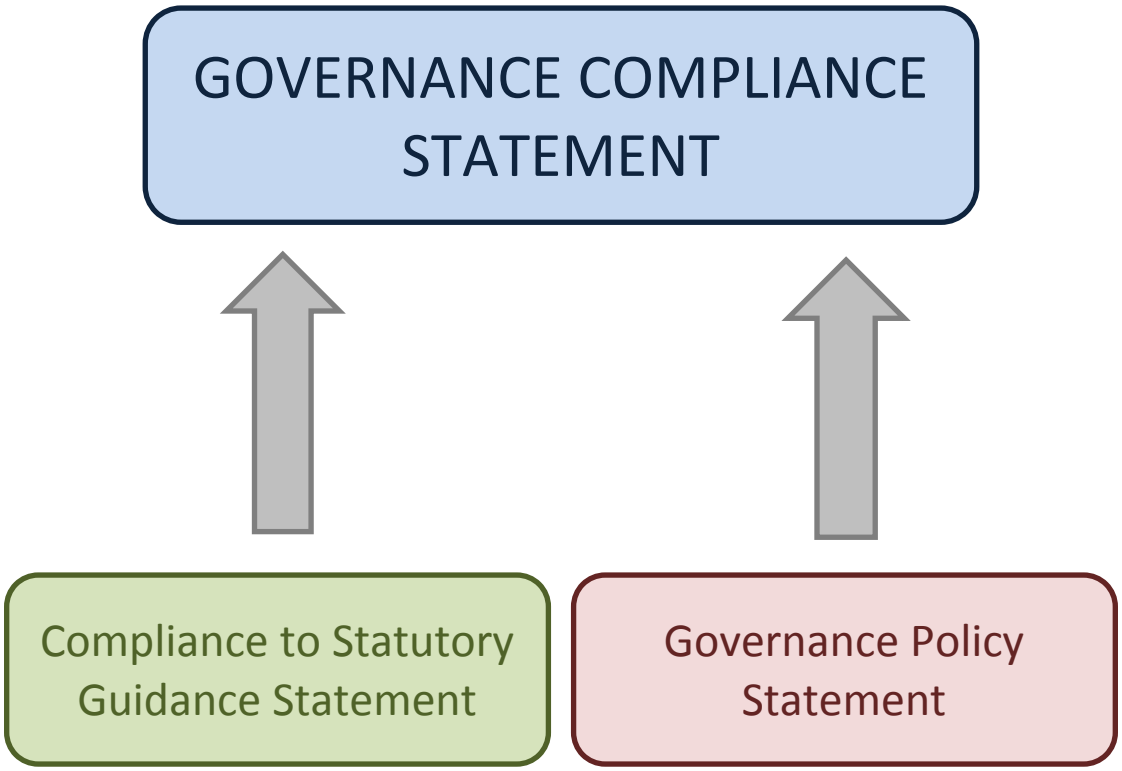
To comply with legislation and in accordance with the Fund's Governance objectives.

DETAILS:

Surrey Pension Fund Governance Compliance Statement

1. In order to further strengthen its governance structure the Surrey Pension Fund Governance Compliance Statement is made up from two documents:

   - The Compliance to Statutory Guidance Statement
   - The Governance Policy Statement



Regulatory Requirements of the Governance Compliance Statement

2. The relevant regulation requiring this statement is Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended).
3. The Governance Compliance Statement must include the following information:

    - The delegation arrangements (from the administering authority to a Committee and/or officers)
    - The frequency of any meetings, terms of reference, structure and operational procedures of the delegation
    - Whether the Board/Committee includes representatives of employing authorities (including non LGPS employers) and members and, if so, whether those representatives have voting rights

4. The Statement must state the extent to which a delegation (or the absence of a delegation) complies with guidance given by the Secretary of State and, if it does not comply, an explanation of the reasons for not complying. Such a disclosure is known as 'comply or explain'.
5. The Statement must include details of the terms, structure and operational procedures relating to the Local Pension Board.
6. In summary, the Governance Compliance Statement covers various governance issues:

    - Structure
    - Representation
    - Selection and role of members of the Pension Fund Committee and the Local Pension Board
    - Voting

- Training
- Facilities
- Expenses
- Meetings (frequency and quorum)
- Access to information and papers
- Scope and publicity

Revisions to the Compliance to Statutory Guidance Statement

7. We still await amendments to the Statutory Guidance provided by the Department of Communities and Local Government (DCLG), to reflect the 2013. LGPS Regulations. When these amendments are confirmed, proposals for the revision of the Compliance to Statutory Guidance Statement will be brought to the Pension Fund Committee.
8. The sole amendment to the Compliance to Statutory Guidance Statement is that all references to Pension Fund Board are replaced with Pension Fund Committee to reflect the constitutional name change.

Revisions to the Governance Policy Statement

9. The Governance Policy Statement includes the following information:

    - The overall governance framework of the Pension Fund Board
    - Delegation of functions and allocation of responsibilities
    - Terms of reference and decision making
    - Operational procedures

10. Amendments to the Governance Policy Statement are as follows:

    - All references to Pension Fund Board are replaced with Pension Fund Committee to reflect the constitutional name change
    - 4.1 and 4.2 of the Local Pension Board Terms of Reference amended to include the option to include two independent members at the recommendation of the Appointment Panel
    - 4.10 and 5.1 of the Local Pension Board Terms of Reference amended to clarify that the members of the Local Pension Board and Chairman and Vice Chairman of the Local Pension Board shall be appointed by the Scheme Manager through the People, Performance and Development Committee
    - 11.1 of the Local Pension Board Terms of Reference amended so that the quorum shall be no fewer than four members which should always include the Chairman or the Vice Chairman, at least one employer representative and at least one member representative
    - 20.3 of the Local Pension Board Terms of Reference amended to show Version 2 of the Terms of Reference was adopted on 18 September 2015 as approved by the Pension Fund Committee

CONSULTATION:

11. The Chairman of the Pension Fund Committee has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

12. There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. There are no financial or value for money implications.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

14. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed, and that the Governance Compliance Statement provides a sound framework, setting out Surrey's position with regard to every strand of good governance practice.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. The Governance Compliance Statement was originally prepared by the Council in accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997. Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires an administering authority to keep this statement under review and make any revisions as appropriate.

EQUALITIES AND DIVERSITY

16. The approval of a compliance statement will not require an equality analysis, as the initiative is not a 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:

    - The statement will be monitored and reviewed.

Contact Officer:
John Smith, Senior Advisor

Consulted:
Pension Fund Committee Chairman

Background papers
- Compliance to Statutory Guidance Statement
- Governance Policy Statement

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) – CONSULTATION ON CHANGES TO THE LOCAL VALUATION CYCLE AND THE MANAGEMENT OF EMPLOYER RISK**

SUMMARY OF ISSUE:

This report provides details of the Secretary of State for the Ministry for Housing, Communities and Local Government's (MHCLG) consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk. If implemented, these changes will have an impact on the funding strategy of the Fund.

RECOMMENDATIONS:

The Pension Fund Committee is asked to note 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 2019/20 Business Plan.

BACKGROUND:

1. In May 2019 the Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) issued a consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk (see link to Background Papers).

2. The proposed changes include the follow:

   - Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle
   - A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles
   - Proposals for flexibility on exit payments
   - Proposals for further policy changes to exit credits
   - Proposals for policy changes to employers required to offer LGPS membership

3. An response on behalf of Surrey County Council, from Anna D'Alessandro, Director of Corporate Finance, was issued to MHCLG on 29 July 2019 (included as Annex 1).

DETAILS:

Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle

4. The Government has moved the LGPS scheme valuation to a quadrennial cycle and proposes to ensure that scheme and local valuations are aligned. It is the view that moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs.

5. *Surrey is of the view that before moving to quadrennial cycles, further information needs to be gained from the public sector accountancy and audit community. The current triennial valuation cycle means actuaries use approximate assessments for the intervening years. Lengthening the cycle may result in auditors being less willing to provide assurance.*

6. *Surrey also notes that the administrative complexity involved in making the necessary changes to move to a quadrennial cycle will incur increased costs in administration.*

7. *Unlike other public sector schemes the LGPS is a funded scheme and has a need for regular monitoring and assessments of funding positions due to the movements in asset and liability values, to take account of changes in employer covenant or to reflect external factors; such as the recent McCloud judgement. This creates an inevitable need for interim valuations with associated increase in actuarial and costs*.

8. *For the reasons stated Surrey does not support the proposed change to a quadrennial valuation.*

Measures aimed at mitigating the risks of moving from triennial to quadrennial cycles

9. On the assumption that scheme and fund valuations are carried out at the same date, the Government proposes a package of risk mitigation measures. These include, the introduction of a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle.

10. *On the basis that the valuation cycle is extended to four years, Surrey supports the proposal to give funds the power to carry out interim valuations. Interim valuations will be key to ensuring that employer and fund risks can be monitored and managed in a timely and effective way.*

Proposals for flexibility on exit payments

11. The Government has recognised that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. This can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave.

12. It proposes to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

13. Surrey recognises the employer experiences as laid out in the consultation and is supportive of the proposal that Funds should have flexibility to spread exit repayments.

Proposals for further policy changes to exit credits

14. In the period since the 2013 Regulations were amended, the Government has heard some concerns about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

15. The Government has recognised that this was not the intention of the changes to the regulations and proposes to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit.

16. Surrey welcomes these proposed amendments to the 2013 Regulations.

Proposals for policy changes to employers required to offer LGPS membership

17. Given the nature of the LGPS and the changes in the further education and higher education sectors the Government has questioned whether it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

18. It proposes to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

19. Surrey brings to the attention to the Government that the proposed approach will have an impact on future cash flows of funds and current employer contribution rates for the scheme employer, as the fund would be required to consider them as a "closed employer". It would also bring forward the point at

which these institutions become an exiting employer, with the financial impact of the crystallisation of their pension liabilities.

20. *The Scheme Advisory Board's Tier 3 project was commissioned to investigate, report and make proposals on issues such as the status of higher and further education establishments and Surrey recommends waiting for the conclusions of this work before committing to an alternative approach.*

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

24. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

25. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

26. This does not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

28. 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 – Surrey County Council's response to the MHCLG consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk

Sources/background papers:

- The MHCLG consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk?=7

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SURREY
COUNTY COUNCIL

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Our Ref: LGPS Changes to the Local Valuation Cycle
Your Ref:

LGF Reform and Pensions Team
Ministry for Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

29th July 2019

Dear LGF Reform and Pensions Team,

RE: Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Surrey County Council (Surrey) welcomes the opportunity to respond to the Government's consultation on proposed changes to the local valuation cycle and the management of employer risk.

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.

We are supportive of many of the Government's proposals, but, have some reservations about the proposed change to the local valuation cycle and the proposal to exclude new membership in the further education college sector.

1.1 Changes to the local fund valuation cycle

Question 1

9 **As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that the LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?**

Surrey understands the rationale of the Government to move LGPS fund valuations from a triennial to a quadrennial valuation cycle in order to provide consistency with other public sector schemes. However, we would argue that the uniquely funded nature of the LGPS when compared to the unfunded basis of other public sector schemes is in itself an argument against a uniform approach. As a funded scheme the LGPS has a need for regular monitoring and assessments of funding positions due to the movements in asset and liability values, to take account of changes in employer covenant or to reflect external factors; such as the recent McCloud judgement.

The existing triennial valuation cycle has worked effectively for many years to manage risks, which have included volatile times in the financial markets and in local government finances. Throughout this period the LGPS has been able provide stable contribution rates for employers, whilst protecting funding levels of the scheme.

Question 2
Are there any other risks or matters you think need to considered, in addition to those identified in section 1.1, before moving funds to a quadrennial cycle?

Smaller employers may not be as engaged with the pension fund as their larger counterparts and this could lead to a failure to monitor their employer costs, leading to a possible cliff-edge change to contribution rates in a longer valuation cycle. Conversely, employers may opt to consider requesting interim valuations to take advantage of speculative market conditions, directly against the need to ensure stable contribution rates.

Before moving to quadrennial cycles, further information needs to be gained from the public sector accountancy and audit community. The current triennial valuation cycle means actuaries use approximate assessments for the intervening years. Lengthening the cycle may result in auditors being less willing to provide assurance (recent experience with the McCloud case has highlighted the sensitivity of this issue).

The Government suggests that “Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs”. It is our view that the opposite is the case.

The administrative complexity involved in making the necessary changes to move to a quadrennial cycle will incur increased costs in administration, as would the management of interim valuations. This inevitable need for interim valuations could increase actuarial and audit costs.

Question 3
Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

We are supportive of the alignment of local and scheme valuations, if meaningful information from these exercises can inform improvements to the scheme. We believe that the case for this has yet to have been successfully made by the Government.

1.3 Transition to a new LGPS valuation cycle

Question 4
Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Notwithstanding our earlier comments and while recognising the significant additional administrative burden on authorities, Surrey supports the three year plus two year transition (option b). This is due to a strong view that a five year transition (option a) is too long a valuation period, consistent with our earlier comments regarding the proposals to extend from a three to four year cycle.

2.1 Ability to conduct an interim valuation of local funds

Question 5
Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

On the basis that the valuation cycle is extended to four years, Surrey supports the proposal to give funds the power to carry out interim valuations. Interim valuations will be key to ensuring that employer and fund risks can be monitored and managed in a timely and effective way.

A strong governance framework is an essential requirement to support this process and we are supportive of the proposal that Funds include the conditions under which interim valuations may be considered appropriate in their local Funding Strategy Statements, with due regard to their actuary and Local Pension Board. We are also in agreement with the principle of Secretary of State intervention in exceptional circumstances, on the basis that clear statutory guidance is produced in consultation with funds to define what these circumstances are.

Question 6
Do you agree with the safeguards proposed?

With reference to our answer to question 5, we are in agreement that suitable governance provides appropriate safeguards.

2.2 Review of employer contributions

Question 7
Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Surrey is supportive of the proposed changes to allow a more flexible review of employer contribution rates. This would be appropriate should employers wish to inject additional cash, or if their membership profile changes. It would also allow Funds to react to a change in the covenant strength of employers.

The parameters under which contributions may be reviewed should be included in the Funding Strategy Statements of Funds to guard against any increased risk to the fund and employers.

2.3 Guidance on setting a policy

Question 8

9 **Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?**

Surrey is very supportive of Scheme Advisory Board (SAB) advice in this area to provide some consistency of treatment for scheme employers. However, individual funds should retain sufficient levels of discretion to allow a flexible approach which is appropriate to the profile of local funds.

Question 9
Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Guidance on the pace of funding would be helpful in the context of contributions. Employers may not be aware of the interest savings available by accelerating funding contributions.

3.2 Flexibility in recovering exit payments

Question 10
Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

The consultation states that "employer debt is calculated at a full buy-out basis". This is not an accurate understanding of the treatment of "exiting employers" in the LGPS Regulations.

Regulation 64 (2) of the LGPS Regulations 2013 is not categorically defined in the LGPS Regulations, instead this is at the discretion of the Fund. Exit payments are defined in the regulations as follows:

"exit payment" means the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified in paragraph (2);"

It is misleading to describe exit payments as "a full buy-out basis" as liabilities in the LGPS cannot be transferred to insurance companies in the way in which buy out (or buy in) is understood in defined benefit schemes in the private sector. Full exit payments in the LGPS are normally calculated on what the Fund actuary determines to be a prudent basis, which can vary from fund to fund.

Surrey recognises the employer experiences as laid out in the consultation and is supportive of the proposal that Funds should have flexibility to spread exit repayments. We would also welcome this being put in legislation.

However, it should also be noted that regulation 64(4) of the LGPS Regulations 2013 does allow some flexibility for employer repayments to be paid beyond the effective exit date. Any new regulations should recognise this fact.

3.3 Deferred employer status and deferred employer debt arrangements

Question 11
Do you agree with the introduction of deferred employer status into the LGPS?

Surrey is very supportive of the principle of the introduction of a deferred employer status into the LGPS, subject to satisfactory deferred debt arrangements being agreed.

Question 12
Do you agree with the approach to deferred employer debt arrangements set out in section 3.3? Are there ways in which it could be improved for the LGPS?

Surrey is supportive of a deferred debt arrangement and the use of the S75 model used by DWP in private sector pension schemes as a template. However, we believe that this will introduce a new layer of complexity in to LGPS, including the need for knowledge, understanding and expertise in the assessment of covenant strength.

The need for guidance in this area is essential and we would recommend that both the SAB and CIPFA be involved in the drafting of this.

As a deferred debt arrangement is effectively a loan, we believe it can be improved for the LGPS by allowing funds to formally securitise this loan; this could take the form of taking a legal charge over the assets of employers. The legal permission for this should be enforceable through legislation. This will prevent employers from prioritising other financial obligations over the charge of LGPS funds.

3.4 Proposed approach to implementation of deferred employer debt arrangements

Question 13
Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

As noted in our previous answer we believe that the legal status of deferred debt arrangement, including the key obligations and entitlements of all parties should be included in the regulations.

We are in agreement that questions of risk and the competing interests of stakeholders should be included in guidance and believe that the SAB and CIPFA are best placed to consult with funds in the production of this.

3.5 Summary of options for management of employer exits

Question 14
Do you agree options 2 and 3 of Section 3.5 should be available as an alternative to current rules on exit payments?

We agree with the introduction of both option 2 & 3 and are supportive of these options being available to funds in addition to current rules on exit payments (option 1).

Question 15
Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Comprehensive guidance on all aspects of the management of employer exits should be provided. As noted in our previous answer, SAB and CIPFA are best placed to consult with funds in the production of this.

9

4.3 Proposal to amend LGPS Regulations

Question 16
Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

This would remove one of the unintended consequences of the introduction of exit credits.

Surrey is in agreement that the Government should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit.

Question 17
Are there other factors that should be taken into account in considering a solution?

Side agreements can include details of a pension exit credit of an admitted body being credited to the original transferring scheme employer. Examples of this and the tax treatment of this credit payment should be taken account of in the solution.

There may also be may be a potential conflict of interest if the administering authority is also a scheme employer with a financial interest in the outcome of the exit credit assessment. An appropriate way of managing this conflict should be considered as part of the solution.

A way of managing the issue of funds already having paid an exit credit to an employer should be included when considering a solution. One way of achieving this would be for the amendment to be extended so that the existing exit credits legislation is restricted to apply only to new contracts set up after 14 May 2018.

It is noted in the consultation that provisions of the (presumably amended) LGPS Regulations 2013 you be relied upon in the event of a dispute or disagreement. This should include clear direction in the cases where a side agreement, or even admission agreement, is absent.

5.1 Further education corporations, sixth form college corporations and higher education corporations

Question 18
Do you agree with our proposed approach?

Surrey is of the view that the proposed approach has the potential to create a two tier workforce for this cohort of employers.

The proposed approach would also have an impact on future cash flows of funds and current employer contribution rates for the scheme employer, as the fund would be required to consider them as a "closed employer". This could have an impact on the way in which their liabilities are valued. It would also bring forward the point at which these institutions become an exiting employer, with the financial impact of the crystallisation of their pension liabilities.

We are aware of the SAB's Tier 3 project which was commissioned to investigate, report and make proposals on issues such as the status of higher and further education establishments and we would recommend waiting for the conclusions of this work before committing to an alternative approach.

6.1 Consideration of equalities impact

Question 19
Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

The workforce represented in the Further Education Corporations, Sixth Form College Corporations and Higher Education Corporations are predominantly female and part time.

Surrey welcomes a number of proposals that are included in this consultation, particularly concerning changes to the management of exit payments. However, we advise caution in reference to the proposals concerning a change to the category of employers that are currently required to offer the LGPS to a proportion of their staff. In addition, with regards to proposals to extend the valuation cycle we would venture to suggest that the current triennial cycle is not broken and does not require fixing.

Yours sincerely

Anna D'Alessandro
Director of Corporate Finance

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **SCHEME ADVISORY BOARD REVIEW OF GOVERNANCE IN THE LGPS**

SUMMARY OF ISSUE:

In January 2019, the Scheme Advisory Board (SAB) appointed Hymans Robertson (Hymans) to facilitate a review of governance structures for the LGPS. This paper provides details of the survey issued by Hymans and the subsequent report "Good Governance in the LGPS", published in July 2019. Any changes to the LGPS governance will have an impact on the Surrey Fund.

RECOMMENDATIONS:

The Pension Fund Committee is asked to note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives, in accordance its Governance objectives as included in its 2019/20 Business Plan.

BACKGROUND:

1. In January 2019 the SAB appointed Hymans to facilitate a review of governance structures for the LGPS. The review consisted of two stages:

   i) Stage 1 fact-find: An initial fact-finding stage involving a sample of key stakeholders from across the LGPS in order to draw out important issues, themes and ideas for improving LGPS governance. This also assisted in informing the proposed options for consultation.

   ii) Stage 2 survey: The survey invited stakeholders to comment on proposed governance models and how they measure against proposed assessment criteria as follows.

   - Standards: The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
   - Conflict: The model minimises S151 officer conflicts (including in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
   - Representation: The model allows for appropriate involvement in decision making for key stakeholders (including administering

authority, non-administering authorities, other employer and member representative).

- Clarity: The model delivers clarity of accountability and responsibility for each relevant role
- Consistency: The model minimises dependence on goodwill and relationships to deliver statutory responsibilities
- Cost: The cost of implementing and running the model is likely to be worthwhile versus benefits delivered

2. The survey identified four governance models:

   i) Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund.
   ii) Greater ring fencing of the LGPS within existing structures: Greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies.
   iii) Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.
   iv) Combined Authority (CA): Establish a CA, a local authority in its own right and a separate legal entity which exists for the sole purpose of administering an LGPS fund.

3. In May 2019 Hymans issued the survey to interested parties, including officers, pension fund committee members and local pension board members (the survey was forwarded to Pension Fund Committee members and Local Pension Board members via email on 22 May).

DETAILS:

4. Hymans issued a report outlining the results of their survey in July 2019. The report was forwarded to pension fund committee members and local pension board members via email on 1 August 2019.

5. The results of the survey showed a clear preference for option ii) *greater ring fencing of the LGPS within existing structures.*

6. Hymans provided the following conclusions:

   - Governance structure is not the only determinant of good governance. Funds with similar governance models produced differing results.
   - There was a clear view that the establishment of new bodies was not necessary and instead there should be greater guidance within the existing structures.
   - There is preference for a set of mandatory standards that all funds should achieve, drawing on current good practice.

- Standards should be regularly and independently reviewed.

7. Leading from these conclusions Hymans made the following proposals:

- There should be an outcome based approach, based on minimum standards.
- This outcome based approach should include:

  i) Robust conflict management, including defining roles and responsibilities.
  ii) Assurance on the sufficiency of administration, along with the appropriate budget.
  iii) Policy on employer and member engagement.
  iv) Regular independent review of governance.

- Enhanced training (particularly for S151s and S101 committees).
- Update of relevant guidance and better sign-posting.

NEXT STEPS:

8. The SAB has invited the Hymans project team to assist them in taking forward the next stage of the good governance project.

9. Two working groups will be established:

   i) Focus on defining good governance outcomes and the guidance needed to clearly set them out.
   ii) Focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.

10. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered.

11. The aim is for an options report to be ready for the SAB's consideration when it meets in November.

12. Any proposals agreed by the SAB would then be subject to a full stakeholder consultation before being put to MHCLG.

13. Details of both working groups will be made available shortly.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

17. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

18. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

19. This does not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

21. The following next steps are planned:

    - Keep the Pension Fund Committee apprised on developments in the Good Governance project.

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

Consulted:
Pension Fund Committee Chairman

Sources/background papers:

- Good governance in the LGPS – Hymans Robertson

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **SURREY PENSION FUND LOGO**

SUMMARY OF ISSUE:

The Surrey Pension Fund Committee approved its new Mission Statement on 7 June 2019 and thereafter the Fund has redesigned its logo to better represent its new Mission Statement.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the new Surrey Pension Fund Logo (Annex 1) and its alignment with the Fund's Mission Statement, approved on 7 June 2019.

REASON FOR RECOMMENDATIONS:

To enable the Fund to communicate visually an image more closely representative of its Mission Statement. This meets the Fund's strategic objective for delivery in accordance with the 2019/20 Business Plan.

DETAILS:

Background

1. The Surrey Pension Fund Committee and Local Pensions Board commissioned a review, carried out by Hymans Robertson, on the Fund's current governance arrangements. Subsequently, the findings of the review were then presented to the Pension Fund Committee on 7 June 2019 with the below Mission Statement for The Fund also approved by the Committee. This presented an opportunity to refresh the existing logo.

Mission Statement

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

3. **New Logo**

The Fund Officers worked with Surrey County Council's In-house Communications & Design Team in designing the new logo and its reflection

of the Fund's Mission Statement. The cost of the work was funded internally through Surrey County Council's Communications Team.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

7. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

8. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

9. The approval of the logo does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

10. There are no potential implications for Council priorities and policy areas.

WHAT HAPPENS NEXT

11. The following next steps are planned:

    - Logo to be launched officially at the 2019 Annual General Meeting on 21 November 2019
    - Logo to be used in future Fund communications where possible. Also exploring further social media outlets for promotion

Contact Officer:
Mamon Zaman, Senior Accountant

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – Surrey Pension Fund Logo

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Surrey Pension Fund

> Oak leaves represent growth, Surrey's nature

> Two leaves overlaid to represent partnership

> Blue gives corporate and traditionally 'financial' feel, green represents Surrey – brighter shades give more modern feel

> Slab-serif font to feel strong, solid, reliable and traditional yet fresh

> Fresh
> Modern
> Growth
> Partnership

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **2019 VALUATION UPDATE**

SUMMARY OF ISSUE:

To provide members with an update on the delivery of the 2019 actuarial valuation of the Pension Fund, including:

- Valuation timetable
- The methodology for measuring the funding level
- The policy areas within the Funding Strategy Statement (FSS) that are under review alongside the valuation
- Setting employer contribution rates
- Update on the development of multiple investment strategies for employers

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes progress on the delivery of the 2019 actuarial valuation of the Pension Fund.

2. Approves for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers.

REASON FOR RECOMMENDATIONS:

To comply with best actuarial valuation practice and meet the Fund's strategic funding objectives.

DETAILS:

Valuation timetable

1. The updated valuation timetable is shown in the table below:

Date	Event
13 September 2019	Present whole of fund valuation to the Committee
Through September 2019	Carry out employer level calculations
30 September and 1 October 2019	Employer forums
28 October 2019	Discuss employer results with officers
4 November 2019	Prepare results schedules

11 November 2019	Agree draft FSS and issue to employers for consultation
13 December 2019	Present employer results, draft FSS and update report on multiple employer strategies* to the Committee
13 March 2020	Present final FSS to the Committee for approval

*subject to approval by the Pension Fund Committee

The methodology for measuring the funding level

2. At the 2016 valuation, for the purpose of showing a funding level at the valuation date, the Fund's approach was to report an assumed investment return that was based on a given margin above the consumer price inflation at 31 March 2016.

3. At the 2019 valuation, the Fund actuary, Hymans, has extended this approach to include a risk based contribution rate setting methodology. This approach allows the Committee to have a better appreciation and understanding of the risk inherent in their funding strategy when looking at the funding level metric. This methodology is laid out in the Hymans report (shown as Annex 1).

The policy areas within the Funding Strategy Statement (FSS)

4. The FSS provides is a clear and transparent reference point for the Fund's stakeholders, to provide evidence of the contribution arrangements. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

5. The following areas are examples of some areas that will be included in the FSS drafting (further detail is provided in Annex 1):

    - Regulatory update.
    - Contribution stabilisation.
    - Approach to small scheduled bodies.
    - Multiple employer investment strategies.

6. Under the current valuation timetable, a draft of the updated FSS will be issued to all relevant stakeholders in November, alongside their draft valuation results for the required consultation. A finalised draft will be presented to the Committee at the December Committee meeting for approval.

Setting employer contribution rates

7. As part of the 2016 valuation of the Fund, a formal framework was developed by Fund officers to classify employers into risk categories. The use of this framework will be continued as part of this valuation.

8. This framework requires to the Fund to consider the following:

    - The employer's funding target.
    - How long the employer has in the Fund to reach the funding target.
    - An appropriate likelihood of meeting the target (or 'likelihood of success') e.g. 2/3rds, 75%.

Update on the development of multiple investment strategies for employers.

9. At the Pension Fund Committee meeting of 14 September 2018 the concept of multiple employer investment strategies was introduced, in order to help improve funding outcomes for employers and the Fund as a whole.

10. At the Pension Fund Committee meeting of 16 November 2019, the Committee approved for officers to work with the actuary to investigate the how multiple employer strategies could work for the Surrey fund.

11. The paper from Hymans (included as Annex 2) summarises the outcome of this initial investigation and the proposal for the potential next steps in the implementation of a range of investment strategies to help improve funding outcomes for employers and the Fund as a whole.

12. After discussion with actuary, some high-level principles are proposed in relation to using the investment strategy to improve funding outcomes:

    - Alternative investment strategies should be simple, pragmatic and not overly complex.
    - The Fund wishes to help employers manage exit from the LGPS where they have made this choice.
    - Providing some flexibility in investment strategy to meet employers increased yet achievable expectations.
    - Clear governance structures & process must be in place during decision making or implementation e.g. including but not limited to agreement from impacted employers.

13. Work between officers and the actuary to categorise employers used the following metrics:

    - Funding level
    - Net cashflow
    - Liability maturity
    - Gearing (liabilities vs payroll)
    - Duration of liabilities

14. This identified 12 groups of employers. These 12 groups have been further classified under three different investment strategies as follows:

    - Core: growth seeking assets aligned with existing investment strategy – attributable to the largest cohort of employers (e.g. councils)
    - Alternative A: reduction in growth assets – employers targeting exit
    - Alternative B: risk-free assets – exited employers

15. There are other considerations that the Fund must satisfy itself before implementation of multiple investment strategies for employers. These fall in to three categories:

    - Governance: a number of key stakeholders are effected, these include employers, pension members, committee and local board members

- Administration: the most significant considerations are how to track employer asset values (as they could now participate in one of three strategies) and rebalance assets between strategies if / when required
- Implementation: this falls in to four main parts:
    - Analysis and grouping
    - Communications
    - Strategy design
    - Administration

16. It is recommended that the Committee approves for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers once the 2019 valuation employer results are available and the project can progress.

    The next steps will then be to provide the Committee with an update report at the next meeting of 13 December 2019 including: employer groupings, employer choice / fund choice communications, high level investment strategies for each group, next steps re implementation plan.

CONSULTATION:

17. The Chairman of the Pension Fund Committee has been consulted

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

20. The Director of Corporate Finance is satisfied with the progress in delivering the 2019 valuation.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

22. The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

24. The following next steps are planned:

- Officers will continue to work with the actuary and investment consultant to implement the 2019 actuarial valuation

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

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – Hymans Robertson report on the valuation update
Annex 2 – Hymans Robertson report on the multiple employer strategies update

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2019 Valuation update

This paper has been requested by and is addressed to Surrey County Council ("the Council") in its capacity as Administering Authority to the Surrey Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP to provide information on the progress of the 2019 actuarial valuation for discussion at the Pensions Committee Meeting on 13 September 2019. It has not been prepared for use for any other purpose and should not be so used.

No liability is accepted under any circumstances by Hymans Robertson LLP for any loss or damage occurring as a result of reliance on any statement, opinion or any error or omission contained herein where the report is used by or disclosed to a third party.

Background

We are in the process of carrying out the valuation of the Fund as at 31 March 2019. The valuation of the Fund on a triennial basis is a Regulatory requirement and is used to determine contribution rates payable by participating employers for the three year period commencing 1 April 2020. The valuation is carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

Purpose

The purpose of this document is to update the Committee in relation to:

- the progress of the actuarial valuation;
- the background to measuring the funding level (which will be presented at the meeting);
- the policy areas within the Funding Strategy Statement (FSS) that are under review alongside the valuation;
- the next steps in the valuation in relation to setting employer contribution rates.

2019 valuation – progress update

- At the previous Committee meeting on 7 June 2019, the Committee agreed the assumptions to be used in the actuarial valuation.
- At the time of writing, the Administering Authority had submitted membership data to the actuary for the purposes of the valuation. Subject to a smooth data sign off process, the actuary will present the initial results of the valuation, at whole Fund level, at the Committee meeting on 13 September 2019. The initial results will show a current funding level, where the market value of assets is compared against a value of the benefits accrued to date.

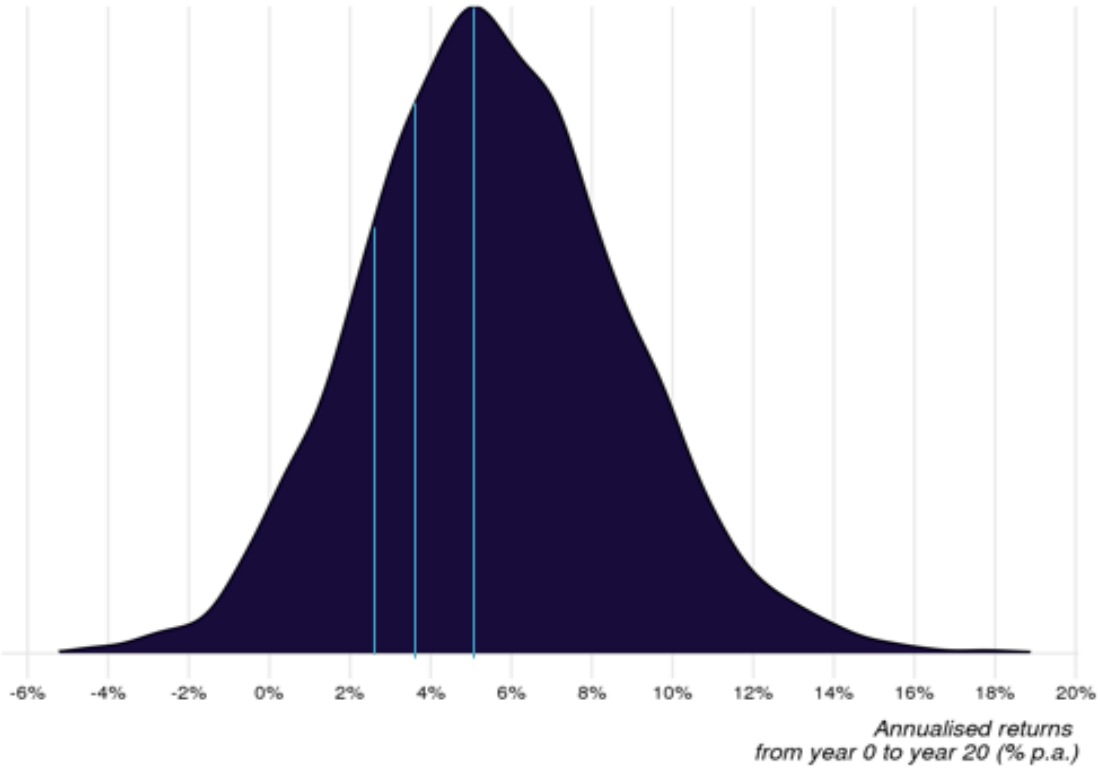
An appendix setting out the timetable of the valuation is provided alongside this paper.

Measuring a funding level

At the 2016 valuation, for the purpose of showing a funding level at the valuation date, the Fund's approach was to report an assumed investment return that was based on a given margin above the consumer price inflation at 31 March 2016.

At the 2019 valuation, we will extend the evolution we made at the last valuation to our risk based contribution rate setting methodology to the calculation of the assumed future investment return used in assessing the current funding position. Valuation outputs are more meaningful when stakeholders can understand the likelihood attached to them. Instead of using an assumption based on one market indicator (a deterministic approach), we can use an assumption that reflects the range of possible future investment returns and the likelihood of a fund's assets returning this assumption (a stochastic approach). We do this by using the Fund's current investment

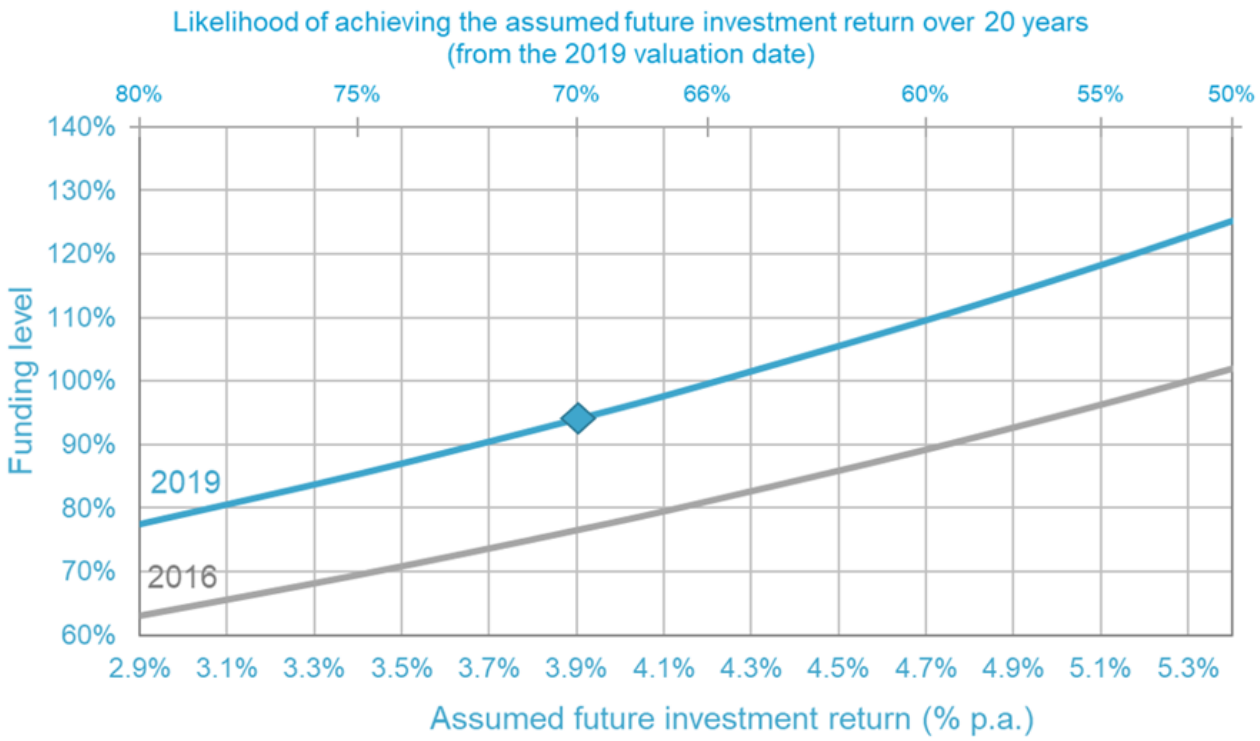
strategy and our proprietary economic model, the Economic Scenario Service (ESS), to generate a distribution of possible annual investment returns over the next 20 years. A sample distribution is shown here:



The above chart illustrates that, for the sample fund shown:

- the median expected return on the *sample* fund's assets over the next 20 years is around 5.4% p.a. (i.e. there is a 50% likelihood that the *sample* fund's assets will return at least this level in the 5,000 scenarios modelled);
- the *sample* fund's assets can be expected to return at least 3.9% p.a. in 70% of the 5,000 scenarios modelled; and
- the *sample* fund's assets can be expected to return at least 2.9% p.a. in 80% of the 5,000 scenarios modelled. As funds are required to take a prudent approach in the valuation, and all other assumptions are best estimate, the assumption for future investment returns needs to be prudent.

The following chart demonstrates how the funding level varies, for this sample fund, with the level of prudence in the future investment return assumption. For comparison, the funding level associated with the same choice of investment return assumption, for this sample fund at the 2016 valuation is also shown. When communicating valuation results, LGPS funds need to present a single funding level. The above analysis allows funds to do this by selecting their level of prudence in the calculation of the funding position and reading off the associated funding level.



This approach at the 2019 valuation to measuring a current funding level allows stakeholders to have a better appreciation and understanding of the risk inherent in their funding strategy when looking at the funding level metric. All this information will be presented specifically for the Surrey Pension Fund during the initial results stage of the valuation.

Policy areas within the Funding Strategy Statement (FSS)

The FSS is a key document for your Fund, in two ways:

1 The inputs it requires: Fund's officers, Pensions Committee and Local Board need to go through a process to be satisfied that the Fund will be collecting an appropriate level of contributions from each and every employer in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas;

2 The outputs it gives you: the finalised FSS itself should be a clear and transparent reference point for the Fund's stakeholders, to provide proof that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The table below sets out the areas under consideration as part of the review of the Fund's FSS:

Area	Description
Regulatory and other tidy up	Changes to allow for: • Exit credits legislation • Valuation cycle consultation and Fund's policy on interim valuation assessments • Dealing with McCloud/cost cap benefit uncertainty

Area	Description
	• Clarifying approach to academies joining the Fund or moving MAT • Clarifying post cessation agreements to Climate change risk • GMP equalisation • MHCLG instead of DCLG
Contribution stabilisation	Stabilisation parameters for long term secure tax-backed employers under review and any changes will be reflected
Small scheduled bodies	Approach to pooling and rate setting for small scheduled bodies to be considered
Multiple investment strategies	Updates to allow for approach to offering multiple investment strategies within the Fund.
Other policy areas	May include but not limited to: • Any updates required in relation to sharing ill health retirement risk within the Fund • Recharging employers' actuarial fees for cessation valuations and including this cost in the cessation surplus/deficit calculation • Pass through contractor arrangements

Under the current valuation timetable, a draft of the updated FSS will be issued to all relevant stakeholders in November, alongside their draft valuation results for the required consultation. A finalised draft will be presented to the Pension Fund Committee at the December Committee meeting.

Setting employer contribution rates

The next step in the valuation is to set the contribution rates for all employers in the Fund. As a reminder, since the 2016 valuation employer contribution rates are set for all employers in the Fund using a risk-based approach. This requires the Fund to consider for each employer:

1 The employer's funding target

2 How long the employer has in the Fund to reach the funding target

3 An appropriate likelihood of meeting the target (or 'likelihood of success') e.g. 2/3rds, 75%.

As part of the 2016 valuation of the Fund, a formal framework was developed by Fund officers to classify employers into risk categories. The use of this framework will be continued as part of this valuation and as such is appended to this paper for information.

Prepared by:-

Gemma Sefton
Partner
13 August 2019
For and on behalf of Hymans Robertson LLP

Multiple investment strategies - further analysis

Executive summary

Following the presentation to the Pensions' Committee in September 2018 it was agreed to investigate and further understand how the Fund's investment strategy can be used to improve funding outcomes for all employers. This paper summarises the outcome of this initial investigation and the proposal for the potential next steps in the implementation of a range of investment strategies to help improve funding outcomes for employers and the Fund as a whole.

As pre-work for the 2019 valuation of the Fund we have analysed the Fund's employers using a variety of funding profile metrics and identified 12 homogenous groups of employers. Further analysis of these 12 groups and discussions with the Fund's Officers has concluded that by implementing three different investment strategies the Fund may efficiently help employers improve funding outcomes.

This indicative analysis will be re-cast using the 2019 valuation results when they are available and prior to any further action to progress the project. Similarly, the Fund will seek investment advice on the appropriate asset allocation of each strategy prior to any formalisation.

The potential investment strategies identified are:

Strategy	General investment characteristics
Core strategy	Allocation to growth seeking assets aligned with existing investment strategy (it is expected that most employers will be allocated to this strategy). Expected higher volatility (risk) than the other two strategies.
Alternative strategy A	Reduced allocation to equities to lower volatility whilst retaining an element of growth to deliver returns (it is expected that employers who are allocated to this strategy are most likely to be targeting exit from the Fund over time).
Alternative strategy B	No allocation to equities, focus on low risk assets (e.g. gilts) to protect funding position (it is expected that employers who have already exited the Fund on a gilts-based investment strategy will be allocated to this strategy).

Each strategy would have a different allocation to one of the three asset categories – Growth, Income and Protection.

If the Fund decides to go ahead and implement the proposal of three investment strategies, the Fund will need to consider the Governance, Administration and Implementation aspects.

Governance

The Fund needs to ensure that all key stakeholders are well informed and understand the rationale and justification for implementing the proposal in this paper. Furthermore, the Fund needs to ensure there is an audit trail of all decisions made and all policies and procedures reflect the new strategy. At the time of writing, Officers have indicated that they will engage with employers who will potentially be allocated to Alternative strategy A or B to seek their consent where appropriate.

Administration

The Fund needs to understand the impact of the new strategy on its day to day operations. As the Fund already tracks employer assets, the implementation of three investment strategies should be relatively easily facilitated and some of the asset re-allocation between strategies can be carried out notionally within the Fund's current manager framework.

Implementation

The proposal is a significant change for the Fund. Although the principles of simplicity and pragmatism have been followed when drawing up the proposal, there is some work for officers and advisors associated with implementing the proposal. A high level overview of the work required has been summarised within. Once the steps are agreed these will be formalised in the valuation timetable and agreed between Officers and advisors. At the time of writing a timetable was in draft.

The Fund's participation in the Borders to Coast Pension Partnership pool does not have a direct impact on the implementation of the new strategy i.e. the investments used in the asset categories to construct the strategies may be accessed within or outside of the pooled environment. Under pooling, strategic asset allocation remains the role and responsibility of individual pension funds and their committees and the role of the pool is to facilitate these strategic decisions.

Addressee & scope

This paper is addressed to Surrey County Council in its capacity as Administering Authority to the Surrey Pension Fund ("the Fund"). This purpose of this paper is to set out the further investigations and discussions that have recently taken place to understand how the Fund's investment strategy can be used to help improve funding outcomes for employers. It has not been prepared for use for any other purpose and should not be so used.

No liability is accepted under any circumstances by Hymans Robertson LLP for any loss or damage occurring as a result of reliance on any statement, opinion or any error or omission contained herein where the report is used by or disclosed to a third party.

This indicative work has been carried out by the Fund's Actuary, along with Fund Officers. Fund officers intend to engage with the Fund's Investment Consultant once the 2019 valuation employer results are available and the project can progress.

Background

Since the 2013 formal valuation of the Fund, the LGPS has continued to see increased numbers and diversity of participating employers. At the 2016 valuation, this resulted in the implementation of a sophisticated and evolving contribution strategy framework by the Fund, however the investment strategy remained a "one size fits all" approach. Since the 2016 valuation, Officers and the Fund Actuary have undertaken investigatory steps to consider what other tools may be used to help tackle employer diversity.

Following the presentation to the Pensions' Committee it was agreed to investigate, and further understand how the Fund's investment strategy may be used to improve funding outcomes. The rest of this paper summarises the initial outcomes of this investigation and the proposal for the potential implementation of a range of investment strategies to help get the best funding outcomes for employers and the Fund as a whole.

Setting beliefs, objectives and principles

When carrying out this type of investigation, and drawing up any proposal, it is important to be able to focus on key objectives and principles to aid clear decision making.

The Fund's Investment Strategy Statement includes the following elements which have a relevance in relation to considering the appropriateness of offering alternative investment strategies within the Fund:

- Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.
- Employer covenant is a factor when it comes to setting investment strategy. In most cases, the strength of employers' covenants allows the Fund to take a long-term view of investment strategy. However, it is appreciated there may be certain employers when a short-term to medium-term horizon is more appropriate and there is a need to develop technical solutions to accommodate this.
- Ongoing risk assessment is essential. This assessment can take many forms including (but not limited to):
  - to understand progress relative to the long-term plan at a whole Fund level,
  - the implications of the increasing diversity and maturity of the Fund's underlying employers, including the impact on the Fund's net cashflow position.

Principles

After discussion with the Fund's Officers, some high-level principles to be applied in relation to using the investment strategy to improve funding outcomes were agreed:

- Any initial offering of alternative investment strategies should be simple, pragmatic and not overly complex. This is intended to set the foundations for any future evolution if required.
- The Fund wishes to help employers manage exit from the LGPS where they have made this choice.
- Providing some flexibility in investment strategy to meet employers increased yet achievable expectations.
- Clear governance structures & process must be in place during decision making or implementation e.g. including but not limited to agreement from impacted employers.

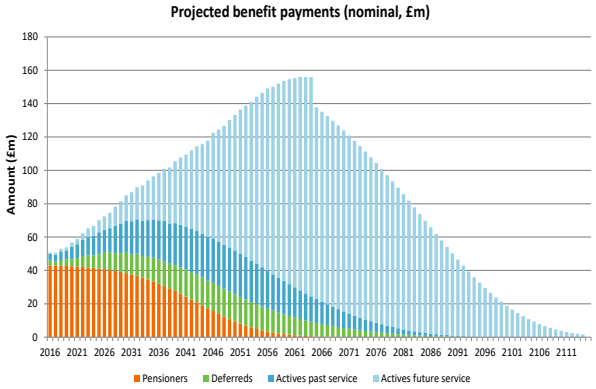
Understanding which employers require different investment strategies

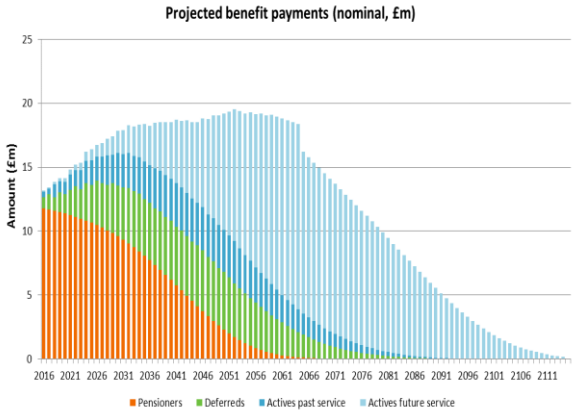
The first stage in the initial investigation was to understand which employers require different investment strategies.

In the past, when setting long term funding strategies in a fund with a single investment strategy, the main factors that feed into the funding strategy for the majority of employers are:

- Type of employer e.g. council, contractor etc.
- The employer's funding target (ongoing or gilts cessation)
- Whether the employer is open or closed to new entrants
- The employer's current funding level

When considering the most appropriate investment strategy for an employer we need to consider some other factors. The charts below show the cashflow (i.e. future benefit payments) profile of two employers.





The shape of the charts are significantly different which highlights that the four factors above need to be complemented by some others which explain the differences in the cashflow profiles. These additional factors are:

- **Net cashflow**: this is a measure of the estimated contributions paid (employer & employee) net of benefit payments. If an employer is cash flow negative then either assets need to be sold, or income used from existing assets, to make up the shortfall between contribution income and benefit payments. Therefore, over time the assets grow at a slower rate and, as the employer becomes very mature, its asset base will shrink at a quicker rate than a cash flow positive employer.
- **Maturity:** this is a measure of the percentage of the liabilities that are in respect of active members. The lower the percentage, the more mature the employer. Mature employers are more likely to require investment income at an earlier stage to meet their benefit outgo. Less mature employers can benefit from

reinvesting any investment income. Mature employers also must fund any deficits with a small (in comparison to the deficit) payroll which can make contribution rates, in percentage of pay terms, more volatile and susceptible to big movements if market conditions change.

- **Gearing (liabilities vs payroll):** this is a measure of the liabilities against the payroll for active members. The higher the gearing ratio, the larger the liabilities are compared to payroll. Those with a higher gearing ratio are more sensitive to movements in liabilities and can be exposed to large hikes in contributions if liabilities significantly increase over time.
- **Liability duration**: this is a measure of the weighted average period of future benefit payments. The lower the duration, the shorter the time horizon. An employer with a shorter time horizon has less time over which to earn investment returns and therefore may require higher returns compared to an employer with a longer time horizon.

From the above, it leads that for employers who have similar funding profile factors (all those listed above) will have similar requirements for an investment strategy e.g. level of required return, level of risk etc. By analysing the funding profile factors across all the Fund's employers we can identify groups of employers with similar profiles and investment strategy requirements. It should be noted, it is not a precise science and a number of assumptions have been made. Nevertheless, considering the overarching principles of the project it provides a pragmatic approach to helping understand employer risks.

Analysing the Fund's employers

We have carried out analysis of the Fund's employers by calculating all the factors listed below at 31 March 2016.

- Funding level
- Net cashflow
- Liability maturity
- Gearing (liabilities vs payroll)
- Duration of liabilities

We have then assigned a Red/Amber/Green status to each metric and a subsequent 'risk score' (based on the metric and the RAG status). Totalling up the risk score for each metric for an employer, allows us to understand the relative riskiness of an employer compared to others in the Fund.

Finally, by considering the total relative risk score alongside the remaining factors (employer body type, funding target, approach to new entrants) we can identify groups of similar (homogenous) employers. The framework for the analysis was:

1. Employer body type
2. Funding target
3. Approach to new entrants
4. Risk score, with particular focus on certain factors depending on employer's funding objective:
    - Open, non-admitted Body: maturity, net cashflow
    - Closed, non-admitted body: funding level
    - Admitted body: funding level, maturity, net cashflow

Our analysis resulted in the identification of 12 homogenous groups of employers. The table below details each one of these groups, the employers' characteristics and investment strategy considerations. It is important to note that whilst we have used the risk scores and factors to inform the groupings, there is still an element of judgement to this process.

Group	Characteristics	Investment considerations
AB Group A	Active contractor with ceding employer (council/academy) guarantee, well funded	Remove/reduce risk to protect strong funding position or leave the same as Awarding Authority?
AB Group B	Gilts target, still open, well funded, large employers	Possibly remove/reduce growth/risk?
AB Group C	Gilts target, closed, still has actives, poor funding	Continue with investment risk or reduce volatility to protect current balance sheet position?
AB Group D	Gilts target, closed, few actives, not 100% funded	Continue with investment risk or reduce volatility to protect current balance sheet position?
AB Group E	Gilts target, open, not 100% funded	Continue with investment risk or reduce volatility to protect current balance sheet position?
Ceased	Ceased employer – cessation debt paid i.e. fully funded	Protect funding position by investing in low risk assets?
Academies	Ongoing target, still open, still has actives, very immature	Possibly less growth than core strategy? Don't need asset income. Keep academies as one group?
Council Group A	Ongoing target, still open, still has actives, well funded, mature, cashflow negative	Need to keep growth, or protect downside risk?
Council Group B	Ongoing target, still open, still has actives, average funding, more mature, cashflow negative	Need to keep growth, or protect downside risk?
Scheduled Group A	Ongoing target, still open, still has actives, well funded, immature	Possibly less growth than core strategy? Don't need asset income.
Scheduled Group B	Ongoing target, still open, still has actives, well funding, mature	Possibly less growth than core strategy? Don't need asset income.
Colleges and Police	Ongoing target, still open, still has actives, well funded, immature, cashflow positive	Possibly less growth than core strategy? Don't need asset income.

The detailed results of the analysis have been shared and discussed with the Fund's Officers.

The above analysis suggests that there could be as many as 12 different investment strategies required to meet employers' funding needs. However, such a level of detail in the strategy is not practical from a governance perspective. However, across the employer groups, there are similar investment considerations which suggests that an element of further consolidation is possible.

Consolidation of homogenous employer groups

Consolidating the homogenous groups does require decisions to be made about certain employer groups and situations. The final consolidation will be carried out once the 2019 employer results and analysis are available and the objectives and principles discussed earlier will be applied.

However, a dry run of the consolidation including the application of the principle of pragmatism, was carried out to inform the project based on the 2016 results, and discussions with Fund Officers concluded that:

- For councils and long-term secure tax-backed employers, a single strategy will continue to be in place for the time being.
- For contractors, the investment strategy is kept the same as the Awarding Authority (who ultimately underwrite the contractor).
- Academies will be kept as one group at this stage and be the same as Surrey County Council (this may be revisited in the future as the experience of individual academies evolves over time).
- For employers planning to exit on the gilts basis,
  - take investment advice on the appropriate strategy once the 2019 analysis is available
- For ceased employers,
  - if funding is greater than 100% on cessation basis: remove investment risk (as far as possible)
  - if funding is less than 100% on cessation basis: consider the removal of some investment risk to protect against significant asset volatility.

Based on the above, results of the earlier analysis and further discussions with the Fund's officers, we were able to consolidate the 12 groups into three separate investment strategies.

Strategy	General investment characteristics	Employer group(s)
Core strategy	Allocation to growth seeking assets aligned with existing investment strategy (it is expected that most employers will be allocated to this strategy). Expected higher volatility (risk) than the other two strategies.	Academies Council Groups A and B Scheduled Group A and B Police Colleges* AB Groups A (those employers underwritten by councils in Council Group A) AB Groups B and E

Strategy	General investment characteristics	Employer group(s)
Alternative strategy A	Reduced allocation to equities to lower volatility, retaining a significant element of growth to deliver returns (it is expected that employers who are allocated to this strategy are most likely to be targeting exit from the Fund over time).	AB Groups C and D Colleges*
Alternative strategy B	No allocation to equities, focus on low risk assets (e.g. gilts) to protect funding position (it is expected that employers who have already exited the Fund on a gilts based funding target will be allocated to this strategy).	Ceased employers

* Further consideration will be taken in relation to Colleges as the Fund considers the risk they pose due to their change in status since the 2016 valuation.

As discussed, the results of the grouping analysis shown in the table above is indicative and will be re-cast once the employer level results from the 2019 actuarial valuation are underway. At that point, the employers for whom an alternative investment strategy could help them better meet their funding objectives will be identified.

Strategy asset allocation

Following the re-cast grouping analysis, the next step in the investigation will be for Fund officers to take advice and consider how to set the actual asset allocation of each strategy if implementation goes ahead. Whilst the current grouping suggests that the employers can be grouped into three strategies, to future proof the solution such that further strategies could be introduced if / when needed the following framework can help with the practicalities of implementation.

We would urge the Administering Authority to take investment advice on this matter as this paper or any subsequent correspondence in relation to this project from Hymans Robertson does and will not contain such.

To implement multiple strategies in a pragmatic way, the Fund can utilise additional functionality of the asset tracking service it utilises, HEAT. To do this the assets of the Fund would be categorised into three broad categories:

Category	Purpose
Growth	To generate a target return broadly in line with equity markets.
Income	To provide an income stream above the expected return on government bonds. This yield provides the majority of the expected return in this category.
Protection	To reduce volatility of funding level to variations in interest rates and inflation pricing. To act as a store of absolute value and act as a source of liquidity and rebalancing capital in the event of extreme market movements.

Each of the Fund's mandates fall into one of these three categories. Using these categories, we would then require the Fund to instruct us on what the high-level asset allocation for each strategy is expressed in terms of allocation to Growth, Income and Protection categories, having taken suitable advice.

Practical considerations

If the Fund decides to go ahead and implement the proposed solution, consideration needs to be given to the practical implications of such a decision. The practical considerations fall into three broad categories:

- Governance
- Administration
- Implementation

Governance

The decision to change the Fund's investment strategy affects a number of key stakeholders in the Fund in different ways. The table details who is affected, how they are affected and what approach should be taken to adhere to good governance.

Stakeholder Group	Affected?	How?	Good governance approach
Employers	Yes	Investment strategy has an impact on contribution rate and evolution of funding position	Clear communication to employers about what is happening, the reasons for it and which asset strategy they have been allocated to (along with justification).
Members	No	Benefit security is not weakened by the proposed changes Employee contributions are not related to funding position or investment performance	N/A
Committee	Yes	Need to sign off proposal and understand why and how the decisions are being made	Ensure Members have sufficient information and material available to them to make an informed decision. Regular training and communication on progress with implementation.
Pensions Board	Yes	Need to ensure the project does not contravene any regulatory requirements	Ensure PB members have sufficient information and material available to carry out their oversight function Regular training and communication on progress and implementation.

Stakeholder Group	Affected?	How?	Good governance approach
Officers	Yes	Need to ensure governance and administration of the implementation is satisfactory	Ensure that all decisions made are justified by evidence and an audit trail. Professional advice is sought where necessary/appropriate. Funding Strategy Statement and Investment Strategy Statement are updated to reflect any implementation. Update any other policies and procedures that are affected. Monitor employers to ensure they continue to be allocated to most appropriate strategy. Ensure employer asset shares are tracked accurately

Administration

The administration considerations of implementing a multiple strategy solution fall mainly to the Fund's Officers. The most significant considerations are how to track employer asset values (as they could now participate in one of three strategies) and rebalance assets between strategies if / when required.

The Fund currently monitors employer asset values via the employer asset tracking system HEAT. The decision by the Pension Committee to invest in the implementation of HEAT was taken to improve the accuracy and transparency of tracking employer asset values and facilitate more efficient actuarial valuations. It was acknowledged that once in place, HEAT gave the Fund the option of implementing bespoke investment strategies in the future. This system of tracking assets allows such a strategy to be implemented and monitored with minimal additional work or data requirements.

Furthermore, it also allows multiple strategies to be implemented without having to immediately trade in the markets. Different strategies can be achieved via notionally splitting the Fund's assets. Trading in the market is only required to achieve the benchmark allocations to each asset category which can be carried out in a set time period.

Over time, due to investment returns, some strategies may be over or underweight in certain categories. Having multiple strategies does not mean that the Fund needs to rebalance each strategy by trading in the market when this happens. The Fund has the option, via HEAT, of notionally rebalancing between strategies e.g. if one strategy is significantly overweight, this can be offset by notionally swapping monies between strategies to realign closer to benchmark allocations.

Implementation

This paper summarises the investigation to date into whether the Fund's investment strategy can be used to improve funding outcomes. If the Fund decides to go ahead and implement the proposal, we have outlined the high level actions under each of the workstreams that will be required:

Workstream	Summary of actions
Analysis and groupings	• Rationalise the groupings and agree number of potential strategies • Recast the analysis and formalise the grouping when 2019 valuation employer results are available
Employer communications	• Trail project at employer forum • Engage with employers for whom a change is proposed • Agreement by employers prior to implementation
Strategy design and implementation	• Fund to set high level objectives for each investment strategy • Set up the underlying constituents in terms of growth, income and protection, taking appropriate advice • Modelling to test that investment strategy complements funding strategy • Draft the implementation plan • Implement (carrying out any asset transition or rebalancing if need be / plan for this over time)
Administration	• Audit trail documents recorded / stored • Agree parameters for a review of the allocation to a strategy e.g. at valuation, annually, triggered by a particular event • Update admin policies • Update any regular data capture items including HEAT • Add details of investment strategy to new employer information packs • Update ISS and FSS • Update other policies/procedures • Agree any reporting requirements • Agree any ongoing monitoring requirements
Committee / Governance	• December – update report including: employer groupings, employer choice / fund choice communications, high level investment strategies for each group, next steps re implementation plan, draft changes to the FSS / ISS to reflect strategies • March – update on project implementation if agreed to go ahead

Reliances and Limitations

This advice is addressed to Surrey County Council as Administering Authority to the Surrey Pension Fund. It has been prepared in my capacity as Actuary to the Fund and is solely for the purpose of discussing the initial investigation into whether the Fund's Investment Strategy can be used to improve funding outcomes. It has not been prepared for any other purpose and should not be used for any other purpose. **In particular it does not contain investment advice.**

This report is a component report which should be taken together with the following information and advice addressed to the Administering Authority:

- "180904 Surrey Pension Fund – Exploring Employer Investment Strategies"
- "190218 STAGE 2 – Employer grouping report – Surrey Pension Fund"
- "Stage 2 – Employer Profiling and Grouping Analysis Surrey"

The Administering Authority is the only user of this advice. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without my prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS 100
- TAS 300.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

22 August 2019

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **13 SEPTEMBER 2019**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **CASHFLOW ANALYSIS**

SUMMARY OF ISSUE:

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

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the cash-flow position for quarters four and one.
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 Four (2018/19) - One (2019/20) (1 January 2019 – 30 June 2019)

1. 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 four-one) cash-flow for the Surrey Pension Fund shows positive cash flow of £593,590 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
Four (1 Jan 2019 – 31 Mar 2019)	£49,973,507	£38,074,755	11,898,751

One (1 Mar 2019 – 30 Jun 2019)	£40,574,412	£39,980,822	593,590

4. The quarter one contributions is in line with the historic trend where the contribution inflow are significantly lower than those in the Q4. As this is the start of a new financial year, the employers are generally slow in paying. However, all of the contributions are received before the end of the year, and thus larger contributions in Q4, which overall eliminates any negative cash-flows in the prior quarters.

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

Period	Active members	Deferred members	Pension members	Total members
2016 valuation (31 Mar 2016)	33,404	33,200	23,243	89,847
Quarter four 2018/19 (1 Jan 2019 – 31 Mar 2019)	36,469	31,993	26,015	94,477
Quarter one 2019/20 (1 Apr 2019 – 30 Jun 2019)	34,739	33,821	26,223	94,793

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.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

10. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

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

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13. The following next steps are planned:

    - A cash-flow analysis update to be provided to the Committee twice annually, the next report being produced for the 13 December 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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