

**MINUTES** of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 13 September 2019 at Ashcombe Suite, County Hall, Penrhyn Road, Kingston upon Thames, Surrey, KT1 2DN.

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

**Elected Members:**

- \* Ms Charlotte Morley
- \* Mr Tim Evans (Chairman)
- Mr Ben Carasco (Vice-Chairman)
- Mr John Beckett
- \* Mr David Mansfield
- \* Mrs Hazel Watson

**Co-opted Members:**

- \* Borough Councillor Ruth Mitchell, Hersham
- District Councillor Tony Elias, Bletchingley and Nutfield
- \* Philip Walker, Employees

**In attendance**

Nick Harrison, Chairman of the Surrey Local Pension Board

**37/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from John Beckett, Ben Carasco and Tony Elias.

**38/19 MINUTES OF THE PREVIOUS MEETING: 7 JUNE 2019 [Item 2]**

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

**39/19 DECLARATIONS OF INTEREST [Item 3]**

None received.

**40/19 QUESTIONS AND PETITIONS [Item 4]**

One question was received from a member of the public. The response can be found as an annex to these minutes.

A supplementary question was asked from the member of the public and a verbal answer was provided.

**41/19 COMPANY ENGAGEMENT & VOTING [Item 5]**

**Witnesses:**

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

**Key points raised during the discussion:**

1. The Chairman informed the Committee about the following meetings and training sessions that Members were invited to attend:
  - Thursday 26 September 2019 – ESG Engagement Forum
  - Wednesday 6 November 2019 – Valuation Training for Members
  - Wednesday 6 November 2019 – Impact Investment Training for Members
2. Referring to paragraph 20 of the report, which was concerned with the Climate Change Working Party that had been established by the Border to Coast Pensions Partnership (BCPP), a Member of the Committee asked officers to include clearer references to it when responding to questions from members of the public. This, they went on to say, showed that the Committee was making positive steps towards the commitments it had made.
3. A Member of the Committee welcomed the additional information on share voting and resolutions that had been defeated, as it showed what influence the Surrey Pension Fund was having.
4. The Strategic Finance Manager informed the Committee that the Climate Change Working Party had met that week and had engaged with the Head of Pensions for the Church of England, whose approach to ESG issues is broadly consistent with that of the Surrey Pension Fund. Officers were in the process of drawing conclusions from these sessions, and these would be brought to the Committee in December 2019. This would include a re-drafting of the BCPP responsibility policy.

**Actions/further information to be provided:**

Members of the Committee are to receive invitations to the ESG Engagement Forum and two upcoming training sessions.

**Resolved:**

The Surrey Pension Fund Committee reaffirmed 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 the 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 the 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

## **42/19 DRAFT ANNUAL REPORT & AUDITED STATEMENT OF ACCOUNTS [Item 6]**

### **Witnesses:**

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

### **Key points raised during the discussion:**

1. A discussion was had about potential amendments that needed to be made to the annual report, with one Member of the Committee highlighting that they were a member of the Conservative Party and not an independent.
2. The Chairman informed officers that the Vice-Chairman's name had been misspelled and that the report needed to be written in the past tense throughout.
3. The Committee heard from the Chairman of the Surrey Local Pension Board, who explained that his statement had been sent to officers and would be shared with Members after the meeting.
4. It was agreed that Members of the Committee would have a week to inform officers of any amendments that needed to be made to the report.

### **Actions/further information to be provided:**

1. The Chairman of the Surrey Local Pension Board's statement is to be circulated to Members of the Committee.
2. Members of the Committee are to inform the Strategic Finance Manager of any amendments that need to be made to the draft annual report.

### **Resolved:**

The Pension Fund Committee:

1. Noted and approved the Draft Annual Report with the Audit Pension Fund Accounts for publication, subject to audit approval and any recommended alterations.
2. Noted the content of the 'External Audit Findings for Surrey Pension Fund' report, as set out in Annex 2, which reviewed the Surrey Pension Fund Statement of Accounts 2018/19.
3. Noted the Letter of Representation with regards to the Surrey Pension Fund Statement of Accounts, as set out in Annex 3.

## **43/19 LOCAL PENSION BOARD REPORT [Item 7]**

### **Witnesses:**

Nick Harrison, Chairman of the Surrey Local Pension Board  
Andrew Marson, Pensions Lead Manager

### **Key points raised during the discussion:**

1. The Chairman of the Surrey Local Pension Board introduced the report and explained to the Committee that one of the Board's main concerns over the previous year had been the Key Performance Indicators (KPIs). The Board, alongside the pensions administration and pensions fund teams, were in the process of refining those.
2. The Chairman of the Surrey Local Pension Board went on to discuss the backlog of work that currently existed and told the Committee that it amounted to more than one years' worth. A letter outlining concerns had been written to the Cabinet Member responsible for Orbis and the Section 151 Officer, who issued a response and committed to remedying those issues. The Committee also heard that a project had been put in place by the Pensions Administration department.
3. The Committee also heard about the work the Board had done on the risk register. Given the scale of the issues, the Board had tended to increase the scores as they needed to see greater delivery before reducing them.
4. The Pensions Lead Manager endorsed the Chairman of the Surrey Local Pension Board's summary and explained to the Committee that they were in a healthy position now the size of the task was known. It would take time to deal with the issues but officers were feeling optimistic.
5. Responding to a question from a Member of the Committee about the future changes that would be made to the administration of pensions, the Pensions Lead Manager explained that a significant part of the plan was to not only address the legacy issues but to make sure the administration service was fit for purpose, ready for the future and resilient.
6. A Member of the Committee questioned whether the 31 August 2019 deadline for benefit statements had been met and was told by the Pensions Lead Manager that it had.

### **Actions/further information to be provided:**

None.

### **Resolved:**

The Surrey Pension Fund Committee:

1. Approved the following governance steps in order to expedite progress of the Administration Service Improvement Plan and provide appropriate assurance:
  - a. Pension Administration officers are to provide cost estimates to Pension Fund officers for each project in the Administration Service Improvement Plan.
  - b. Pension Fund officers are to set out and agree with Pension Administration officers the appropriate assurances in support of the projects in the Administration Service Improvement Plan.
  - c. The Business Case for the Administration Service Improvement Plan is to be written and agreed by the Pension Administration officers and Pension Fund officers.

- d. Authorisation of the Business Case is to be delegated to officers (including the Director of Corporate Finance) in consultation with the Chairman of the Surrey Pension Fund Committee and the Chairman of the Surrey Local Pension Board.
2. Approved proposed changes to the risk register, as noted in the Risk Register section of the report.

#### **44/19 GOVERNANCE COMPLIANCE STATEMENT [Item 8]**

##### **Key points raised during the discussion:**

1. The Chairman explained to the Committee that the report was a brief one and outlined the update to the Governance Compliance Statement that were being proposed. These were concerned with changing mentions of the Pension Fund Board to the Pension Fund Committee.

##### **Resolved:**

The Surrey Pension Fund Committee noted the amendments to the Compliance to Statutory Guidance Statement and the Governance Policy Statement.

#### **45/19 MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) - CONSULTATION ON CHANGES TO THE LOCAL VALUATION CYCLE AND THE MANAGEMENT OF EMPLOYER RISK [Item 9]**

##### **Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)  
Gemma Sefton, Hymans Robertson

##### **Key points raised during the discussion:**

1. The Committee heard from the Strategic Finance Manager, who ran through the proposed amendments to the local fund valuations from the current three-year cycle to a four-year cycle. The Fund did not believe that a persuasive business case had been set out by the Government regarding the proposed changes.
2. The Strategic Finance Manager went on to explain that the second area of proposed amendments was concerned with flexibility on exit payments. The proposals would allow the Fund to have more flexibility on how these payments were received and, from the view of the Fund, this represented a positive development for both scheme employers and the Fund.
3. Discussing the proposals for policy changes to employers required to offer LGPS membership, the Strategic Finance Manager outlined the changes being considered and explained that the Fund had responded the consultation noting that cash flows may end up being reduced and that the affected employers, by ending their intake of new members, would be accelerating their point of maturity. The Fund was wary this could bring about a situation where there were separate pension rights for the same set of employees.

4. Referring to the employees listed in paragraph 18 of the report (“further education corporations, sixth form corporations and higher education corporations in England”), the Chairman asked to what extent the changes would impact the Fund. In response, the Strategic Finance Manager explained that the proposed changes would affect some of the Fund’s larger employers but that the exact numbers would need to be confirmed. It was then agreed that these would be provided outside of the meeting.

**Actions/further information to be provided:**

The Strategic Finance Manager is to provide the Committee with figures relating to the number of effected further education corporations, sixth form corporations and higher education corporations.

**Resolved:**

The Pension Fund Committee noted the report and annexes.

**46/19 SCHEME ADVISORY BOARD REVIEW OF GOVERNANCE IN THE LGPS [Item 10]**

**Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)

**Key points raised during the discussion:**

1. The Strategic Finance Manager thanked those Members who had engaged and responded to the survey and explained that the general consensus was that the existing structures were satisfactory provided the Fund was ring-fenced from the wider Council.
2. The Committee heard that the Section 151 Officer would be provided with the necessary support and ongoing training to understand their role as lead officer of the Fund.
3. Referring to the establishment of two working groups, as outlined in Paragraph 9, the Strategic Finance Manager explained that they had not yet been established but that representatives from the Fund would be happy to be involved with them.
4. The Chairman asked that updates on developments relating to the Good Governance project were provided at future Committee meetings.

**Actions/further information to be provided:**

Updates on developments relating to the Good Governance project are to be provided at future Committee meetings.

**Resolved:**

The Pension Fund Committee noted the content of the report.

#### **47/19 SURREY PENSION FUND LOGO [Item 11]**

##### **Key points raised during the discussion:**

1. A Member of the Committee highlighted Paragraph 3, which explained that the new logo had been funded internally, and spoke of the importance of communicating that to the public.

##### **Actions/further information to be provided:**

None.

##### **Resolved:**

The Pension Fund Committee approved the new Surrey Pension Fund logo and its alignment with the Fund's Mission Statement, approved on 7 June 2019.

#### **48/19 2019 VALUATION UPDATE [Item 12]**

##### **Witnesses:**

Gemma Sefton, Hymans Robertson  
Neil Mason, Strategic Finance Manager (Pensions)

##### **Key points raised during the discussion:**

1. The Committee heard from the representative from Hymans Robertson, who provided an update on the delivery of the 2019 actuarial valuation and highlighted the next stages.
2. Members viewed a graphic that showed the change in membership makeup from 2016 and were told that the Fund was continuing to grow in size, with 20% more records at the 2019 valuation and a continued growth in payroll and the amount of benefits that are paid out each year.
3. The representative from Hymans Robertson explained that the Fund was in a healthy place and was 96% funded, with much of that being as a result of asset returns. She went on to highlight the assumed investment return and the funding level that mapped to, as well as showing Members a graphic that illustrated how the Fund's assets and liabilities had changed since 2016.
4. Members went on to view changes to the funding strategy and other policy areas that were under review. The representative from Hymans Robertson explained that everything included in the 2019 valuation was in draft until 31 March 2020 and further consultation would take place before then.
5. Responding to a request from the Chairman, the representative from Hymans Robertson expanded on the McCloud Judgement and GMP equalisation and the potential impact these could have.
6. Referring to the whole fund funding position graphic provided to Members and the assumed future investment return, the representative from Hymans Robertson explained that an asset model

that contained long-term assumptions about all of the asset classes held by the Fund over 20 years had been run in order to formulate the figures.

7. The Committee heard that conversations would be had with employers about multiple investment strategies and that the intention would be that no one would be moved without their understanding. There was a need to be pragmatic and proportionate to make sure everything had an appropriate award for employers and that different funding objectives were kept in mind.
8. A Member of the Committee asked for information about how other Funds had approved similar strategies and names of these funds would be provided to the Strategic Finance Manager by the representative from Hymans Robertson so they could be contacted on the Fund's behalf. The Strategic Finance Manager also informed the Committee that case studies were included in the funding strategy statement paper.

**Actions/further information to be provided:**

The representative from Hymans Robertson is to provide the Strategic Finance Manager with names of pension funds that had approved similar investment strategies so that they can be contacted on the Fund's behalf.

**Resolved:**

The Pension Fund Committee:

1. Noted progress on the delivery of the 2019 actuarial valuation of the Pension Fund.
2. Approved for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers.

**49/19 CASHFLOW ANALYSIS [Item 13]**

**Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)

**Key points raised during the discussion:**

1. The Strategic Finance Manager introduced the report and explained that officers had received key management information that was needed in order to provide a more detailed cashflow analysis. This would be completed in the new year.

**Actions/further information to be provided:**

None.

**Resolved:**

The Pension Fund Committee:

1. Noted the cashflow positions for quarters four and one.

2. Determined that no change was required to the investment or funding strategy as a result of the current cashflow position.

## **50/19 INVESTMENT STRATEGY REVIEW [Item 14]**

### **Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)  
Hemal Popat, Director (Investments) – Mercer  
Steve Turner, Partner – Mercer

### **Key points raised during the discussion:**

1. The Committee heard from the Strategic Finance Manager, who explained that the investment strategy review built on the draft report that had been brought to the last meeting regarding changes in the asset allocation. He then explained to those present the key points from the report and the proposals that the Committee was being asked to consider, as outlined in the Part 2 papers.
2. The Partner from Mercer provided Members with more information on the changes that had been made to the investment strategy since the last meeting of the Committee. Members also heard about the further work being done with Border to Coast regarding the development of the global equity fund.
3. The Committee worked through the investment strategy review and were informed of the key points of consideration by the Director (Investments) from Mercer, who explained in detail the equity portfolio comparison and total portfolio impact before moving on to the review of the equity protection strategy. Members were informed about the objectives for the current strategy and reviewed graphics relating to performance before analysing the possible actions that could be taken at the expiry of protection. It was recommended that a working group was convened to work through the options.
4. The Strategic Finance Manager explained that the issue being considered was an extremely complex one and that the establishment of a working group was being recommended due to the limited time available for discussion in a formal Committee meeting. It was proposed that the working group would meet on the morning of 16 October 2019 and that all Members of the Committee would be invited to attend.

### **Actions/further information to be provided:**

Members of the Committee are to be invited to attend a working group to decide what approach to endorse regarding equity protection renewal.

### **Resolved:**

The Pension Fund Committee:

1. Approved the proposed changes to the asset allocation as outlined in the Part 2 report.
2. Authorised officers to work with the independent advisor, investment consultant and Border to Coast to explore a solution incorporating a

regional/GDP based approach to global equities including additional allocation to emerging market equities.

3. Approved the convening of and delegation of authority to an investment sub-committee in respect of the decisions regarding the continuation of the equity protection strategy. This sub-committee will include members, officers and advisors and will consider options regarding the equity protection strategy, including:
  - i. Renew the entirety of the protection
  - ii. Renew a portion of the protection
  - iii. Cease equity protection when the current contract expires

#### **51/19 BORDER TO COAST UPDATE [Item 16]**

##### **Witnesses:**

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

##### **Key points raised during the discussion:**

1. The Chairman asked for Item 16 to be considered before Item 15 due to time constraints.
2. The Strategic Finance Manager congratulated the Chairman of the Committee for being re-elected as vice-chair of the Border to Coast Joint-Committee and informed those present that there was a typo in Paragraph 21, where it referred to “UK equity” rather than “global equity”.
3. The Strategic Finance Manager went on to update Members on the progress that had been made since the last meeting of the Committee and explained the work being undertaken with other pension funds on regional GDP-based funds.
4. The Committee viewed a presentation from the representative from Border to Coast, who provided Members with an introduction to the new asset class.

*David Mansfield left the meeting at 12:24pm.*

##### **Actions/further information to be provided:**

None.

##### **Resolved:**

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

#### **52/19 INVESTMENT MANAGER ISSUES [Item 15]**

##### **Witnesses:**

Adrian Brown, Independent Advisor (MJ Hudson)  
Neil Mason, Strategic Finance Manager (Pensions)

**Key points raised during the discussion:**

1. The Chairman introduced the report and explained that he would have discussions with officers about future reporting and formats used.
2. The Committee heard from the Independent Advisor, who informed those present about the manager review meeting of 16 July 2019 and discussions that had been undertaken with Fund managers.

**Actions/further information to be provided:**

None.

**Resolved:**

The Pension Fund Committee noted the main findings outlined in the Part 2 paper.

**53/19 DATE OF NEXT MEETING [Item 17]**

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

Meeting ended at: 12:32 pm

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**Chairman**

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## SURREY PENSION FUND COMMITTEE – 13 SEPTEMBER 2019

## PROCEDURAL MATTERS – QUESTIONS

**1. Question submitted by Barry Staff****Question:**

With your policy of engagement with the fossil fuel industry bringing a risible response from it (merely a “2-3% reduction in carbon over the next three years”), why don’t you give a deadline – the very near future – by which time it should profoundly and irrevocably change its business model away from FF exploitation – with failure to do so resulting in your immediate divestment?

**Response:**

The Surrey Pension Fund fully supports and incorporates ESG issues when making investment decisions. ESG includes a whole range of factors, and we would like to emphasise that this isn’t only limited to climate change.

Evidence of the range of ESG issues the Fund and its associated partners engage on can be found in our most recent Quarterly Company Engagement & Voting Report: <https://mycouncil.surreycc.gov.uk/documents/s56836/Report.pdf>

Currently, commitments made by countries under the Paris Agreement are expected to increase global temperatures by around three degrees. The IPCC report says in order to limit global warming to 1.5 degrees, we would need to cut global emissions by 45 percent by 2030 (comparable to 2010 levels) and bring them to net zero by 2050. This emphasises a few clear points:

- It is evident that countries and their national governments across the globe are not currently moving fast enough. Nationally Determined Contributions submitted under the Paris Agreement are not ambitious enough to limit global warming to 1.5 degrees.
- Consequently, engagement is required with regulators, governments and across industries, as well as with individual companies, who all need to move forward in the transition to a low carbon economy.
- Divesting a sector-wide strategy therefore downplays the importance all sectors play. Engaging with high emitting industries reliant on fossil fuels, in order to influence and change their behaviour, is equally as important as engaging with the suppliers; they are the companies who drive energy demand.
- Setting a target to reduce emissions by 45% by 2030 does not happen instantly for industries or governments. Shorter term targets of 3-5 years need to be set to reach the 20-year target.

Divesting from one specific industry will not mitigate climate change, it only reduces the amount Surrey Pension Fund have chosen to invest in a particular company or sector. While divesting addresses the moral dilemma of investing in contentious industries, it doesn’t actually contribute to promoting better behaviours within those same industries. An example of this was the closure of 23 nickel mines in the Philippines in 2017. Improved battery technology is essential in reducing fossil fuel dependency, which in itself there are prominent environmental issues which need to be improved. The nickel mines in the Philippines produced approximately 8% of the world’s nickel supply, which directly contributes to the production of battery technology, but the mines closed due to environmental concerns, more

specifically deforestation. It demonstrates the need to engage with companies to improve their own behaviours, as these companies can potentially be the world's energy suppliers of the future. <https://www.ft.com/content/9fef91e-e96a-11e6-967b-c88452263daf>

Surrey Pension Fund chooses to engage, and this is also the view backed by industry experts such as Robeco. "Divestment simply transfers a problem, and an investor cannot sell out of an entire sector if they want to make a long-term impact... Divesting an entire sector may lower the carbon footprint of a portfolio, but it makes absolutely no impact on the environment." <https://www.robeco.com/uk/insights/2017/12/we-need-decarbonization-not-divestment.html>

Surrey Pension Fund's Full Responsible Investment Policy can be found in our Investment Strategy Statement using the link below:  
<https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf>