Notice of Meeting

Surrey Pension Fund Committee

Date & time
Friday, 13 March 2020 at 10.00 am

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

Contact
Amelia Christopher
Room 122, County Hall
Tel 020 8213 2838

amelia.christopher@surreycc.gov.uk

Chief Executive
Joanna Killian

We're on Twitter: @SCCdemocracy

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

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

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

Mission statement
"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."

PART 1
IN PUBLIC

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any apologies for absence and to note substitutions.

2 MINUTES OF THE PREVIOUS MEETING: 20 DECEMBER 2019 (Pages 1 - 22)

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

3 DECLARATIONS OF INTEREST

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

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

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

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*9 March 2020)*.
2. The deadline for public questions is seven days before the meeting (*6 March 2020)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 FORWARD PLAN (Pages 23 - 24)

The Committee is asked to review its Forward Plan.

6 PENSION FUND BUSINESS PLAN 2020/21 (Pages 25 - 40)

The 2020/21 Business Plan is the framework for the Fund to meet its strategic objectives, consistent with its Mission Statement.

7 **LOCAL BOARD REPORT** (Pages 41 - 54)

In accordance with Fund's governance objectives in the 2020/21 Business Plan.

8 **REVISED PENSION ADMINISTRATION STRATEGY** (Pages 55 - 58)

In accordance with Fund's governance objectives in the 2020/21 Business Plan.

9 **COMPANY ENGAGEMENT AND VOTING** (Pages 59 - 66)

In accordance with Fund's investment objectives in the 2020/21 Business Plan.

10 **CASH-FLOW ANALYSIS** (Pages 67 - 70)

In accordance with Fund's funding objectives in the 2020/21 Business Plan.

11 **2019 VALUATION UPDATE** (Pages 71 - 112)

In accordance with Fund's funding objectives in the 2020/21 Business Plan.

12 **LGPS SCHEME ADVISORY BOARD (SAB) - CONSULTATION ON DRAFT RESPONSIBLE INVESTMENT GUIDANCE** (Pages 113 - 120)

In accordance with Fund's investment objectives in the 2020/21 Business Plan.

13 **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE** (Pages 121 - 138)

In accordance with Fund's investment objectives in the 2020/21 Business Plan.

NB: Annexes 2 and 3 are contained within item 15 as they contain Part 2 information.

14 **EXCLUSION OF THE PUBLIC**

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 3 of Schedule 12A of the Act.

PART 2
IN PRIVATE

15 **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE** (Pages 139 - 148)

In accordance with Fund's investment objectives in the 2020/21 Business Plan.

NB: Annexes 2 and 3 are the Part 2 annexes to item 13.

16	**CONSULTATION ON INDEX LINK GILTS** In accordance with Fund's investment objectives in the 2020/21 Business Plan.	(Pages 149 - 174)
17	**BORDER TO COAST UPDATE** In accordance with Fund's investment objectives in the 2020/21 Business Plan.	(Pages 175 - 214)
18	**PUBLICITY OF PART 2 ITEMS** To consider whether the item considered under Part 2 of the agenda should be made available to the Press and public.	
19	**DATE OF NEXT MEETING** The next meeting of the Surrey Pension Fund Committee will be on 12 June 2020.	

Joanna Killian
Chief Executive
Published: Thursday, 5 March 2020

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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

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Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.30 am on 20 December 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:
(Present = *)

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

Mr Nick Harrison, Chairman of the Local Pension Board

54/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from John Beckett, Hazel Watson and Charlotte Morley.

55/19 MINUTES OF THE PREVIOUS MEETING: 13 SEPTEMBER 2019 [Item 2]

The minutes were approved as an accurate record of the previous meeting (as amended in the supplementary agenda).

56/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

57/19 QUESTIONS AND PETITIONS [Item 4]

Six questions were received from members of the public. The responses can be found attached to these minutes as Annex A.

Supplementary questions were asked from five members of the public and responses can be found below.

1. Supplementary question asked by Chris Neill:
The Surrey's Greener Future Task and Finish Group concluded that the Council "will work with the pension fund to divest from fossil fuels" and increase investment in energy efficiency and renewables, and recognised the urgency of acting on climate change. On the other hand, the Climate Change

Working Party set up by the Pension Fund Committee concluded that there is no need to review policy until next year (Responsible Investment Policy Review, p187, para 14). How does this position of the Fund reflect the urgency of acting on climate change, recognised by the Greener Future Task Group? Also, is there not a clear contradiction and mismatch between the Task Groups statement that is will "work with the pension fund to divest" and the Committee's written response to my original question, that it's policy is "not to divest, but to engage"?

Response:
The Chairman noted that the Council acknowledged that the Pension Fund was separate from the Council. The Call for Action would be further considered by Cabinet and the Fund recognised the need for Responsible Investment and to get there engagement with fossil fuel companies was necessary.

The Chairman proposed that officers provide the questioner with a written answer, to explain the matter in more detail.

2. *No supplementary question was asked by Barry Staff.*

3. *Supplementary question asked by Isobel Griffiths:*
The questioner queried future investments in stranded assets by financial services and banking industries and the extent to which extreme weather events would impact on the value of the Council's assets.

Response:
The Chairman explained that the Fund had a fiduciary duty to its members to mitigate the risks on returns and noted that the extent of future impacts could not be measured. The Strategic Finance Manager (Pensions) responded that the Fund thoroughly monitored investment risks.

4. *Supplementary question asked by Kirsty Clough on behalf of Jenifer Condit:*
The questioner queried the Fund's future approach on the possible exclusion policy due to ineffective engagement in relation to Responsible Investment.

Response:
The Strategic Finance Manager (Pensions) reported that within the Responsible Investment policy (item 11), there would be a Committee sub-group to review effective engagement on the matter and develop its core Investment Beliefs.

5. *Supplementary question asked by Kirsty Clough:*
The questioner asked for clarification on the definition of Environmental, Social and Governance issues (ESG) in relation to the Surrey Pension Fund.

Response:
The Chairman explained that ESG issues were highlighted in the Fund's Investment Strategy Statement and they were broad topics, reference to ESG was included in more detail in items 6 and 11 concerning Company Engagement & Voting and the Responsible Investment Policy Review.

6. Supplementary question asked by Chris Neill on behalf of Linda Parker:
Surrey Pension Fund has stated that less than 5% of its assets is invested in fossil fuel companies, which does not sound much, but my understanding is that the 'Energy Sector' share of world equity markets (as measured by the MSCI World Index) was itself only 4.8% at the end of November. Moreover SPF seems to have a disproportionate exposure to the UK market (the Surrey Pension Fund Investment Strategy statement says that 17.4% of the fund is invested in listed UK equities). The UK market is heavily exposed to fossil fuels (double the level of other markets). SPF is clearly not in a leading position with regard to reducing carbon exposure, while the world, including Surrey County Council, is making increasing efforts to address the climate emergency by reducing or eliminating consumption of fossil fuels. Surrey pensioners' assets are still exposed to fossil fuel companies whose business models are becoming obsolete and their assets unsaleable. What is the scope and timing of your plan to reduce this unnecessary portfolio risk?

Response:
A verbal reply was provided by the Investment Advisor.

The Chairman proposed that officers provide the questioner with a written answer, to explain the matter in more detail.

Actions/further information to be provided:

In agreement with the Chairman, officers will provide written replies to supplementary questions one and six, these will be included as Annex B.

58/19 SCHEME ADVISORY BOARD REVIEW OF GOVERNANCE IN THE LGPS [Item 5]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) informed Members on the work the Fund was doing in conjunction with its governance consultant Hymans Robertson on compliance and future proofing the Fund going forward, in order to develop Phase III of the Fund's 'Good Governance' report.
2. The Chairman noted the importance of 'skills and training' within the Phase II Report, particularly the distinct separation between responsibilities to the Pension Fund as Members of the Committee and their responsibilities as councillors and employer/employee representatives.

RESOLVED:

The Committee noted the report.

Actions/further information to be provided:

None.

59/19 COMPANY ENGAGEMENT AND VOTING [Item 6]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist highlighted the progress made by the five-year initiative, Climate Action 100+ which operated across six different industries - not just fossil fuel industries - to facilitate low carbon transition.
2. The Chairman referred to positive progress by the largest steel manufacturer in the world, Arcelor Mittal in reducing its carbon usage and Glennmont Partners' recent investment in a 36 megawatt onshore wind farm in Italy.

RESOLVED:

The Pension Fund Committee:

Reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through;

- Commending the outcomes achieved for quarter ending 30 September 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 September 2019.
- Noting the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 30 September 2019.
- Supporting the work carried out by Climate Action 100+ in their engagement on ESG issues, and Darwin on their strong Environmental Credentials.

Actions/further information to be provided:

None.

60/19 LOCAL BOARD REPORT [Item 7]

Witnesses:

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

Key points raised in the discussion:

1. The Chairman of the Local Pension Board noted the recommendations of the report to the Committee and added that monitoring the Key Performance Indicators (KPIs) entailed a substantial amount of work due to a backlog of cases and the difficulty in measuring old cases within that backlog.
2. The Strategic Finance Manager (Pensions) explained that in the past the Pension Fund team had not been confident that the Pension Administration team had the appropriate controls in place to provide accurate measurement of key aspects of the Pension Administration

Strategy. Recent changes in the Pension Administration team had addressed this and the Pension Fund team were more confident that the Pension Administration team could meet the standards of the Strategy.

3. The Chairman of the Local Pension Board noted that the programme of work in the Service Improvement Plan II (SIP2) was substantive and that the Board would consider it carefully.
4. The Chairman of the Local Pension Board highlighted the red risk affecting staff retention within the Administration Risk Register on the move out of County Hall. In response to a Member's query on the risk grading, he stated that the red risk was graded before confirmation that the move to Woking would not impact the Pensions Service. He acknowledged that the inherent risk could now move from red to amber and the residual risk would remain at amber. The Strategic Finance Manager (Pensions) added that the location for the Pension Administration team was being addressed in consultation with Property Services.

RESOLVED:

The Pension Fund Committee:

1. Noted the progress of the administration service improvement plan II (SIP2).
2. Approved the draft Administration Strategy allowing for a consultation with scheme employers.
3. Approved the draft Service Specification between the Pension Fund and the Pension Administration service.
4. Approved the proposed change to the risk register, as noted in the Risk Register section of the report.
5. Noted the minutes of the Local Pension Board meeting of 24 October 2019 (as amended in the supplementary agenda).

Actions/further information to be provided:

None.

61/19 2019 VALUATION UPDATE [Item 8]

Witnesses:

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

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) informed Members of the significant changes from 2016 to the Funding Strategy Statement (FSS):
    - That colleges and higher education institutions were affected due to the decrease in their recovery periods, due to the fact that they were now regarded as private institutions without government sponsorship.

- The previous distinction between multi-academy and single academy trusts had been removed.
- The McCloud judgement was expected to have an impact on the value of liabilities. Provision for this had been made in the valuation methodology.
- Provision for the early cessation of admission bodies was included.
- Tailored employer investment strategies would be brought to the Committee in March 2020 for approval, the Fund was working on its draft strategies with its investment consultant, Mercer and its governance consultant, Hymans Robertson prior to consultation with scheme employers.

2. The Chairman of the Local Pension Board was pleased that the Surrey Pension Fund was moving away from a single investment strategy as that issue had been raised by the Local Pension Board.
3. The Vice-Chairman queried whether officers could advise on anything controversial in the report, in response the Strategic Finance Manager (Pensions) noted that officers were already in consultation to explore solutions to the issues affecting colleges and higher education institutions - those issues were however not material to the Fund.

RESOLVED:

The Pension Fund Committee:

Approved the draft Funding Strategy Statement (FSS) to enable it to be shared with scheme employers in a 30 day consultation.

Actions/further information to be provided:

None.

62/19 CASH-FLOW ANALYSIS [Item 9]

Witnesses:

Ayaz Malik - Pensions Finance Specialist
Clare Chambers - Pensions Service Delivery Manager

Key points raised in the discussion:

1. The Pensions Finance Specialist explained that the contributions received and net cash-flow were significantly higher in quarter two than quarter one.
2. The Chairman stressed that the six month period between quarters did not generate a detailed trend so suggested a cash-flow analysis covering an eighteen month period. The Strategic Finance Manager (Pensions) responded that a more comprehensive report on the benefits paid, the contributions received and the Fund's cash-flow scenario having regard to non-taxable distributed income from investments, would be provided to the Committee next year.
3. The Chairman queried the large increase in deferred members between quarter one and quarter two and in response the Pensions Service Delivery Manager acknowledged that the approximately 3,000 difference in deferred members was due to the backlog being

processed and would continue to steadily increase as well as the contributions from deferred pensions.

4. The Vice-Chairman suggested the addition of a third recommendation to include more a detailed cash-flow analysis over a longer period of time and specific targets set in relation to the processing of the Fund's membership, the contributions received and benefits paid out.

RESOLVED:

The Pension Fund Committee:

1. Noted the cash-flow position for quarters one and two.
2. Determined that no change was required to the investment or funding strategy as a result of the current cash-flow position.
3. Agreed for a detailed cash-flow analysis over a longer period of time and specific targets set in relation to the processing of the Fund's membership, the contributions received and benefits paid out.

Actions/further information to be provided:

That the third recommendation be added.

63/19 COMPETITION & MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT (IC) STRATEGIC OBJECTIVES [Item 10]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Anthony Fletcher - Independent Advisor (MJ Hudson)
Neil Mason - Strategic Finance Manager (Pensions)
Steve Turner - Investment Consultant (Mercer)

Key points raised in the discussion:

1. The Senior Pensions Finance Specialist reported that the draft Strategic Objectives identified by the Fund for its Investment Consultants formed the basis of scoring upcoming tenders to employers - March/April 2020.
2. The Chairman questioned if the Strategic Objectives applied to the Independent Advisor, in response the Independent Advisor stated that the Strategic Objectives acted as a guideline for him and that other local authorities had set objectives that mirrored their Investment Consultants.
3. The Strategic Finance Manager (Pensions) explained that the Fund's Investment Consultant was up for retender next year with a review by the Competition Markets Authority (CMA), which would be discussed in conjunction with the Fund's Independent Advisor.
4. The Vice-Chairman sought clarification on the more detailed interaction between the Committee and Fund with the Independent Consultants in practice and how the Fund could be more informed on its more technical applications. In response, the Chairman proposed that the Committee add to the recommendation its request for further development of the draft Strategic Objectives to set out more specific interactions between the Fund and its Investment Consultants.
5. The Investment Consultant (Mercer) informed Members that from a technical perspective the Committee were asked to approve the draft

Strategic Objectives which would then be sent to the Fund's Investment Consultants (Mercer). That would then allow the Fund to accept advice from Mercer from January 2020 in order to develop those Strategic Objectives further.

RESOLVED:

The Pension Fund Committee:

1. Approved the Draft Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements.
2. Requested further development of the draft Strategic Objectives to set out more specific interactions between the Fund and its Investment Consultants.

Actions/further information to be provided:

That the second recommendation be added.

64/19 RESPONSIBLE INVESTMENT POLICY REVIEW [Item 11]

Witnesses:

Mamon Zaman - Senior Pensions Finance Specialist
Neil Mason - Strategic Finance Manager (Pensions)
Anthony Fletcher - Independent Advisor (MJ Hudson)
Andrew Stone - Border to Coast

Key points raised in the discussion:

1. The Chairman commented that although the Fund was working closely with the Border to Coast Pension Partnership (BCPP), the Fund had its own clear view of Responsible Investment. The Strategic Finance Manager (Pensions) echoed the importance of the Fund's close relationship with BCPP as it was crucial to the Fund's whole investment policy.
2. The Strategic Finance Manager (Pensions) explained that the BCPP's Responsible Investment Policy 2020 and Corporate Governance and Voting Policy represented the joint agreement with the twelve partner funds. In addition to those documents, Surrey Pension Fund identified the need for a Committee sub-group on the Fund's own approach towards Responsible Investment - as indicated in the third recommendation. The sub-group would clearly express the Fund's core beliefs on Environmental, Social and Governance issues (ESG) and Members of the Committee had been invited to be a part of it.
3. The Vice-Chairman questioned how far the Fund would go on the Spectrum of Capital - presented to the Committee at a recent training session by Karen Shackleton the Pensions for Purpose Director - with the use of its capital to deliver Responsible Investment. In response, the Strategic Finance Manager (Pensions) commented that an independent Engagement Specialist to support the work of the sub-group and measure the Fund's performance against the United Nations Sustainable Development Goals (SDGs) was being employed and the Fund was committed to ensuring it addressed Environmental, Social and Governance issues (ESG).

4. The Vice-Chairman expressed unease with the differing definitions of Responsible Investment within the Spectrum of Capital from 'Traditional' to 'Philanthropic' as it categorised the traditional category as being irresponsible. The other approach of mapping the Fund against the SDGs was useful but only a handful of SDGs could align with the Fund's investment approach.
5. The Independent Advisor noted that the Pensions for Purpose Director would possibly argue that a Pension Fund should not move beyond the fourth SDG as that would exceed the Fund's fundamental fiduciary duty of ensuring sustainable financial returns not detrimental to its beneficiaries.
6. The representative from Border to Coast commented that policies on Responsible Investment were broad church but it was good practice to include ESG issues to ensure the management of risks and sustainable long term returns.

RESOLVED:

The Pension Fund Committee:

1. Noted the results of the ShareAction survey regarding the Fund's approach to Responsible Investment and Climate change.
2. Approved the revised BCPP Responsible Investment (RI) Policy 2020 and Corporate Governance & Voting Guidelines 2020.
3. Approved for a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:

    - The Fund's development of its own definition of Responsible Investment
    - The Fund's positioning of Responsible Investment in its Core Investment Beliefs
    - The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets
    - The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP
    - The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM)
    - Reaching a recommendation on the position of The Fund on the Spectrum of Capital (Paragraph 16)
    - Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs) (Paragraph 17), carried out by an independent provider

Actions/further information to be provided:

That the first bullet point of the third recommendation be added.

65/19 EXCLUSION OF THE PUBLIC [Item 12]

RESOLVED:

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 3 of Schedule 12A of the Act.

66/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 13]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Chairman noted that the report showed the summary of the funding level for the most recent quarter and the rolling three year performance, but that more information on how well investments were performing and consistent statistics were needed going forward to measure the Fund's performance following transitioning to the BCPP. The Strategic Finance Manager (Pensions) replied that investment manager issues and performance updates of assets and liabilities were shared with the BCPP. Surrey Pension Fund officers were also working closely with the Performance Manager at BCPP to get clear performance and management risk factors for future years.

RESOLVED:

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

Actions/further information to be provided:

None.

67/19 PRIVATE MARKET REVIEW [Item 14]

Witnesses:

Anthony Fletcher - Independent Advisor (MJ Hudson)
Neil Mason - Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Independent Advisor informed the Committee that asset diversification was extremely important for good returns with less risk. He provided the Committee with examples of the Private Market Funds that Surrey Pension Fund had investments in.
2. In response to a Member query on the illiquidity of the new Private Credit class of assets and if the Fund was recommended to put more money into Border to Coast than individual managers, the Independent Advisor explained that it was beneficial to invest in Private Credit taking advantage of to the opportunity for BCPP to offer fee savings.
3. The Independent Advisor also noted the variability in return according to 'vintage year' and that overall the long term strategy of investment in private equity had proved beneficial.
4. In response to a Member query on the Fund's asset allocation of Private Equity as of September 2019, the Independent Advisor noted that there was a J-Curve effect. That meant that returns took time and were often negative in the early years as capital is paid out to make

investments, cover associated transaction costs and pay management fees.

RESOLVED:

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

Actions/further information to be provided:

None.

68/19 BORDER TO COAST UPDATE [Item 15]

Witnesses:

Neil Mason - Strategic Finance Manager (Pensions)
Andrew Stone - Border to Coast
Mr Nick Harrison - Chairman of the Local Pension Board
Steve Turner - Investment Consultant (Mercer)

Key points raised in the discussion:

1. The Strategic Finance Manager (Pensions) reported that the Fund met all the necessary conditions before investment in the new asset class of Private Debt.
2. The Chairman of the Local Pension Board queried the Fund's savings through pooling with the BCPP rather than using individual managers. In response, the representative from Border to Coast stated that it was too early to judge, but BCPP looked at legacy fees with comparable mandates for fund launches. Compared to BCPP, individual managers in the Private Market charged on assets committed not invested and it would take a few years to assess cost savings.
3. In response to the Chairman of the Local Pension Board's question on where the money was kept between investments as it took time to invest in Private Equity, the Strategic Finance Manager (Pensions) explained that money was kept in the Fund until it was called upon.
4. The Strategic Finance Manager (Pensions) noted that the Fund would have a clearer indication of the Government's direction of travel in the New Year and that the priority of pooling was to get enhanced risk-adjusted returns with competitive transition and management charges across a wide range of assets.
5. The representative from Border to Coast explained that from a value perspective, BCPP would continue to work with the Pension Fund team and the Independent Advisor to add useful capabilities for the cash-flow management of future drawdowns and the streamlining of the management process to reduce risks.
6. In response to a Member question on whether there were greater risks for the new asset class of Private Debt, the representative from Border to Coast commented that although that asset class was illiquid, the diversification of return sources and risk profiles was advantageous.
7. The Investment Consultant informed the Committee that the long term investment in illiquid assets such as Private Debt was no longer as expensive or complicated as indicated by the Fund five years ago, as a result of the Fund's cost-efficient partnership with Border to Coast.

8. The Strategic Finance Manager (Pensions) indicated that he would share the PowerPoint slides on Private Debt presented at the recent BCPP Joint Committee training session for the Committee.

RESOLVED:

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

Actions/further information to be provided:

The Strategic Finance Manager (Pensions) will share the PowerPoint slides on Private Debt presented at the recent BCPP Joint Committee training session for the Committee.

69/19 DATE OF NEXT MEETING [Item 16]

The next meeting of the Surrey Pension Fund Committee will take place on 13 March 2020.

Meeting ended at: 12.24 pm

SURREY PENSION FUND COMMITTEE – 20 DECEMBER 2019

PROCEDURAL MATTERS – QUESTIONS AND RESPONSES

1. Question submitted by Chris Neill

At the meeting of the full Council on December 10 2019 Surrey's Greener Future Task Group and Finish report and Call to Action* document were adopted. Call to Action 7 states that Surrey County Council will "Work with pension funds and other investors to divest from fossil fuels and increase investment in energy efficiency, renewable energy, low carbon transport and low carbon heat solutions". Given the urgency of acting on climate change and the commitment, within this document to divest from fossil fuels please could you let me know how the pension committee will be taking this forward, the concrete actions they will be taking and the timeline they envisage for divestment to take place?

*https://mycouncil.surreycc.gov.uk/documents/s64848/Item%2011%20-%20SGF%20Annex%201%20Call%20for%20Action.pdf

Response:

Please accept the following statement from the County Council regarding Surrey's Greener Future Task Group and Finish report and Call to Action:

"Surrey County Council is in the process of developing a climate change strategy and action plan for the county, as well as our own estate, which will be published in April 2020. This is in response to the County's declaration in July 2019 of a Climate Change Emergency and our commitment to be zero carbon by 2050. The strategy is being informed by evidence gathered from a number of sources including our residents, partners and experts.

Following a period of detailed research, conducted by the Greener Futures Member Task Group, a Call to Action was produced in November 2019. This consisted of a list of recommendations and was designed to influence the strategy which is currently being developed. One of the recommendations was to work with the pension fund, and other investors, to divest from fossil fuels and increase investment in energy efficiency, renewable energy, low carbon transport and low carbon heat solutions. The recommendations in the Call to Action are not set in stone and are currently being reviewed and worked up as we develop our strategy.

Surrey County Council recognises that the pension fund is already taking measures to move towards greener investments. We understand that decisions about the pension fund are made by the Pension Fund Committee and that the Committee represents the pension fund members. We commit to working with, and supporting, the fund in continuing to identify and benefit from green investment opportunities."

The Surrey Pension Fund welcomes the declaration of a Climate Emergency by Surrey County Council and Surrey's Greener Future Task Group and Finish report and Call to Action. The Fund was consulted by the Task Group and will continue to engage closely and collaboratively with the County Council. However, the Fund refutes the assertion that Call to Action is consistent with establishing a timetable for divestment from fossil fuels for the Surrey Pension Fund.

Page 13

2

The Surrey Pension Fund chooses to engage and not divest. This view is 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

Engagement with companies through large collaborative initiatives such as Climate Action 100+ (CA100+) and the Transition Pathway Initiative (TPI) have already driven some of the largest fossil fuel companies to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change risks and opportunities. Global collaborative engagement on such a scale sends a powerful signal that investors are expecting companies to respond to climate change. It is crucial that engagement with high emitting companies across many industry sectors continues as it is unlikely that the world can move away from using fossil fuels in a only a few years. Initiatives such as these provide realistic goals and targets for companies to meet by 2030 and 2050 and by being responsible stewards in the companies that we own we can continue to drive that change and keep them accountable.

It is also important to bear in mind that the interaction between carbon footprint, and investment in renewables, can be complex. Many power suppliers are mixed energy producers, combining both fossil fuels and renewable energy within their asset portfolio. Excluding power producers purely on their ownership of fossil fuels can inadvertently exclude finance to major renewable energy providers. The Fund is faced with ongoing pressures from investors, regulators, governments, and/or customers to reduce its carbon footprint and to divest its most carbon intensive assets over a sensible time frame, and/or to increase its investment in renewable energy production.

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

2. Question submitted by Barry Staff

Of the approximately £230 million that Surrey Pension Fund invests in the hydrocarbon industry, part of your aggregated total within the Border to Coast initiative, would it be possible to disengage and divest that sum, if you wanted to?

Response:

It is not possible to divest from specific company shares within the Border to Coast pooled sub-funds in isolation, without the support of all fellow partners invested in the sub-fund.

The Surrey Pension Fund chooses to engage and not divest. This view is backed by industry experts such as Robeco:

Page 14

"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

3. Question submitted by Isobel Griffiths

I am concerned about our investments in financial companies, which are themselves exposed to fossil fuel companies. What demands do you place on our managers to obtain sufficient information on the energy sector exposures of their financial sector investments?

Response:

The Surrey Pension Fund recognises and considers all environmental, social and governance (ESG) issues that can impact the Fund, including exposure to fossil fuel companies.

The Fund has already begun transitioning its assets over to Border to Coast Pensions Partnership, who integrate ESG Factors when selecting Fund Managers. Border to Coast actively considers how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. Climate change poses potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. As a result, companies across multiple sectors will be affected more than others, notably energy, utilities and sectors highly reliant on energy. This will undoubtedly bring about winners and losers within each sector, posing a financial risk from an investor's perspective. This also emphasises the point to engage with companies to improve current practices, establish the best in class from an investor's perspective and protecting the value of the Fund's investments for members of the Fund as we transition to a low-carbon economy.

Some of the work Border to Coast carries out in addressing ESG issues include, but is not limited to;

- ESG 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 engaging with companies as active shareholders.
- Incorporating climate considerations into the investment decision making process. Engaging 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) recommendations.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

For existing assets held within Surrey Pension Fund, Fund Managers are regularly requested to provide ESG monitoring reports which are then summarised for our Pension

Page 15

Fund Committee in the Quarterly Company Engagement & Voting Report. This includes, but is not limited to;

- Shareholder resolutions in collaboration with other investors.
- Voting outcomes for the most recent quarter.
- Details of direct engagement fund managers have had with companies.
- How ESG factors are integrated into their strategies/ decision making.

4. Question submitted by Jenifer Condit

Surrey Pension Fund and Border to Coast have both stated that rather than using **divestment** as a policy to address climate change, you prefer to **engage** with companies you invest in to influence the management of climate change risks. I would like to explore the nature of your engagement practices:

*Do you practice any direct engagement with companies you own? If so could you review the sorts of engagement you have conducted in the past year?

Response:

Direct engagement has been through our membership of collaborative responsible investment initiatives which includes Climate Action 100+ and the 30% Club Investor Group. Climate action 100+ engagements have taken place with companies which are the biggest emitters of carbon across the following sectors: Oil & gas, automobiles, mining, utilities, transport, chemicals, construction and industrials. The 30% Club Investor Group has engaged with companies considered to be laggards regarding gender diversity and the number of women on boards. Border to Coast portfolio managers also meet companies and engage on ESG specific issues.

*If your engagement is delegated to investment managers or other specialists, what reporting do you require they provide to you on the actual amount of engagement going on?

Response:

Border to Coast appointed Robeco as its Voting & Engagement Partner in 2018 ahead of assets being transferred from our Partner Funds, such as Surrey. We are updated on active engagements as and when they take place on a confidential basis; we receive quarterly engagement reports which are made publicly available on our website. We also receive quarterly updates from our external managers and include an overview in the Border to Coast Stewardship Quarterly which is also available to view on our website.

*Do you know, by manager, how many of your portfolio companies the managers have met with to discuss de-carbonization plans?

Response:

Seventeen companies across the UK Equity Alpha and Global Equity Alpha Funds, which Surrey invest in through Border to Coast.

*How many times have each of your managers voted to support climate risk recommendations raised at Annual Meetings in the past year?

Page 16

Response:

We have supported two climate-related shareholder resolutions at companies in the sub-funds that Surrey are invested in.

5. Question submitted by Kirsty Clough

Has the Surrey Pension Fund members met, in the past year, with any independent advisors who specialise in the opportunities presented by decarbonising the pension fund portfolio?

Response:

Surrey Pension Fund regularly reviews its investment strategy with its Investment Consultant and Independent Advisor and how Environmental, Social and Governance (ESG) issues can be integrated into its portfolio.

This advice supported to the Pension Fund Committee approving a recommendation on 8 June 2018 to allocate 8.5% of the Total Fund Value, to Legal & General's Indexed Low Carbon Fund. The transition had then occurred on 12 January 2019 with the value as at 30 September 2019 being approximately £367m.

Please see Agenda Item 11 for the 20 December 2019 Pension Fund Committee meeting for more information on what the Committee is doing in establishing the Fund's own Responsible Investment approach, consistent with Border to Coast Pensions Partnership.

6. Question submitted by Linda Parker

Does BCPP require its managers to review all of their holdings - as opposed to simply energy companies- to exposures to climate change? Do these reviews explicitly address, physical, transition, migration and catastrophe risk, as well as the more obvious risk of stranded assets?

Response:

BCPP consider how the shifting regulatory environment around climate change and the potential macroeconomic impact will affect investments. We consider climate change to be a systemic risk and therefore consider what the exposure to climate risk is across all sectors. When assessing climate risk and opportunities we consider various risks including but not restricted to transition risk, supply chain, technology change, impact of potential regulatory change, litigation and physical risk. Transition to a low-carbon economy will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

Page 17

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SURREY PENSION FUND COMMITTEE – 20 DECEMBER 2019

PROCEDURAL MATTERS – SUPPLEMENTARY QUESTIONS AND RESPONSES

1. Supplementary Question asked by Chris Neill

Question:
The Surrey's Greener Future Task and Finish Group concluded that the Council "will work with the pension fund to divest from fossil fuels" and increase investment in energy efficiency and renewables, and recognised the urgency of acting on climate change. On the other hand, the Climate Change Working Party set up by the Pension Fund Committee concluded that there is no need to review policy until next year (Responsible Investment Policy Review, p187, para 14). How does this position of the Fund reflect the urgency of acting on climate change, recognised by the Greener Future Task Group? Also, is there not a clear contradiction and mismatch between the Task Groups statement that is will "work with the pension fund to divest" and the Committee's written response to my original question, that it's policy is "not to divest, but to engage"?

Supplementary Response:
The Climate Change Working Party is a group comprising partner funds of the Border to Coast Pension Partnership. Although the Surrey Pension Fund was an active contributor to this group, the Pension Fund Committee was not responsible for setting it up. While the group takes account of the interests of its constituent partner funds and their associated Councils, it is not obliged to shape its policy specifically in accordance with any particular one of its stakeholders. Having said that, Surrey Pension Fund and Surrey County Council share its general aims and conclusions, recognising that more work is required to understand Climate Change and other sustainability related issues, as assessable risks/ opportunities for the Fund.

Indeed in order to take it further, The Surrey Pension Fund Committee recognises the urgency of climate action and approved the following actions in its meeting of 20 December 2019 which reflect this:

"a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:

- *The Fund's positioning of Responsible Investment in its Core Investment Beliefs*
- *The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets*
- *The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP*
- *The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM)*
- *Reaching a recommendation on the position of The Fund on the Spectrum of Capital*
- *Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs), carried out by an independent provider"*

Work on these actions has already started and an update will be brought to the next Pension Fund Committee meeting.

In response to the original question, the Surrey Pension Fund Committee included a statement from the Greener Future Task Group which acknowledged that the recommendations of this group are under review;

Page 19

"the recommendations in the Call to Action are not set in stone and are currently being reviewed and worked up as we develop our strategy."

The Greener Future Task Group also acknowledges that the Pension Fund Committee and not the Greener Future Task Group is responsible for determining Pension Fund policy:

"We understand that decisions about the pension fund are made by the Pension Fund Committee and that the Committee represents the pension fund members".

While the policy intent of the Greener Future Task Group to divest from fossil fuels, might superficially appear to contradict that of the Pension Fund Committee to engage with the industry to effect change, in response to the original question, the Greener Future Task Group included a stated commitment:

"to working with, and supporting, the fund in continuing to identify and benefit from green investment opportunities."

The Pension Fund Committee shares this commitment in establishing a policy that provides a more meaningful contribution to the transition to a sustainable future, than simply divesting, which we maintain makes absolutely no impact on the environment.

6. Supplementary Question asked by Chris Neill on behalf of Linda Parker

Question:
Surrey Pension Fund has stated that less than 5% of its assets is invested in fossil fuel companies, which does not sound much, but my understanding is that the 'Energy Sector' share of world equity markets (as measured by the MSCI World Index) was itself only 4.8% at the end of November. Moreover SPF seems to have a disproportionate exposure to the UK market (the Surrey Pension Fund Investment Strategy statement says that 17.4% of the fund is invested in listed UK equities). The UK market is heavily exposed to fossil fuels (double the level of other markets). SPF is clearly not in a leading position with regard to reducing carbon exposure, while the world, including Surrey County Council, is making increasing efforts to address the climate emergency by reducing or eliminating consumption of fossil fuels. Surrey pensioners' assets are still exposed to fossil fuel companies whose business models are becoming obsolete and their assets unsaleable. What is the scope and timing of your plan to reduce this unnecessary portfolio risk?

Supplementary Response:
Although Surrey Pension Fund doesn't routinely measure its exposure to fossil fuel investments, its exposure compared to the Total Fund Value as at 31 May 2019 was 3.53%, which is below the quoted 4.8% share the Energy Sector has across the MSCI World Index as at the end of November. The Fund expects this to reduce even further once it transitions the remainder of its UK equities to Border to Coast.

Holding zero fossil fuel investments in the Fund's portfolio has no impact whatsoever in reducing the impact of Climate Change, and on the contrary, there is a more serious risk of those stranded assets being sold to unlisted companies with poor governance and no accountability in reporting their Carbon emissions.

The Fund's target allocation to UK Equities is a strategic decision, and choosing to solely divest equities out of the UK based on fossil fuel exposure is a single minded approach to how it addresses environmental and sustainability related risks to its portfolio when investing its assets. It is for this reason the Fund has approved, in the 20 December Responsible Investment Policy Review (Recommendation 3) the process of procuring a provider to

Page 20

understand how to map all potential environmental, social and governance risks and opportunities to its portfolio, and how it can contribute further to the United Nation's Sustainable Development Goals.

https://mycouncil.surreycc.gov.uk/documents/s65129/Item%2011%20%20Responsible%20Investment%20Policy%20Review.pdf

Page 21

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Surrey Pension Fund Committee
Forward Plan

Date	Standing items • National pooling update • Investment Manager and Funding Issues • Local board update • Cash-flow analysis • Engagement & voting update	New items			
		Investment	Funding	Governance	Delivery
12/06/2020		• Investment strategy statement review • Investment core beliefs/ Responsible Investment Policy review • Index linked gilts review	• Integrated cash-flow review	• Review fund compliance with Scheme Advisory Board, good governance recommendations • Agree annual plan for Committee, local Board members and officer training	

Surrey Pension Fund Committee
Forward Plan

04/09/2020		• Competitions Market Authority (CMA) investment consultant strategic objectives • Pension Fund Annual Report • CEM benchmarking			
11/12/2020					
Q4 2020/21		• Approve appointment of investment consultant			• Risk management policy • Communications strategy • Administration strategy

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **PENSION FUND BUSINESS PLAN 2020/21**

SUMMARY OF ISSUE:

Strategic objectives			
Investment	Funding	Governance	Delivery

The 2020/21 Business Plan is the operational framework for the Fund to meet its strategic objectives, consistent with its Mission Statement.

RECOMMENDATIONS:

It is recommended that:

The Pension Fund Committee approves the attached draft Business Plan shown in Annexe 1 in respect of the 2020/21 financial year.

REASON FOR RECOMMENDATIONS:

The Business Plan provides the operational framework for the Pension Fund Committee to agree and deliver its strategic objectives for investment, funding, governance and delivery.

DETAILS:

Background

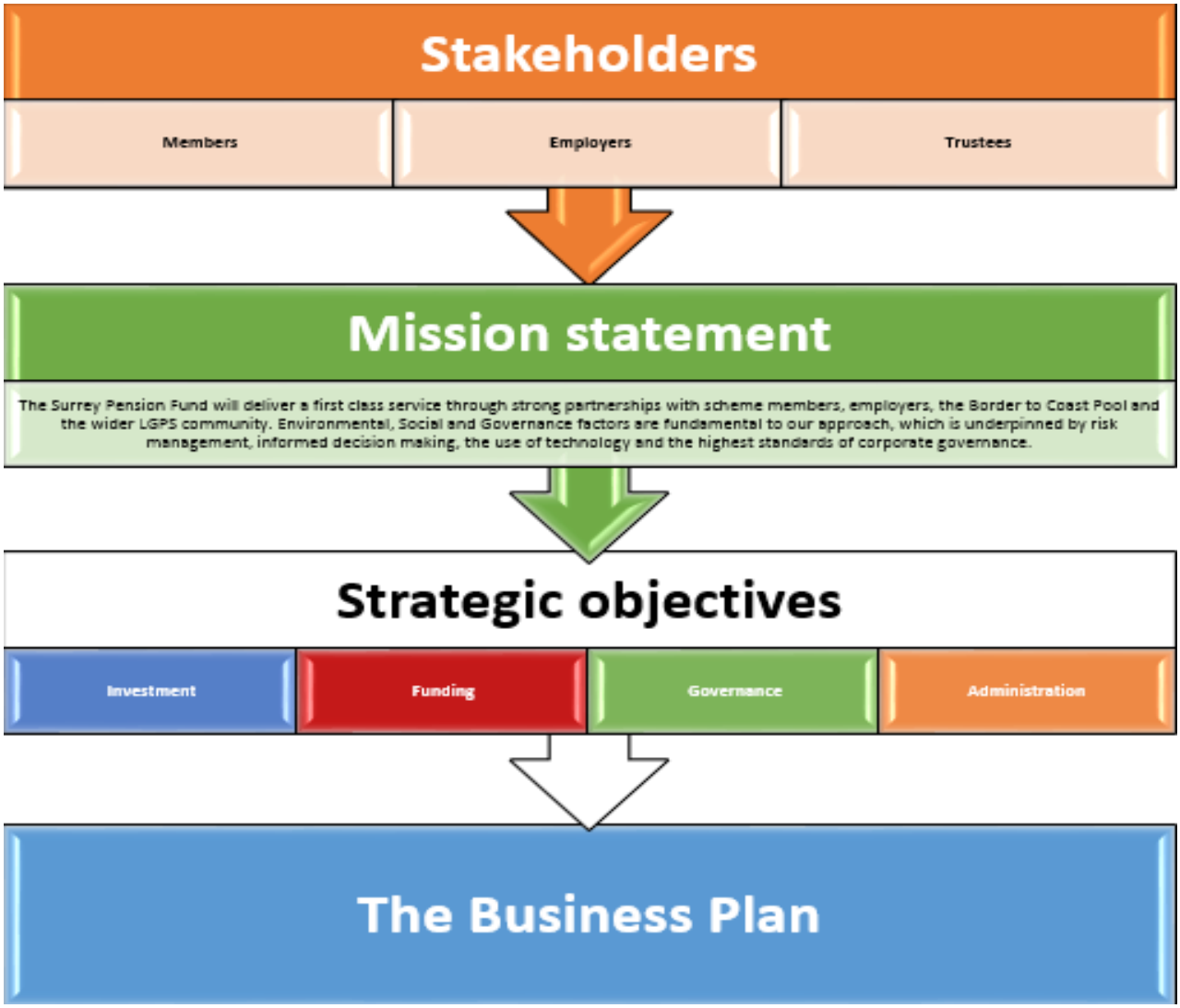
1. At the Pension Fund Committee meeting of 8 February 2019, the Pension Fund Committee approved a business plan for 2019/20, identifying the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives.

2. At the next Committee meeting on 12 June 2020, an outturn report will be presented, detailing the progress and achievements made against the 2019/20 business plan.

Business Plan 2020/21

3. On 7 June 2019 the Fund is completed a governance review. Recommendations arising from this review inform the Business Plan 2020/21, including the Mission Statement of the Fund.

4. The 2020/21 Business Plan is derived from the strategic objectives to complete the following governance process for the Fund:



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

   Investment objectives

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

   Funding objectives

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

Governance objectives

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

Delivery objectives

- To ensure the correct benefits are paid to, and the correct income collected from, the correct people at the right time.
- To set out the administration standards expected of the Fund and scheme employers and the methods by which performance will be monitored and reported. To support employers in achieving those standards.
- To promote good working relationships and maximise efficiency between the SPF and scheme employers.
- To ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations.

- To ensure that the Fund maintains accurate pension records and that all data is stored, handled, reviewed and disposed of securely and in accordance with its legal obligations.
- To ensure that the administration costs attributable to scheme employers are charged proportionately to how they are accrued.
- To ensure that Scheme members, employers and others who have dealings with the Fund receive a strong customer focused service.
- To ensure members are communicated effectively so that they understand and appreciate the value of their benefits

6. Annexe 1 sets out a draft recommended Business Plan for 2020/21. The plan lists the investment, funding, governance and delivery tasks scheduled to be carried out during 2020/21, the target date when these should be achieved, and the responsible officer(s).

7. The Fund's governance provider, Hymans Robertson, is working with the Fund to follow up on the 2019 governance review in the context of the Scheme Advisory Board (SAB) good governance project, to ensure the Surrey Fund's compliance with the SAB proposals. Any recommendations arising from this review that impact the 2020/21 business plan, will be brought to the Pension Fund Committee.

CONSULTATION:

8. 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:

9. A risk related issue is the possibility of not achieving part or all of the business plan. Given the outturn report that is compiled at year end and the measurement of progress against approved objectives, officers are very aware of the need to monitor performance against business plan objectives on a regular basis.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

10. The costs of the proposed actions will be funded from the administrative expenses of the pension fund.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

11. The Director of Corporate Finance is satisfied that the Business Plan focuses on the key activities that will provide the Pension Fund Committee and officers with a useful framework to monitor the progress of the Fund in meeting its strategic objectives.

LEGAL IMPLICATIONS – MONITORING OFFICER

12. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

13. The creation of a business plan will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

15. The following next steps are planned:

- Commencement of the year's work in line with the draft business plan.
- Officers will revise the Business Plan in accordance with any suitable recommendations arising from the governance review and bring to the Committee for approval.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Committee meetings.
- Outturn report of the 2020/21 financial year to be presented at the first meeting of the Pension Fund Committee in 2021/22.

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

Consulted:
Pension Fund Committee Chairman

Annexes:
Annexe 1: Business Plan 2020/21

Sources/background papers:
None

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Surrey Pension Fund
Business Plan and Actions for 2020/21

"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."

Investment

Objective(s)

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

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Review the investment strategy statement	June 2020	Neil Mason	
2	Monitor performance of investment managers/Border to Coast and report to Pension Fund Committee	Quarterly 2020/21	Mamon Zaman	
3	Reporting on Responsible Investment Outcomes achieved by Fund, BCPP and Engagement Partners, and developments in Responsible Investment Policy	Ongoing 2020/21	Mamon Zaman	
4	Review Investment core beliefs Responsible Investment Policy	June 2020	Mamon Zaman	
5	Continue transition to national asset pooling (Border to Coast Pensions Pool) • Multi-asset credit • Emerging Market Equity • Regional Equity • Passive	Ongoing 2020/21 Q3 2020 Q3 2020 Q4 2020 TBC	Neil Mason	

6	Reviewing the risk attrition of the portfolio and how it compares against risk profile of the Fund	Ongoing 2020/21 with Border to Coast	Mamon Zaman	
7	Review tender for investment consultant	Start December 2020 Complete March 2021	Neil Mason	
8	Competitions Market Authority (CMA) investment consultant strategic objectives	September 2020	Mamon Zaman	
9	Establish base-line pension fund budget	31 May 2020	Mamon Zaman	
10	Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile. Transparency code	Ongoing – Timescale to be confirmed following LGA guidance	Mamon Zaman	
11	Produce Annual Statement of Accounts and achieve an unqualified audit	31 May 2020	Mamon Zaman	
12	Produce Pension Fund Annual Report	30 September 2020	Mamon Zaman	
13	Deliver ESG Engagement forum	30 September 2020	Mamon Zaman	
14	Benchmarking CEM	July 2020	Mamon Zaman	

Funding

Objective(s)

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

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Review 2019 actuarial valuation for continuous improvement	June 2020	Neil Mason	
2	Provide employers with IAS19/FRS102 funding statements when requested	Scheduled and admitted bodies: Mar 2020 Colleges: July 2020 Academies: August 2020	Ayaz Malik/Mamon Zaman	
3	Monitor monthly and reconcile contributions schedule for the County Council and scheme employers	Ongoing - Monthly	Ayaz Malik / Adele Seex	
4	Review Pension Strain process	Ongoing – December 2020	Mamon Zaman	
5	Review Compensation process	Ongoing	Ayaz Malik	
6	Integrated cash-flow review	June 2020	Ayaz Malik/Mamon Zaman	

Governance

Objective(s)

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

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Reasonably comply with any requests from the Local Pension Board with regard to any aspect of the Scheme Manager function	Ongoing 2020/21	John Smith	
2	Give due consideration to recommendations made to the Pension Fund Committee from the Local Pension Board and respond to the Local Pension Board within a reasonable period of time	Ongoing 2020/21	John Smith	

3	Commission the Local Pension Board to carry out specific studies to assist the Pension Fund Committee	Ongoing 2020/21	The Pension Fund Committee	
4	Ensure ongoing risk assessments of the management of the fund for 2019/20	Ongoing and reported to every committee meeting, via the Local Pension Board report	John Smith	
5	To monitor a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2020/21 July 2020	John Smith/ Pension Administration Team	
6	Review fund compliance with Scheme Advisory Board, good governance recommendations	June 2020	Neil Mason	
7	Review Pension Fund Committee and Local Pension Board member training requirements and implement training plan as appropriate	Ongoing 2020/21 Assessment in Feb & Mar 2020	Ayaz Malik	
8	Agree annual plan for Committee, local Board members and officer training	June 2020	Ayaz Malik	
9	Ensure that meeting papers are issued at least seven days prior to meeting	Every Pension Fund Committee and Local Pension Board meeting	Neil Mason	
10	Review governance compliance statement and policy Review governance compliance statement and policy	Subject to SAB governance review outcome	John Smith	
11	Review compliance with the Pension Regulator's Codes of Conduct.	May 2020 & October 2020	Ayaz Malik	
12	Respond to all government consultations and report to the Pension Fund Committee as necessary	As and when required	Neil Mason	
13	Process Notes – Finalise process Notes	As and when required	All Surrey Pension Fund	

14	Governance Matrix	July 2020	John Smith	
15	Ensure Border to Coast Shareholder Resolution are completed and signed by the Pension Fund Committee Chair	As and when required	Neil Mason / Adele Seex	
16	Complete annual return to the Pensions Regulator	On notification by the Pensions Regulator	Adele Seex	

Delivery

Objective(s)

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

Action	Description	Timescale	Primary Responsibility	Delivery date
1	Conduct monthly monitoring meetings with the Pension Administration Team	Monthly	John Smith	
2	Produce administration performance monitoring reports on a quarterly basis, after scrutiny from the Local Pension Board	Ongoing with reports due at each committee meeting	John Smith	
3	Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner	Ongoing – Monthly	John Smith/ Pension Administration Team	

4	Review the content of the pension fund website to ensure it is relevant and kept up to date.	Ongoing - monthly	Adele Seex/ Pension Administration Team	
5	Monitor and review the service specification between the pension fund and pension services team as part of a new service specification	Ongoing - November 2020	John Smith/ Pensions Admin Manager	
6	Monitor and review performance against the pension fund administration strategy	Ongoing - Quarterly in line Pension Board	John Smith/ Pensions Admin Manager	
7	Review of the pension fund administration strategy	March 2021	John Smith	
8	Review communications strategy	Annually – February 2021	John Smith / Adele Seex	
9	Production of a newsletter to pensioners in April each year	April 2020	Pension Administration Team	
10	Produce Newsletter for Employees	In accordance with the Pension Admin Coms Plan	Pension Administration Team	
11	Produce Newsletter for Members	In accordance with the Pension Admin Coms Plan	Pension Administration Team	
10	Timely production of benefit statements	Active members by 31 Aug 2020 Preserved members by 31 Aug 2020 Councillors by 31 Aug 2020	Pension Administration Team	
11	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme to members and employers. Ensure communication material is amended to	Ongoing - Monthly	Adele Seex/ Pension Administration Team	

	comply with the requirements of the new regulations/legislation			
12	Communication on a timely basis of material scheme changes to Pension Fund Committee, Local Pensions Board, employer bodies and members	Ongoing	Adele / Pension Administration Team	
13	Prepare Pension Fund Annual Meeting (November) and receive feedback from employers	November 2020	Adele Seex	
14	Prepare for annual employer forum	Dates tbc	Ayaz Malik/ Pension Administration Team	
15	Review JLT work on Guaranteed Minimum Pension (GMP) Reconciliation.	Ongoing – Monthly	John Smith / Pension Administration Team	
16	Review Administration Service Improvement plan	Ongoing - Monthly	John Smith / Neil Mason	
17	Produce a risk management policy.	Annually – February 2021	John Smith	
18	Fund receive reassurance from the administration function that all member records are set up on the pension administration system and that all relevant documents are scanned and assigned to the appropriate record.	Ongoing – Monthly updates to include as part of the Orbis Pension Admin update / SPF monthly Meetings –	John Smith/Pension Administration Manager	

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **LOCAL BOARD REPORT**

SUMMARY OF ISSUE:

Strategic objectives	
Governance	Delivery

This report provides a summary of administration and governance issues reviewed, or approved, by the Local Pension Board at its meeting of 13 February 2020 that require noting or action by the Pension Fund Committee.

RECOMMENDATIONS:

1. Approves the proposed change to the risk register, as noted in the Risk Register section of this report.

2. Notes the minutes of the Local Pension Board meeting of 13 February 2020 (included as Annexe 1).

REASONS FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013, requires 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 and delivery objectives.

DETAILS:

Administration Update

1. The new Head of Pensions Administration was introduced to the Board.

2. The Head of Pensions Administration noted that the service improvement plan was very ambitious. Although all the projects were necessary, they will be prioritised. Systems procurement was particularly challenging and it might worth considering

pausing it because the market place has changed and a new framework is expected to be implemented shortly.

3. The Head of Pensions Administration acknowledged that a large amount of outsourced work needs additional assurance (i.e. effective contract management and spot checking) and he felt that this could only be achieved by enhanced internal monitoring by existing members of the Administration Team.

4. The Director of Corporate Finance advised that there had been two challenging audit reports and a further audit position statement is expected shortly. In view of this, it would be counterproductive for audit to follow up until key issues have been identified and scheduled for regular review.

5. The Board asked for additional assurance that the Pension Increase run would be run efficiently and it acknowledged that the Administration Team may need additional resource and it asked the Pension Governance and Employer manager to liaise with the Administration Team to ensure that communications are accurate.

Administration Update Report – Key Performance Indicators (KPI)

6. The Board noted that the KPI matrix has strong integrated modules and is tightly controlled; however, the Administration Team has experienced difficulties in collating the figures. The Head of Pensions Administration acknowledged that KPIs need to be meaningful and there is a need to clarify the way the figures are collated.

7. The Board noted that the report appeared to show that the Pensions Administration team was not making progress in clearing the general backlog, in that the number of outstanding items at the end of the quarter was greater than the number at the start of the quarter. The Board noted good progress with the separate tranche of backlog in progress with JLT.

8. The Board also commented that the figures showed the routine work was being cleared in preference to critical work (e.g. deaths) and asked for deaths, divorces and transfers to be prioritised and completed in good time.

The Risk Registers

9. The following changes to existing risks on the risk register are recommended to the Pension Fund Committee:
   - Risk A12 - Failure to identify GMP liability leads to ongoing costs for the pension fund: move residual risk from red to amber due to mitigation from JLT;
   - Risk A20 - Pension Services Manager leaving the Council may dilute the organisation's collective knowledge and impact on decision making: move inherent risk from amber to red, due to recent staff changes;
   - Risk A21 - McCloud Judgement - Impact on resources: move inherent risk from amber to red due to recommendation of the Head of Pensions Administration;
   - Risk A22 - Moving out of County Hall could adversely affect team morale as majority of the staff are within a few miles of County Hall. A move to an office further away may result in employees finding jobs elsewhere to minimise the commute, resulting in significant loss of skilled and experience staff: move

inherent risk from red to amber due to identification of the risk and efforts to find alternative accommodation in the vicinity of County Hall..

10. The following new risks on the risk register are recommended:
    - Risk A23 - Management control of backlog leads to inaccurate Key Performance Indicators (KPI's) leading to a loss of confidence in levels of assurance from the Pensions Administration team: inherent risk / residual risk amber.

CONSULTATION:

11. The Chairmen of the Pension Fund Committee and the Local Pension Board have been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. 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

14. 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

15. 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

16. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

18. The following next steps are planned:

    - Continued monitoring of the Service Specification and the Service Improvement Plan.

    - Receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

Contact Officer:

John Smith, Pension Governance and Employer Manager

Annexes:

1. Minutes of the Local Pension Board meeting 13 February 2020

Sources/background papers:

The pension fund risk registers

https://mycouncil.surreycc.gov.uk/documents/s66160/Item%2010%20-%20Risk%20Registers%20201920%20Q3%20-%20Annex%201.pdf

https://mycouncil.surreycc.gov.uk/documents/s66161/Item%2010%20-%20Risk%20Registers%20201920%20Q3%20-%20Annex%202.pdf

MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 13 February 2020 at Members' Conference Room, County Hall, Penrhyn Road, Kingston upon Thames, Surrey, KT1 2DN.

These minutes are subject to confirmation by the Board at its meeting on Friday, 22 May 2020.

Members:
(Present = *)

*	Paul Bundy
	Mr Graham Ellwood (Vice-Chairman)
*	Mr Nick Harrison (Chairman)
	Tina Matravers
	David Stewart
*	Trevor Willington

1/20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from David Stewart and Graham Ellwood.

2/20 MINUTES FROM THE PREVIOUS MEETING: 24 OCTOBER 2019 [Item 2]

The minutes were agreed as an accurate record of the meeting, provided that the typographical error of ‘changes’ be corrected to ‘charges’ on point 3 of item 65/19.

3/20 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/20 QUESTIONS AND PETITIONS [Item 4]

None received.

5/20 ACTION TRACKER [Item 5]

Witnesses:

Nick Weaver, Head of Pensions Administration
John Smith, Pensions Governance and Employer Manager
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. A Member asked for action A38/19 to be marked as ongoing rather than complete as the Board will receive the updated report on compliance with The Pensions Regulator’s Code of Practice in May.
2. A Member asked for action A39/19 to be marked as ongoing rather than complete as the consultation had been extended to allow employers more time to comment on the Draft Administration Strategy. He asked that the item be added to the forward plan depending on when the Board received the information from the consultation responses.

3. The Head of Pensions Administration discussed the completed action A34/19 which was the annex on ITM's analysis of the 'Backlog Healthcheck Report for the Surrey Pension Fund'. He noted the six cases within the frozen refund population which were approaching the five-year deadline for payment under the 2013 Regulations. He had spoken to the Pensions Operations Manager about the risk of a technical breach of law and concluded that as long as refunds were paid into an Escrow account the liability would be discharged.
4. The Pensions Governance and Employer Manager commented that paying grants approaching the two year deadline into Escrow accounts would also avoid breaches of law. Members would be provided with an update on the matter ahead of the statutory deadline.
5. The Strategic Finance Manager (Pensions) noted that he was in consultation with lawyers on whether the Escrow account could be administered in-house by the Orbis Pension Administration Team.

RESOLVED:

The Board reviewed its action tracker.

Actions/further information to be provided:

1. Action A38/19 will be marked as ongoing rather than complete as the update to the Board is due in May.
2. Action A39/19 will be marked as ongoing rather than complete and will be added to the forward plan where appropriate.
3. Members will be provided with an update concerning the six cases within the frozen refund population ahead of the statutory deadline under the 2013 Regulations.

6/20 FORWARD PLAN [Item 6]

Key points raised during the discussion:

1. A Member welcomed the presentation on cyber security at its last meeting in October and reiterated that he would like the Board to annual update on Cyber Security be added to the forward plan.

RESOLVED:

The Board reviewed its forward plan.

Actions/further information to be provided:

The Board is to receive an annual update on Cyber Security.

7/20 SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF 20 DECEMBER 2019 [Item 7]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Nick Weaver, Head of Pensions Administration
Anna D'Alessandro, Director - Corporate Finance

Key points raised in the discussion:

1. The Chairman noted that risk A22 on the Council's move out of County Hall was graded Red at the last Pension Fund Committee but had since been changed to Amber, recognising that efforts were being made to secure accommodation for the Pensions Administration team at a location close to County Hall.
2. Responding to a Member query, the Strategic Finance Manager (Pensions) explained that moving the administration to a new location did not pose any special logistical risks because it was already ring-fenced from the other elements of Orbis. The Head of Pensions added that it was important to house the Helpdesk and the administration function in the same building in order to facilitate cooperation and maintain a good working relationship.
3. In response to a Member query on the timescale of the move, the Director - Corporate Finance stated that the move was not imminent and explained that there was an options appraisal with Property Services later in the year to further discuss the logistics of the move. Finalisation of which directorates were moving to the new civic heart in Woking and those which would be dispersed around existing sites remained outstanding.
4. The Strategic Finance Manager (Pensions) discussed the review of governance in the LGPS by the Standards and Outcomes Workstream and the Compliance and Improvement Workstream working groups and how the Fund was meeting the recommendations of SAB in order to develop Phase III of the 'Good Governance' report which would go to SAB next month.
5. To increase accountability, the Strategic Finance Manager (Pensions) explained that the 'Good governance in the LGPS' report identified the proposal for each administering authority to have a single named officer - 'the LGPS senior officer' - who was responsible for the delivery of the pension function. That may be a relevant senior officer with good knowledge of the pension function and, even if it was the Section 151 officer, a change to the constitution would be needed.
6. The Strategic Finance Manager (Pensions) positively noted the introduction of the requirement for s151 officers to carry out LGPS relevant training which would ensure a good level of knowledge and understanding to be passed between the Board, SAB and Pension Fund Committee.
7. Discussing the recently approved Council budget, the Strategic Finance Manager (Pensions) emphasised that the Surrey Pension Fund budget was ring-fenced from it. In response, the Chairman noted that it was good practice to separate the employing authority from the administering authority and requested that training for Members of the Board and Fund Committee be run alongside each other.
8. The Strategic Finance Manager (Pensions) provided an update on the 2019 Valuation noting changes from 2016 to the Funding Strategy Statement (FSS), including colleges and higher education institutions which were adversely affected by the decrease in their recovery periods and treated similarly to private companies. He explained that the Pension Fund team were in consultation with the Department for Education on the matter and the affected colleges and admission bodies, with the change to come into effect on 1 April 2020. In response to Members, the solution was not one size fits all with the

affected colleges and admission bodies and the priority was the Fund's wider solvency.

9. Responding to a Member query on the differences in engagement between the Board and Fund Committee, and Border to Coast (BCPP) with their scheme members and employers, the Strategic Finance Manager (Pensions) explained that pooling companies such as BCPP were asset managers and not decision-makers - unlike Members of the Board and Fund Committee which had representation on BCPP joint committee meetings.
10. The Chairman commented that each local authority managed its own strategic decision-making and the Strategic Finance Manager (Pensions) noted that revised guidance on pooling from Government detailed the level of discretion that pension funds retained. The Strategic Finance Manager (Pensions) stated that there were clear benefits for the Fund to pool with the larger resources available within BCPP.
11. A Member queried the McCloud judgement which affected actuarial improvements being returned to employers and the Strategic Finance Manager (Pensions) responded that no remedy had been decided regarding McCloud but given that the older scheme with an accrual rate of 1/60th it was inherently less generous than the new in the 1/49th scheme and only the few members who had significant pay increases would benefit from the underpin. The guarantee of the current underpin expires in 2022, in itself, would not have a material effect on the liabilities - there would be minor additional charges.
12. The Strategic Finance Manager (Pensions) informed the Board that the Pension Fund Committee was reviewing the Fund's own Responsible Investment (RI) Policy to develop its core investment beliefs, balancing good returns and responsible investment - spectrum of capital. The Fund's RI would be assessed in relation to the spectrum of capital and the selected areas within the 17 UN Sustainable Development Goals with progress on the matter to be provided at the next meeting of the Board.
13. In response to a Member, the Strategic Finance Manager (Pensions) noted that the Pension Fund team and Members of the Committee were engaging with the action group Divest Surrey which was affiliated with Extinction Rebellion, to inform them of the Fund's RI approach.
14. The Chairman reported that the draft Administration Strategy had been approved and the Strategic Finance Manager (Pensions) added that the consultation on the strategy with scheme employers had been extended.

RESOLVED:

The Board noted the content of this report.

Actions/further information to be provided:

1. That Members of the Board and Fund Committee have future training alongside each other.
2. The Board to receive an update on the Fund's own Responsible Investment (RI) Policy at its next meeting.

8/20 ADMINISTRATION UPDATE (1 OCTOBER 2019 TO 31 DECEMBER 2019) [Item 8]

Witnesses:

Nick Weaver, Head of Pensions Administration
John Smith, Pension Governance and Employer Manager
Anna D'Alessandro, Director - Corporate Finance
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Head of Pensions Administration emphasised the challenge in addressing the issues realistically by balancing ongoing projects with the changes necessary to ensure good performance. He added that small problems had cumulative impacts on managing the backlog effectively, such as the recent poor audit report which focused on the migration of the integrated payroll system, the need to acquire further modules for Altair in order to make immediate payments and the need to make adjustments if pay increases were greater than expected. Those difficulties were exacerbated because a key employee was on long-term sick leave and the software supplier had been contacted to provide specialist support.
2. Responding to a Member query, the Head of Pensions Administration explained that annual events put pressure on the Pensions Administration team and although there were sufficient resources to manage them, prioritisation of workstreams was crucial.
3. The Head of Pensions Administration noted the error last year concerning pensions increases, in which the letter to scheme members only stated the percentage increase and not the difference between the old and new pension - and the Pensions Helpdesk were not informed of the omission. The Head of Pensions Administration and the Pension Governance and Employer Manager stressed that more collaborative working between the Pensions Helpdesk and Pensions Administration team was essential and officers were seeking assurance for this year's exercise.
4. The Director - Corporate Finance explained that Internal Audit had completed two reviews of Pensions Administration over the last year and were currently formulating a position statement on the service. Progress was being made behind the scenes and a follow-up audit had been scheduled. She noted that areas of concern had been identified which provided clarity going forward. Governance would start to become more joined up with a monthly project board composed of senior officers to monitor actions from Internal Audit reports and the Cabinet Member for Corporate Support and the Executive Director - Resources would be cited on the performance of the Pensions Administration.
5. The Head of Pensions Administration referred to the first annex of the actions tracker on Action A6/18 which presented a series of bar charts illustrating progress against agreed milestones in the service improvement plan for the first four months. He noted that the timescales provided were ambitious such as the procurement of the new system and its implementation later in the year.
6. Responding to a Member, the Pension Governance and Employer Manager commented that the plans would need to be flexible as it

would be difficult to obtain a temporary extension from the current supplier, Aquila Heywood. In response to the Chairman, the Head of Pensions Administration explained that the market had become more competitive as a result of the new LGPS pension systems procurement framework which was expected to be implemented shortly.

7. Members questioned whether the Pensions Administration team required additional capacity to administer the large amount of projects in the annex on Action A6/18 and the projected timescales. In response the Head of Pensions Administration explained that empathy with customers was vital and had to be maintained while administrators implement the new system and i-Connect - as pensions concerned sensitive life events.
8. The Pension Governance and Employer Manager identified that recruitment was a challenge across the LGPS and the Strategic Finance Manager (Pensions) and the Head of Pensions Administration responded that the Pensions Administration team were proactively managing and training their employees. In response to a Member query, the Director - Corporate Finance highlighted that the consultant ITM and external supplier JLT provided additional capability to Pensions Administration, but would follow-up the request for Internal Audit to quality assure the governance arrangements as external auditors were doing.
9. Responding to a Member query on whether extra investment was needed, the Head of Pensions Administration noted that the use of money was important, an example was increasing efficiency through the two robots that had been created to process Deferred Benefits and Deferred into Payment quotations.

RESOLVED:

The Board noted the content of this report.

Actions/further information to be provided:

Internal Audit will quality assure the governance arrangements of the Pensions Administration team.

9/20 ADMINISTRATION PERFORMANCE REPORT QUARTER 3 [Item 9]

Witnesses:

Nick Weaver, Head of Pensions Administration
Anna D'Alessandro, Director - Corporate Finance
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Head of Pensions Administration reported that the strength of integrated modules within the Altair system was good and tightly controlled, but there was a lack of clarity surrounding the Key Performance Indicators (KPI) as the numbers did not add up. The KPIs needed to be meaningful and have visibility across the service, prioritising fundamental areas needed to deliver a good service.

2. The Head of Pensions Administration noted that the KPIs must be accurate in order to address the backlog. Other funds had similar issues, such as in Hampshire who as a result decided to focus on the project for a year, and the interdependence within the pensions sphere including the TPR and TPO provided scrutiny. In response to a Member who noted the loss of trust in pension funds, the Head of Pensions Administration shared that concern. He stressed that the KPIs lacked integrity and required greater consistency across key areas to be delivered effectively by the Orbis Pensions Administration team.
3. The Director - Corporate Finance commended the new Head of Pensions Administration as he brought realism to the role by understanding the logical sequence of events and their timescales. He recognised that the issues were not a quick fix and was establishing a baseline for the service, ensuring that it would be future proofed to address concerns by the Cabinet Member for Corporate Support on the backlog.
4. In response to the Chairman's concern that the full extent of the backlog surfaced last year despite the issue accumulating over a number of years, the Head of Pensions Administration noted that it was crucial that all relevant parties took responsibility for their own KPIs to address the backlog.
5. Members sought further clarification on how the Pensions Administration team would ensure business as usual as well as addressing short term priorities such as deaths, retirements, divorces and transfers that affected people's wellbeing. In response, the Head of Pensions Administration explained that targets differed across Orbis' clients, rather than looking retrospectively the Pensions Administration team had a forward plan on their key priority areas and appropriate timescales. For example the tolerable performance for death notifications was at 90% but it should be 100%.
6. In order to assess the effectiveness of the KPIs, the Strategic Finance Manager (Pensions) reported that the Pension Fund Committee was reviewing the governance of the Pensions Administration team focusing on the Administration Service Improvement Plan II (SIP II) and had given assurance to three key areas: the prioritisation of projects, the deliverability of the timeframes for projects and the ability to adequately contract manage external providers - at present there would be no requests to take on new clients.

RESOLVED:

The Board noted the content of the report.

Actions/further information to be provided:

None.

10/20 RISK REGISTERS 2019/20 QUARTER 3 [Item 10]

Witnesses:

Ayaz Malik, Pensions Finance Specialist
Nick Weaver, Head of Pensions Administration

Key points raised in the discussion:

1. The Pensions Finance Specialist reported the new risk of the management control of backlog A23, which was currently rated Amber for both the inherent and residual risk. In response, the Board recommended that the inherent risk be changed to Red as ineffective management affected the accuracy of the Key Performance Indicators (KPIs).
2. Discussing risk A1 concerning incorrect data, a Member queried the ability of the Board and Fund Committee to 'interrogate data to ensure accuracy' as they received a summary of the data. In response, the Head of Pensions Administration suggested that interrogate be replaced with 'seek assurance' in the accuracy of analysis by ITM, and other specialist suppliers.

RESOLVED:

The Board noted the content of the report and the Fund and Administration Risk Registers.

Actions/further information to be provided:

1. Risk A23 - the inherent risk be changed to Red.
2. Risk A1 - the wording 'interrogate' will be replaced with 'seek assurance'.

11/20 RECENT DEVELOPMENTS IN THE LGPS [Item 11]

Witnesses:

John Smith, Pensions Governance and Employer Manager
Nick Weaver, Head of Pensions Administration

Key points raised in the discussion:

1. The Pensions Governance and Employer Manager highlighted the McCloud judgement and explained that a possible remedy might include an extension of the underpin (LGPC Bulletin 190 - October) - the Board would receive an update on the matter in due course.
2. He also noted that The Pensions Ombudsman (TPO) had upheld a complaint against an administering authority regarding a transfer of LGPS benefits to an occupational pension scheme in which the member was not an 'earner' despite receiving and acknowledging the 'Scorpion' warning leaflet. The TPO instructed the administering authority to reinstate the member's benefits in the LGPS, in line with its new level of due diligence as of February 2013 (LGPC Bulletin 190 - October).
3. The Pensions Governance and Employer Manager noted the LGPS (Amendment) Regulations 2019 which introduced survivor benefits payable under the earlier regulations for opposite-sex civil partnerships, meaning that the male survivor of an opposite-sex civil partnership would be treated the same as a widower in a traditional marriage.
4. The Head of Pensions Administration informed the Board of the burden on pensions administrations to be tax collectors, noting the

requirement of administrations to pay members' "scheme pays" pensions annual allowance (AA) tax charges. The Pensions Governance and Employer Manager added that there may be amendments to the tapered annual allowance in the upcoming Government Budget in March, which would be designed to alleviate issues affecting certain high earners such as doctors (LGPC Bulletin 191 - November).

RESOLVED:

The Board noted the content of the report.

Actions/further information to be provided:

The Board will receive an update on the possible remedy to the McCloud judgement concerning the extension of the underpin.

12/20 BREACH OF LAW 1 OCTOBER 2019 TO 31 DECEMBER 2019 [Item 12]

Witnesses:

Ayaz Malik, Pensions Finance Specialist
John Smith, Pensions Governance and Employer Manager

Key points raised in the discussion:

1. The Pensions Finance Specialist explained that the breach of law under regulation 64 in which an exit valuation not calculated by the actuary within three months of the termination date of the active member who left the scheme - the employer had not challenged the actuary's late exit valuation.
2. The relevant employer had been informed and there was no reason that they would not pay the cessation amount which was at the lower end of the scale and it did not constitute a material breach due to there not being any significant monetary implications.
3. Responding to the Chairman, the Pensions Finance Specialist noted that the amount was over £600,000 in final payments which was insignificant to the Fund. In response to Members' further queries on what constituted materiality, the Pensions Governance and Employer Manager explained that materiality depended on the quantum of the breach and cumulative effect over time of a number of similar cases in relation to a pension fund.
4. Members requested that further information detailing what constituted materiality be provided, to effectively consider whether the Board would make recommendations on the matter to the Pension Fund Committee.

RESOLVED:

The Board noted the content of the report and would consider whether to make recommendations to the Pension Fund Committee based on the further explanations to the Board on what constituted materiality in the action below.

Actions/further information to be provided:

The Strategic Finance Manager (Pensions) will circulate formal recommendations from officers detailing their assessment on the materiality of the breach, with the decision to be made by the Board Members present at the meeting.

13/20 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES IN 2019/20 (QUARTER 3) [Item 13]

Key points raised in the discussion:

1. Members made no comments on the report.

RESOLVED:

The Board noted the content of the report.

Actions/further information to be provided:

None.

14/20 DATE OF THE NEXT MEETING [Item 14]

The next meeting of the Surrey Local Pension Board will be held on 22 May 2020.

Meeting ended at: 12.08 pm

Chairman

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **REVISED PENSION ADMINISTRATION STRATEGY**

SUMMARY OF ISSUE:

Strategic objectives
Delivery

The new pension administration strategy was presented to the Pension Fund Committee on 20 December 2019 for approval. Once approved, the fund began a period of formal consultation with scheme employers and other interested parties between 23 December 2019 and 31 January 2020.

RECOMMENDATIONS:

It is recommended that:

The Pension Fund Committee Approves the final Administration Strategy.

REASON FOR RECOMMENDATIONS:

The Administration Strategy is a vital document in laying out service standards between the pension administration team and scheme employers. The Pension Fund Committee should approve this document as it is key to the Fund's strategic delivery objectives.

DETAILS:

Background

1. An administering authority may prepare an administration strategy in accordance with Regulation 59 of the LGPS Regulations.

2. The Surrey Pension Fund's existing Administration Strategy was approved by the Pension Committee on 15 September 2017.

3. The existing strategy was designed to reflect the composition of the Fund in 2017; however, this has changed significantly and there now over 300 active employers, with a host of complex new reporting requirements and regulatory obligations.

4. A draft revised Administration Strategy was approved by Pension Fund Committee on 20 December 2019, allowing for a period of consultation with interested parties.

Details

5. Following the consultation, responses comments were reviewed. There are no material changes to the final Administration Strategy as a result of the consultation.

6. It is recommended that the Pension Fund Committee approves the final Administration Strategy.

7. If approved the revised Administration Strategy will be effective from 1 April 2020.

8. The administration strategy will be kept under review and will be submitted for approval to the Committee when any revision is required.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

11. The performance of the Pensions Administration function and the scheme employers presents 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

12. 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

13. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

14. The consideration and the approval of the administration strategy does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

16. The following next steps are planned:

- On approval by the Committee the Administration Strategy will be adopted from 1 April 2020.
- The document will be kept under review.

Officers:
Ayaz Malik – Pension Finance Specialist and John Smith - Pension Governance and Employer Manager

Consulted:
Pension Fund Committee Chairman

Annexes:

Sources/background papers:

The Revised Pension Administration Strategy
https://mycouncil.surreycc.gov.uk/documents/s65121/Item%207%20-%20Local%20Board%20Report-%20Annex%201.pdf

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **COMPANY ENGAGEMENT & VOTING**

SUMMARY OF ISSUE:

Strategic objectives
Investment

This report is a summary of various Environmental Social & Governance (ESG) issues that the Surrey Pension Fund, Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in, for the attention of the Pension Fund Committee. The Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide BCPP's voting and engagement services so act's in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 12 partner funds within the Pool.

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;

- Continuing to enhance its own Responsible Investment Approach
- Commending the outcomes achieved for quarter ending 31 December 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 December 2019.
- Noting the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 31 December 2019.

REASON FOR RECOMMENDATIONS:

In accordance with The Fund's Mission Statement, as well as its Investment Strategic Objectives, the Fund is required to fulfil its fiduciary duty to protect the value of the Pension Fund, to meet its pension obligations. Part of this involves consideration of its wider responsibilities in Responsible Investment as well as how it exercises its influence through engaging as active shareholders.

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. By

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.

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).

Outcomes Achieved through Company Engagement

LAPFF Engagement Outcomes

The LAPFF had engaged with 35 companies on issues such as Climate Change, Community Engagement and the Just Transition during the Quarter Ending 31 December 2019.

35 Companies engaged over the quarter in 50 engagements

Company/ Index	Activity	Topic	Outcome
Alphabet	Sent letter	Human Rights	Dialogue
Amazon	Resolutions co-filed by members	Human Rights/ Governance	Dialogue
Anglo American	Meeting	Climate Change/ Governance	Dialogue
ANZ Bank	Meeting	Climate Change/ Governance	Dialogue
ArcelorMittal	Meeting	Climate Change	Substantial Improvement
BHP	Meeting	Human Rights	Dialogue
Boeing	Sent letter	Governance (safety)	No Improvement
BP	Meeting	Governance	Small Improvement
British American Tobacco	Meeting	Social Risk (health)	Small Improvement
Charles Schwab	Meeting	Governance	Awaiting Response
Charter Communications	Resolution co-filed by members	Governance	Dialogue
Chevron	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Chipotle Mexican Grill Inc	Meeting	Environmental Risk	Small Improvement
Citigroup	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Easyjet	Sent letter	Employment Standards	Awaiting Response
Eli Lilly	Resolution co-filed by members	Governance	Dialogue
Honeywell	Resolution co-filed by members	Governance	Dialogue
Marks & Spencer	Sent letter	Employment Standards	Awaiting Response
McDonalds	Sent letter	Remuneration	Dialogue
National Grid	Meeting	Climate Change	Substantial Improvement
Pepsico	Received letter	Environment (plastics)	Moderate Improvement
Philip Morris	Meeting	Governance (tax)	Small Improvement
Reach	Meeting	Reputational Risk	Moderate Improvement
Rio Tinto	Sent letter	Employment Standards	Awaiting Response
Royal Dutch Shell	Sent letter	Audit Practices	Dialogue
Ryanair	Meeting	Governance/ Employment Standards	Small Improvement
Sainsbury	Meeting	Climate Change/ Environment	Small Improvement
Severn Trent	Received letter	Governance	Small Improvement
Smith & Nephew	Sent letter	Employment Standards	Awaiting Response
Southern Company	Received letter	Climate Change	Substantial Improvement
Suzano	Meeting	Climate Change	Small Improvement
Total	Meeting	Governance (corruption)	Dialogue
Vale	Meeting	Human Rights	No Improvement
Vodafone	Sent letter	Employment Standards	Awaiting Response
Walt Disney Company	Resolution Filed	Governance	Dialogue

5. National Grid (Climate Change) – At a meeting with National Grid, LAPFF and other Climate Action 100+ investors sought more granularity on climate targets, as well as enhanced TCFD disclosure. The Chief Executive announced a new carbon sensitivity analysis for its plans to be carbon neutral by 2050.

6. Arcelor Mittal (Climate Change) – LAPFF along with other Climate Action 100+ investors held a teleconference with the company, to press on setting science based emission targets as well as publishing membership of trade bodies. In December, Arcelor announced publicly it would publish its trade body memberships in its next Climate Action report, due in 2020.

7. BP (Climate Change) – Met with CEO to discuss developments in assessing and disclosing the alignment of Capital Expenditure in line with the Paris Agreement.

8. Sainsburys (Sustainability) – LAPFF Vice-Chairman met with senior executives to discuss its plans to improve its supply chain sustainability, give the wide range of risks that the business faces; including environmental risks to supply chains to legislation on plastic packaging. The Company detailed steps it had taken forward including cutting single use plastic by 50% and reporting in line with the Taskforce for Climate Related Financial Disclosures (TCFD).

Robeco Engagement Outcomes

9. Robeco had voted at 98 shareholder meetings, voting against at least one agenda item in 57% of cases during the quarter ending 31 December 2019.

Social Impact of Artificial Intelligence

Reason for Engagement

10. The benefits of Artificial Intelligence (AI) are wide ranging and include increased efficiency, scale and speed of decision making. It has also contributed to social good; early diagnosis of diseases, predicting natural disasters and identifying victims of online exploitation.

11. With the rapid advancement of and growing efficiency of AI, the governance principles associated with it is being outpaced by its development and application. Some of the social risks associated with its development include;

    - Threatening civil rights in surveillance, health care & freedom of expression; its application in socially sensitive areas such as education, health, policing and criminal justice. They can be applied without contextual knowledge and informed consent, thus threatening civil rights and liberties.

    - Detrimental impact on societies and companies as a result of its development, leading to potential job losses.

    - Unconscious bias; the data used in its design could encode biases especially in safety critical systems such as facial recognition technology.

Engagement Objective

12. In the fourth quarter of 2019, Robeco launched a 3 year engagement project focusing on the risks associated with AI and its social impact. Robeco will engage with companies in the Information and Communication (ICT) sector, both those that develop AI and those who use it in their core business models. Companies under engagement include Amazon, Facebook, Apple, Visa and Microsoft, amongst others. The Engagement Objectives include;

    - Policy guidelines for AI

    - Impact assessment on products and services

    - Adequate board oversight

    - Integrating human rights considerations into product development

    - Responsible lobbying and stakeholder engagement

13. Future progress will be monitored on this engagement project.

Climate Change and well-being in the Office Sector

Reason for Engagement

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

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

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

Engagement Progress

15. All companies under engagement have progressed in the five initial objectives of the project;

    - Climate Change management; all companies progressed well, in terms of integrating sustainability into their corporate strategies, setting net-zero policies on building construction as well as making existing buildings reusable.

    - Licence to operate; most companies increased building certifications for their offices, during construction and operation, as well as using energy efficient benchmarking in their buildings.

    - Environmental management systems (EMS); most companies showed an increase in their floor area covered by energy consumption monitoring.

    - Reducing energy consumption and carbon emissions; all the companies under engagement committed themselves to greenhouse gas reduction and have made significant progress in reaching their goals.

    - Health & wellbeing; one company improved percentage of employees covered by health & safety checks as well as mental health checks. Another company became a champion of a healthy building certification system using this to support healthy building design and operational practices across six million square feet of its portfolio

Fund Manager Engagement

16. Legal & General Investment Management (LGIM) - LGIM have provided policy updates in their most recent ESG Impact Report, highlighting key areas of engagement on a policy level on issues such as;

    - The Financial Reporting Council's prohibition of audit firms providing almost any non-audit work to their audit clients

- Addressing key areas of reform in the UK Stewardship Code, including what the code covers, signatory disclosure and enforcement & oversight

- Monitoring and supporting the European Commission's Action Plan on Sustainable Finance, specifically the EU Taxonomy. It classifies sustainable activities for all actors in the financial system, with the aim to stop 'greenwashing'

Surrey Share Voting

17. 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 was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 3.07%, Surrey opposed management on 18.85% of resolutions.

18. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	14	1	7.14	1.03
Board	66	7	10.61	2.42
Capital	21	2	9.52	2.12
Corporate Actions	2	0	0.00	1.33
Remuneration	13	9	69.23	9.40
Shareholder Rights	3	3	100.00	6.20
Sustainability	3	1	33.33	4.60
Total	122	23	18.85	3.07

Shareholder Proposed Resolutions/ Management Resolutions

19. No shareholder proposed resolutions was successful during the Quarter and no management resolutions were defeated.

20. The shareholder proposal requesting BHP suspend membership of industry associations considered to be inconsistent with the goals of the Paris Agreement was conditional on the proposal requesting an amendment to the BHP Ltd constitution passing. The constitution amendment proposal was classified as a special resolution and required a 75% vote in favour to pass.

21. The proposed amendment to the Constitution of BHP Group Limited would have allowed resolutions to be put forward, without the level of limitations, thresholds and regulatory oversight required in other jurisdictions.

22. As the proposal was not successful, receiving 14.05% votes in favour, the industry association resolution was withdrawn at the AGM

Company	Shareholder Proposals	Surrey Vote	% For
BHP Group plc	To request an amendment to the constitution of BHP Group Ltd regarding how the powers of the directors should be exercised	For	14.05%
BHP Group plc	To request that BHP Group Ltd suspends memberships of industry associations considered to be inconsistent with the goals of the Paris Agreement	For	Withdrawn
Cisco Systems Inc	To request that the Board of Directors adopt a policy to require that the Chairman of the Board be an independent member of the Board	For	28.49%

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

26. 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

27. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

28. 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

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

WHAT HAPPENS NEXT

30. The Pension Fund continue to monitor the progress of the voting and 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 Pensions Finance Specialist

Consulted:
Pension Fund Committee Chairman

Annexes:

Sources/background papers:

1. LAPFF Quarterly Engagement Report QE 31 December 2019
   http://www.lapfforum.org/publications/qrtly-engagement-reports/
2. Robeco Active Ownership Report QE 31 December 2019
   https://www.bordertocoast.org.uk/?dlm_download_category=engagement
3. LGIM Q4 ESG Impact Report 2019
4. The European Commission, Action Plan on Sustainable Finance, December 2019
   https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance_en#documents
5. The European Commission, The European Green Deal Investment Plan and Just Transition Mechanism, January 2020
   https://ec.europa.eu/info/publications/200114-european-green-deal-investment-plan_en

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **CASH-FLOW ANALYSIS**

SUMMARY OF ISSUE:

Strategic objectives
Funding

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 two and three.
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:

Cash-flow movements in the Fund influences both the investment and funding strategy. The Pension Fund Committee monitors cash-flow consistent with the Fund's strategic funding objectives.

DETAILS:

Cash-flows for quarters Two - Three (1 September 2019 – 31 December 2019)

1. Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.
2. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund.
3. Any positive cash-flow is invested in accordance with the Fund's cash management plan.

4. The half-yearly (quarters two-three) cash-flow for the Surrey Pension Fund shows positive cash flow of £ 7,764,843 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
Two (1 Jul 2019 – 30 Sep 2019)	£46,742,761	£ 42,393,341	£4,349,420
Three (1 Oct 2019 – 31 Dec 2019)	£43,456,945	£ 40,041,522	£3,415,423

5. An indication of the current membership trends is shown by movements in membership over quarters two-three, 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 Two 2019/20 (1 Jul 2019 – 30 Sep 2019)	33,185	36,870	26,685	96,740
Quarter Three 2019/20 (1 Oct 2019 – 31 Dec 2019)	35,001	37,752	27,008	99,761

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 at least quarterly. The next report will be produced for the 12 June 2020 meeting.

Contact Officer:
Ayaz Malik, Pensions Finance Specialist

Consulted:
Pension Fund Committee Chairman.

Annexes:

Sources/background papers:
Administration performance monitoring progress log

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **2019 VALUATION UPDATE**

SUMMARY OF ISSUE:

Strategic objectives
Funding

Members are provided with a copy of the draft final valuation, as produced by the Fund's actuary, Hymans Robertson. This incorporates the final Funding Strategy Statement (FSS). Members are also provided with details of the Government Actuary's Department (GAD) scheme-level Section 13 valuation, which seeks to evaluate funds against four measures of compliance, consistency, solvency and long term cost efficiency.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the draft 2019 valuation.
2. Authorises the delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to approve the 2019 valuation and funding strategy statement, once the rates and adjustments certificate is finalised (prior to the 31 March 2020 deadline).
3. Notes the report from Hymans Robertson regarding the expected compliance of the Fund with the Government Actuary's Department (GAD) scheme-level Section 13 valuation.

REASON FOR RECOMMENDATIONS:

To comply with best actuarial valuation practice and meet the Fund's strategic funding objectives.

DETAILS:

The draft 2019 valuation and funding strategy statement

1. The Surrey County Council Pension Fund's funding objectives are:

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- To ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the LGPS, so far as relating to the Surrey Pension Fund;

- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;

- To reflect the different characteristics of employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

2. In order to achieve these objectives, it is necessary to assess the fund's financial position on a periodic basis and determine future contribution rates. LGPS pension funds are actuarially valued on a triennial basis and the fund's actuary, Hymans, has just completed the fund's valuation as at 31 March 2019.

3. The report from Hymans, shown as Annexe 1, sets out the draft outcome of the actuarial valuation.

4. Negotiations with employer bodies are ongoing and will be reflected in the final rates and adjustments certificate. It is recommended that the Pension Fund Committee authorises the delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to approve the final 2019 valuation and funding strategy statement, once the rates and adjustments certificate is finalised (prior to the 31 March 2020 deadline).

5. At 31 March 2019, the fund has a funding level of 96%, i.e., the Fund's assets of the fund are adequate to meet 96% of the Fund's future liabilities.

6. While the fund is managed as a whole, it is effectively a number of sub funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery as monetary amounts. Employee contributions are payable in addition to the employer contributions.

7. Where there are prospects of early retirement, thus giving rise to additional short-term costs in the form of immediate access to pension benefits, this will result in an element of actuarial strain (but specifically not including any redundancy cost). Additional contributions will be paid on top of the rates indicated in respect of early retirements where appropriate.

8. The Pensions Fund's funding plan is set out in the Funding Strategy Statement (FSS). Individual employer funding plans and each employer's contribution rates have been determined in accordance with the FSS.

9. Depending on each employer's individual circumstances, different approaches to the funding of benefits have been adopted, as part of the FSS consultation process.

10. The FSS has been subject to a consultation process. As a result of this there are no material amendments to the draft FSS that was approved by the Pension Fund Committee at its meeting of 20 December 2019.

The Government Actuary's Department (GAD) scheme-level Section 13 valuation

11. Following the local actuarial valuations, the GAD will carry out the scheme-level Section 13 valuation to evaluate funds against the four measures of compliance, consistency, solvency and long term cost efficiency.

12. The upcoming Section 13 valuations intend to focus on two areas:

    - Consistency of treatment of potential McCloud costs: the GAD intend to review Funding Strategy Statements (FSSs) and valuation reports to check if the approach towards potential additional McCloud costs has been clearly set out;
    - Falling contribution rates: where funds have reduced overall contribution rates, they will review the FSS and valuation report to check this has not led to an 'adverse impact' on future taxpayers.

13. In line with our FSS some stabilised employers (who make up the majority of the Fund) have either had a contribution freeze or small reductions. Other employers are also generally seeing small overall reductions in contributions. At fund level we expect the aggregate contribution rate to be lower than the equivalent figure in 2016.

14. The Fund and the Fund actuary have no concerns about the contribution rates that have been agreed at the 2019 valuation, and we believe that they set an appropriate pace of funding which balances both burden and risks between current and future taxpayers (and members/employers).

15. The Fund actuary has tested the funding strategies for the Council at 17 years, while the FSS formally retains the deficit recovery period of 20 years. However, this means that under GAD's interpretation the deficit recovery end date is now three years further in the future, 31 March 2039. Therefore, GAD will view this as an extension of the deficit recovery timeframe and may be flagged.

16. The Fund actuary is satisfied that a continuation of a deficit recovery period of 20 years is appropriate for the following reasons:

    - The do not view GAD's expectation around reducing deficit recovery timeframes to be appropriate for open pension schemes;

- The primary objective during the valuation is to set long term, affordable and robust funding plans that the Fund's Actuary, Officers and Committee believe are appropriate and these objectives have been met.

17. The report from the Fund actuary (shown as Annexe 2) outlines a formal justification to GAD on the 2019 valuation and includes the following:

    - A brief recap of the funding strategy including the McCloud treatment, and justification of the key parameters such as time horizon, likelihood of success, etc;
    - Headline measures used to illustrate the change in funding strength and contributions since 2016;
    - Headline measures to describe the level of prudence in the funding plan e.g. the likelihood of success;
    - Explanation of why the Fund actuary believes the certified contributions are appropriate and how they balance the costs and risk of the scheme today and in the future.

CONSULTATION:

18. The Chairman of the Pension Fund Committee has been consulted

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

21. The Director of Corporate Finance is satisfied with the progress in delivering the 2019 valuation.

LEGAL IMPLICATIONS – MONITORING OFFICER

22. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

23. 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

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

WHAT HAPPENS NEXT

25. 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:

1. Draft 2019 valuation
2. GAD Section 13 compliance report

Sources/background papers:

1. The draft Funding Strategy Statement

   https://mycouncil.surreycc.gov.uk/documents/s65125/Item%208%20-%202019%20Valuation%20update%20-%20Annex%201.pdf

2. GAD's letter to the SAB (26 November 2019)

   https://www.lgpsboard.org/images/PDF/CMBDAJanuary2020/Item8PaperB_2019Section13Report_DraftGADletter.pdf

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HYMANS ROBERTSON

Surrey Pension Fund

Actuarial valuation as at 31 March 2019

Valuation report

19 February 2020

Contents

1 Introduction

Background to the actuarial valuation

I have been commissioned by Surrey County Council ("the Administering Authority") to carry out an actuarial valuation of the Surrey Pension Fund. ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

The actuarial valuation is a risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers for the period from 1 April 2020 to 31 March 2023. This report summarises the outcomes of the valuation and the underlying advice provided to the Administering Authority throughout the valuation process.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2019 valuation toolkit which sets out the methodology used when reviewing funding plans:
- Our paper to the Fund's Pension Committee dated 22 May 2019 which discusses the valuation assumptions;
- Our Initial Results Report dated October 2019 which outlines the whole Fund results and inter-valuation experience;
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members.

Reliances and Limitations

This report has been prepared for the sole use of Surrey County Council in its role as Administering Authority of the Fund to provide an actuarial valuation of the Fund as required under the Regulations. It has not been prepared for any other third party or for any other purpose. I make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and I accept no responsibility or liability to any third party in respect of it.

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS 100 – Principles for technical actuarial work;
- TAS 300 – Pensions.

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

Use of this report by other parties

This report is addressed to the Administering Authority of the Fund only. I appreciate that other parties may also seek information about the 2019 valuation process and methodology. I would encourage such parties to refer to the following publicly available documents for further information:

- The Fund's Funding Strategy Statement;
- The Fund's Investment Strategy Statement;
- Published meeting papers and minutes for the quarterly meetings of the Fund's Pensions Committee.

Considering these papers alongside this valuation report will provide a more complete view of the Fund's funding strategy and decision-making process surrounding this. These documents are available on the Fund's website or on request.

2 Valuation approach

Employer contribution rates

The purpose of the valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due.

Valuations for open defined benefit multi-employer pension funds such as the Surrey Pension Fund are complex. Firstly, the time horizons are very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more, and new members will continue to join in the future. Secondly, as they depend on unknowns such as future inflation and life expectancy, the actual value of future benefit payments is uncertain. Finally, to keep contributions affordable, the Fund invests in return seeking assets which have higher levels of future volatility.

Given the above and that the future cannot be predicted with certainty, employer contribution rates can only ever be an estimate. However, the valuation approach adopted uses an understanding of the Fund, and the uncertainties and risks discussed above, to quantify the likelihood of the contribution plan and investment strategy for each employer being sufficient to fund future benefits.

This is achieved in practice by following the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) for each employer which defines the estimated amount of assets to be held to meet the future benefit payments.

Step 2: The Fund sets the funding time horizon over which the funding target is to be achieved.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

These three steps are central to the "risk-based" approach to funding which is described in Guide 5 of our 2019 valuation toolkit[2].

The risk-based approach uses an Asset Liability Model (described in Guide 6 of the 2019 valuation toolkit) to project each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore asset values) are variables in the projections. Further details of these variables are provided in Appendix 2. The investment strategies underlying the projection of employer asset values is provided in Appendix 1.

By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of the future projections being successful i.e. meeting the funding target by the funding time horizon.

The risk-based approach to setting employer contributions allows the Fund and its employers to understand and quantify the level of risk inherent in funding plans, something that is not possible using a single set of assumptions alone.

Further detail on the approach to calculating contributions for individual employers, including the parameters used in the three steps for each type of

[2] https://www.hymans.co.uk/media/uploads/LGPS_2019_Valuation_Toolkit_Guides.pdf

employer, is set out in the Funding Strategy Statement effective from 1 April 2020.

Funding position as at 31 March 2019

The valuation also offers an opportunity to measure the Fund's funding position as at 31 March 2019. Whilst this measurement has limited insight into understanding the long term ability to be able to pay members' benefits, it is a useful summary statistic.

For the purposes of this valuation we have adopted a "mark to market" approach, meaning that the Fund's assets have been taken into account at their market value and the liabilities have been valued by reference to a single set of assumptions based on market indicators at the valuation date. These assumptions are detailed in Appendix 2. As we have taken a market-related approach to the valuation of both the assets and the liabilities, we believe that they have been valued on a consistent basis.

Significant events

The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at http://www.lgpsregs.org/.

McCloud ruling

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

- Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
- Measurement of funding position at 31 March 2019: no allowance.

Further details of the approach taken are set out in Section 2.7 of the Funding Strategy Statement.

Indexation and equalisation of Guaranteed Minimum Pensions (GMP)

As a result of the Government's introduction of a single-tier state pension (STP) there is currently uncertainty around who funds certain elements of increases on GMPs for members reaching State Pension Age after 6 April 2016.

As part of the introduction of STP, the Government confirmed that public service pension schemes, including the LGPS, will be responsible for funding all increases on GMP as an 'interim solution'. In their January 2018 consultation response, HM Treasury confirmed that the 'interim solution' will continue to remain in place up to 5 April 2021. Thereafter the Government's preferred approach is to convert GMP to scheme pension.

For the 2019 valuation, given the Government's preference for conversion to scheme benefits, we have assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This has served to increase the value placed on the liabilities.

The Government have also stated that their preferred long term indexation solution of converting GMP to scheme pension will also meet the requirements of equalisation.

3 Valuation results

Employer contribution rates

The key objective of the Fund is to set employer contributions that are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding surplus or deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain relatively stable employer contribution rates.

In order to meet the above objectives, the methodology set out in Section 2 has been used to set employer contributions from 1 April 2020.

Employer contributions are made up of two elements:

a) the estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the total contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The Primary rate and Secondary rate for every contributing employer in the Fund is set out in the Rates and Adjustments Certificate in Appendix 3.

Each employer has been certified Primary and Secondary contributions that are appropriate for that employer's circumstances and which reflects that employer's experience. However, broadly speaking:

- Primary contribution rates have been subject to some upwards pressure as a result of a weaker outlook for future investment returns and the additional prudence built into funding plans to allow for the McCloud ruling;
- Secondary contributions have decreased as employer assets have increased since 31 March 2016, reducing any extra contributions required in respect of benefits accrued to the valuation date. The impact of this on Secondary contributions has been partially offset by the additional prudence built into funding plans to allow for the McCloud ruling.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates, calculated in accordance with the Regulations and CIPFA guidance. The whole Fund Primary and Secondary contributions calculated at the 2016 valuation of the Fund are shown for comparison.

	Last Valuation 31 March 2016		This Valuation 31 March 2019	
Primary Rate (% of pay)	15.8%		TBC	
Secondary Rate (£)	2017/18	43,770,000	2020/21	TBC
	2018/19	44,044,000	2021/22	TBC
	2019/20	44,324,000	2022/23	TBC

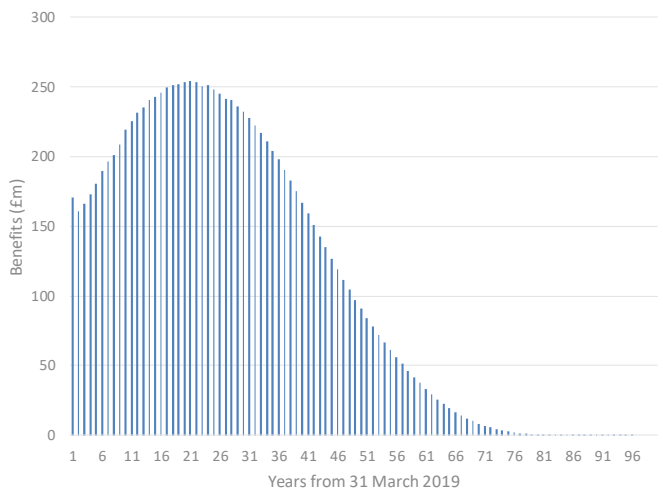
The Primary rate includes an allowance of 0.3% of pensionable pay for the Fund's expenses (0.3% at the 2016 valuation).

The average employee contribution rate is 6.5% of pensionable pay (6.5% at the 2016 valuation).

Funding position as at 31 March 2019

The funding position is a summary statistic often quoted to give an indication of the health of the Fund. It is limited as it provides only a snapshot in time and is based on a single set of assumptions about the future. To measure the funding position at 31 March 2019, we compare the value of the Fund's assets on that date against the expected cost (including an allowance for future investment returns) of all the future benefit payments accrued up to the valuation date (the liabilities).

The chart below details the projected future benefit payments based on the membership data summarised in Appendix 1 and the demographic, salary and benefit increases assumptions summarised in Appendix 2.

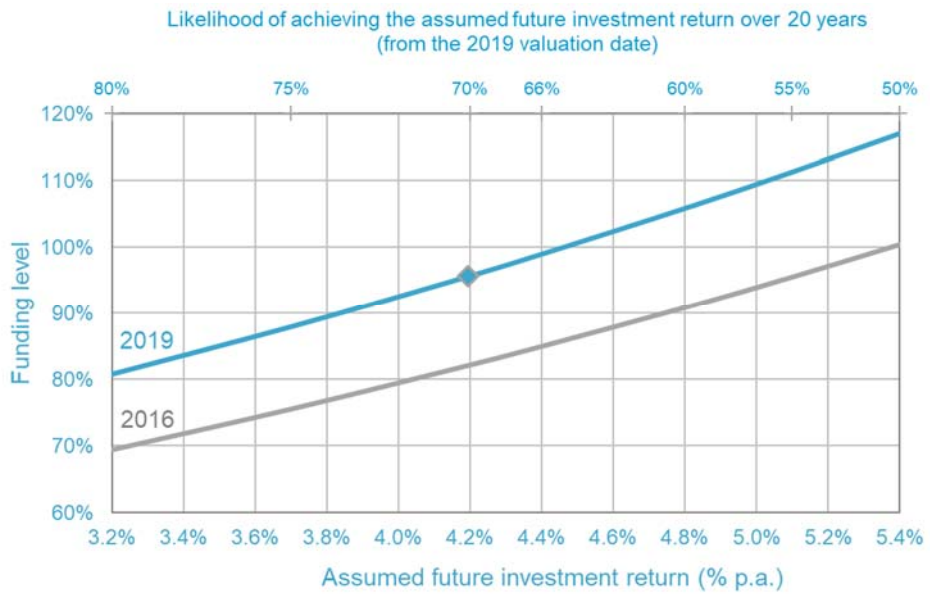


Using an assumption about the future investment return generated from the Fund's assets allows a value to be placed on these payments in today's money; the liabilities. The higher the assumed investment return, the lower the liability value and therefore the higher the funding level.

The value placed on the liabilities is extremely sensitive to the investment return assumption. Based on the Fund's current investment strategy (detailed in Appendix 1) and the same model used in the contribution rate calculations, it is estimated that:

- There is a 50% likelihood of the Fund's investments achieving at least an annual return of 5.4% p.a. over the next 20 years;
- There is a 70% likelihood of the Fund's investments achieving at least an annual return of 4.2% p.a. over the next 20 years; and
- There is an 80% likelihood of the Fund's investments achieving at least an annual return of 3.2% p.a. over the next 20 years.

The following chart shows how the funding level varies with the future investment return assumption (blue line). For comparison, the funding level associated with the same choice of investment return assumption at the 2016 valuation is also shown (grey line).



From this chart, we can see that:

- Regardless of the investment return assumption used, there has been a genuine improvement in the funding position at 31 March 2019 compared to the last valuation, reflecting an increase in the assets held today per pound of benefit to be paid out in future;
- The funding position would be 100% if future investment returns were around 4.5% p.a. (at 2016, the investment return would have needed to be 5.4% p.a.). The likelihood of the Fund's assets yielding at least this return is around 65%;
- If future investment returns were 5.4% p.a. then the Fund currently holds sufficient assets to meet 117% of the accrued liabilities. The likelihood of the Fund's assets yielding at least this return is 50%. 117% can therefore be considered the "best estimate" funding position.

Reported funding position

The valuation outputs are more meaningful when stakeholders can understand the likelihood, and hence the level of prudence, attached to them. The above chart does this for the measurement of the funding position.

However, there is still a requirement to report a single funding position at 31 March 2019. This reported position must include a margin of prudence.

For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.2% p.a. has been used. It is estimated that the Fund's assets have a 70% likelihood of achieving this return.

The resulting funding position is as follows:

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,299	1,389
Deferred Pensioners	853	1,088
Pensioners	1,740	2,005
Total Liabilities	**3,892**	**4,483**
Assets	**3,213**	**4,286**
Surplus / (Deficit)	**(679)**	**(196)**
Funding Level	**83%**	**96%**

There has been an improvement in the reported funding level since 31 March 2016 from 83% to 96% and an improvement in the funding deficit from £679m to £196m.

A breakdown of the key factors that have influenced the reported funding position from 31 March 2016 to 31 March 2019 are detailed overleaf.

Projection of the funding position

The progression of the funding position will depend on various factors including future asset performance, economic conditions and membership movements. If the financial and demographic assumptions made at this valuation are borne out in practice, and there are no changes to the valuation assumptions, we project that the funding level at the 2022 valuation date will be approximately 97%. This allows for contributions to be paid as described in Appendix 3.

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**3,213**	**3,892**	**(679)**
Cashflows			
Employer contributions paid in	433		433
Employee contributions paid in	115		115
Benefits paid out	(431)	(431)	0
Net transfers into / out of the Fund*	8		8
Other cashflows (e.g. Fund expenses)	(5)		(5)
Expected changes in membership			
Interest on benefits already accrued		517	(517)
Accrual of new benefits		466	(466)
Membership experience vs expectations			
Salary increases less than expected		(4)	4
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	0	16	(16)
Ill health retirement gain		(11)	11
Early leavers greater than expected		(24)	24
Pensions ceasing less than expected		4	(4)
Commutation less than expected		7	(7)
Impact of GMP equalisation		8	(8)
Other membership experience		(31)	31
Changes in market conditions			
Investment returns on the Fund's assets	953		953
Changes in future inflation expectations		126	(126)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(8)	8
Change in longevity assumptions		(92)	92
Change in salary increase assumption		29	(29)
Change in discount rate		19	(19)
This valuation at 31 March 2019	**4,286**	**4,483**	**(196)**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Since the previous valuation, various events have taken place which affect the value placed on the liabilities, including:

- There is an interest cost of £517m. This is broadly three years of compound interest at 4.2% p.a. applied to the previous valuation liability value of £3,892m. The benefits that have been accrued to the valuation date are three years closer to payment at 31 March 2019 than they were at 31 March 2016, meaning there is less opportunity for future investment returns to help meet this cost. This serves to increase the value placed on the liabilities;
- The areas of membership experience that have had the greatest impact on the surplus/deficit position of the Fund are set out below, together with their impact on the liabilities:

	Expected	Actual	Difference	Impact on Liabilities
Pre-retirement experience				
Early leavers (no of lives)	8,942	19,557	10,615	Positive
Ill health retirements (no of lives)	281	177	(104)	Positive
Salary increases (p.a.)	3.0%	2.9%	(0.1%)	Positive
Post-retirement experience				
Benefit increases (p.a.)	2.1%	2.1%	(0.0%)	Broadly neutral
Pensions ceasing (£m)	9,946	9,290	(656)	Negative

- The changes to the longevity assumptions used for the valuation have resulted in a modest reduction in life expectancies. This has served to reduce the liabilities by £92m;
- The assumed rate of future CPI inflation has increased from 2.1% p.a. at 31 March 2016 to 2.3% p.a. at 31 March 2019. This has increased the value of the liabilities by £126m;

There has been a large increase in the value of the Fund's assets since the previous valuation because:

- The investment return on the Fund's assets for the period 31 March 2016 to 31 March 2019 was 31.1%. This has increased the value of the assets by £953m.

4 Sensitivity analysis

The results set out in this report are based on assumptions about the future. The actual cost of providing the benefits will depend on the actual experience of the Fund, which could be significantly better or worse than assumed. This section discusses the sensitivity of the results to some of the key assumptions.

Sensitivity of contribution rates to changes in assumptions

The approach to setting employer contribution rates mitigates the limitation of relying on one particular set of assumptions about the future by recognising the uncertainty around future investment returns and inflation. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions.

The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Sensitivity of the funding position to changes in assumptions

The reported valuation funding position is based on one set of actuarial assumptions about the future of the Fund. If all of the assumptions made were exactly borne out in practice then the liability value presented in this report would represent the actual cost of providing benefits from the Fund as it stands at 31 March 2019.

Sensitivity of the funding position to future investment returns

The chart in Section 3 details how the funding position varies with the future assumed investment return.

Sensitivity of the funding position to future inflation

Pensions (both in payment and in deferment) in the LGPS increase annually in line with CPI. Furthermore, benefits accrued in the CARE scheme are revalued annually in line with CPI. If future CPI inflation is higher than the assumed rate of 2.3% then the cost of the benefits will be higher than we have set out in Section 3.

The table quantifies the impact on the funding position of varying the benefit increases and CARE revaluation (CPI) assumption below.

CPI Assumption	Surplus/(Deficit)	Funding Level
% pa	(£m)	%
2.1%	(71)	98%
2.3%	(196)	96%
2.5%	(322)	93%

Sensitivity of the funding position to life expectancy

The main area of demographic risk is people living longer than expected. If long term mortality rates fall at a rate of 1.5% p.a. (compared to the assumed 1.25% p.a.) then members will live slightly longer than we have assumed in this valuation. The impact on the funding position is detailed below.

Long term rate of improvement	Surplus/(Deficit)	Funding Level
% pa	(£m)	%
1.25%	(196)	96%
1.50%	(233)	95%

Other demographic risks to consider

There are other risk factors which would have an impact on the funding position. Examples of these include the level of ill health retirements, withdrawals from the scheme and take up of the 50:50 option. These are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore there has been no further quantification of their risk.

Comment on sensitivity analysis

Note that the tables above show the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of the assumptions simultaneously and so the precise effect on the funding position is therefore more complex. Furthermore, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme experience could actually be.

As of March 2020, the funding position is expected to have improved as a result of positive asset performance since 31 March 2019.

Other risks to consider

Regulatory, Administration and Governance risks

As well as financial and demographic risks, the Fund also faces:

- Regulatory risks – central government legislation could significantly change the cost of the scheme in the future; and
- Administration and governance risk – failures in administration processes could lead to incorrect data and inaccuracies in the actuarial calculations.

These risks are considered and monitored by the Fund as part of its ongoing risk management framework.

Resource and environment risks

The Fund is exposed to risks relating to future resource constraints and environmental changes. These risks may prove to be material.

Climate change is a complex issue for the Fund. Adverse future climate change outcomes will have an impact on future longevity, inflation, government and corporate bond yields and equity returns.

Whilst there has been no explicit increase in certified employer contribution related to climate change, these risks may be considered by the Administering Authority when assessing the output from contribution rate ('comPASS') modelling in future.

Risk management

Employers participating in the Fund are exposed to a number of risks. These include, but are not limited to:

- Investment risk;
- Market risks;
- Demographic risks;
- Regulatory risks;
- Administration and Governance risks;
- Resource and Environmental risks.

The Funding Strategy Statement has further details about these risks and what actions the Fund takes to monitor, mitigate and manage each one.

5 Final comments

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Investment Strategy Statement, which sets out the investment strategy for the Fund;
- the general governance of the Fund, such as meetings of the Pensions Committee and Local Pension Board, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register; and
- the information the Fund holds about the participating employers.

Intervaluation employer events

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 62 of the Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund; or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement;

should be referred to us to consider the impact on the Fund.

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2022 where contribution rates payable from 1 April 2023 will be set.

Gemma Sefton

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

19 February 2020

Appendix

Appendix 1 – Data

Membership data as at 31 March 2019

A summary of the membership data provided by the Administering Authority for the purposes of the valuation at 31 March 2019 is shown below. The corresponding membership data from the previous valuation is also shown for reference.

Whole Fund Membership Data	Last Valuation 31 March 2016	This Valuation 31 March 2019
Employee members		
Number	33,282	33,983
Total Actual Pay (£000)	554,602	578,093
Total Accrued Pension (£000) (80ths)	-	19,681
Total Accrued Pension (£000) (60ths)	-	24,477
Total Accrued Pension (£000) (CARE)	19,807	43,613
Average Age (liability weighted)	52.0	52.4
Future Working Lifetime (years)	9.2	7.0
Deferred pensioners		
Number	42,029	57,092
Total Accrued Pension (£000)	49,340	67,014
Average Age (liability weighted)	51.2	51.7
Pensioners		
Number	23,140	25,980
Total pensions in payment (£000)	116,331	132,804
Average Age (liability weighted)	68.7	68.9
Average duration of liabilities	16.2	17.5

Benchmark investment strategy

The following investment strategy, has been used to assess employer contribution rates and to set the future investment return assumption as at 31 March 2019:

% allocation	Current strategy
UK equities	17%
Overseas equities	39%
Infrastructure	11%
Private equity	5%
Total growth assets	72%
Index-linked gilts	6%
Fixed interest gilts	12%
High yield bonds	4%
Total protection assets	22%
Multi asset credit	0%
Property	6%
Total income generating assets	6%
Grand total	100%

Other data used in this valuation

We have also relied upon asset and accounting data from the Fund's published 2016/17, 2017/18 and 2018/19 Annual Report and Accounts. Employer level cashflow data was provided by the Administering Authority and reconciled against the information shown in these documents.

Comment on data quality

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have carried out validations on the membership data provided to ensure it is fit for the purpose of the valuation. Further details can be found in our report issued to the Administering Authority entitled "Data report for 2019 valuation", dated TBC. We believe the membership data is fit for the purposes of this valuation.

Appendix 2 – Assumptions

Financial assumptions used to set employer contribution rates

Projection of assets and benefit payments

The approach to setting employer contribution rates does not rely on a single set of assumptions but involves the projection of an employer's future benefit payments, contributions and investment returns under 5,000 future economic scenarios. In this modelling, inflation (and therefore benefit payments) and investment returns for each asset class (and employer asset values) are variables and take different values in each projection.

The model underlying these projections is Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	Corp Medium A	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

Funding target

At the end of an employer's funding time horizon, an assessment is made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). To value the cost of future benefits assumptions are made about the following financial factors:

- Benefit increases and CARE revaluation;
- Salary growth;
- Investment returns (the "discount rate").

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is not appropriate for every projection. Therefore, instead of using a fixed value, each assumption is set with reference to an economic indicator. The economic indicators used are:

Assumption	Economic Indicator
Benefit increases	Future CPI inflation expectations
CARE revaluation	Future CPI inflation expectations
Salary increases	As above plus 0.9% p.a.
Future investment returns	Prevailing risk free rate of return plus margin

Financial assumptions used to assess the funding position

Salary and Benefit Increases

Financial Assumptions (p.a.)	31 March 2016	31 March 2019
Benefit increases and CARE revaluation (CPI)	2.1%	2.3%
Salary increases	2.4%**	3.2%**

*CPI plus 0.3%
**CPI plus 0.9%

Investment Return

The reported funding position is based on an assumed future investment return of 4.2%. The derivation of this assumption is set out in Section 3. The equivalent assumption at the 2016 valuation was 4.2%. This was derived in a different way, please see the 2016 valuation report for further details.

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding position.

Longevity

As the Fund is a member of Club Vita, the baseline longevity assumptions are a bespoke set of Vita Curves that are tailored to fit the membership profile of the Fund. These curves are based on the data the Fund has provided us with for the purposes of this valuation.

We have also allowed for future improvements in mortality based on the CMI 2018 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. for both women and men.

Longevity Assumptions	31 March 2016	31 March 2019
Baseline Longevity	Club Vita	Club Vita
Future Improvements	CMI2013, Peaked, 1.25% p.a. long term	CMI2018, Smoothed, 1.25% p.a. long term

Full details are available on request.

The longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2016 shown for comparison):

Assumed Life Expectancy	31 March 2016	31 March 2019
Male		
Pensioners	22.5 years	22.1 years
Non-pensioners	24.1 years	22.9 years
Female		
Pensioners	24.6 years	24.3 years
Non-pensioners	26.4 years	25.7 years

Non-pensioners are assumed to be aged 45 at the valuation date

Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailored our demographic assumptions to reflect LGPS experience. The resulting demographic assumptions are as follows:

Demographic Assumptions	
Retirements in normal health	We have adopted the retirement age pattern assumption as used for the purpose of the 2016 LGPS cost cap valuation. Further details are available on request.
Death in Service	See sample rates below
Retirements in ill health	See sample rates below
Withdrawals	See sample rates below
Promotional salary increases	See sample increases below
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependant of a female member is assumed to be 3 years older than her.
Commutation	25% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 63% for service from 1 April 2008).
50:50 option	0.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Sample rates for demographic assumptions

Males

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	353.77	527.36	0.00	0.00	0.00	0.00
25	117	0.21	233.68	348.34	0.00	0.00	0.00	0.00
30	131	0.26	165.80	247.12	0.00	0.00	0.00	0.00
35	144	0.30	129.54	193.05	0.10	0.07	0.02	0.01
40	150	0.51	104.30	155.38	0.16	0.12	0.03	0.02
45	157	0.85	97.97	145.92	0.35	0.27	0.07	0.05
50	162	1.36	80.76	120.15	0.90	0.68	0.23	0.17
55	162	2.13	63.59	94.66	3.54	2.65	0.51	0.38
60	162	3.83	56.68	84.34	6.23	4.67	0.44	0.33
65	162	6.38	0.00	0.00	11.83	8.87	0.00	0.00

Females

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.12	272.84	378.95	0.00	0.00	0.00	0.00
25	117	0.12	183.59	254.95	0.07	0.05	0.02	0.01
30	131	0.18	153.89	213.68	0.09	0.07	0.03	0.02
35	144	0.30	132.83	184.36	0.18	0.14	0.05	0.04
40	150	0.48	110.55	153.39	0.27	0.20	0.08	0.06
45	157	0.77	103.16	143.12	0.36	0.27	0.10	0.08
50	162	1.13	86.97	120.53	0.68	0.51	0.24	0.18
55	162	1.49	64.90	90.03	2.51	1.88	0.52	0.39
60	162	1.90	52.30	72.46	4.00	3.00	0.54	0.40
65	162	2.44	0.00	0.00	7.18	5.38	0.00	0.00

Prudence in assumptions

I am required to include a degree of prudence within the valuation. This has been achieved in both the setting of contributions and assessment of funding position.

Contribution rates

- Employer funding plans have been set such that the likelihood the employer's funding target is met by the end of the funding time horizon is more than 50%. The actual likelihood varies by employer. Further detail in is the Funding Strategy Statement.

Funding position

- The Fund's investments have a 70% likelihood of returning at least the assumed return.

All other assumptions represent our "best estimate" of future experience.

The assumptions used in this valuation have been agreed with the Administering Authority and are set out in the Fund's Funding Strategy Statement effective from 1 April 2020.

Appendix 3 – Rates and Adjustments certificate

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Appendix 4 – Section 13 dashboard

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2019 Valuation: Section 13 Overview

Addressee and purpose

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 to

- provide a recap on the purpose and high-level overview of the Section 13 valuation applicable to LGPS funds; and
- discuss the Fund's funding strategy in two areas that will be of focus during the 2019 Section 13 valuation.

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.

We are happy for this paper to be shared for information purposes with the Government Actuary's Department as part of any engagement with the Fund regarding the 2019 Section 13 valuation.

Background

The 2019 formal valuation of the Fund is nearly complete, and the final report will be signed before 31 March 2020 (as required by the LGPS Regulations). The formal valuation concerns itself with reviewing and amending (where necessary) existing funding plans to ensure there are enough monies to pay members' benefits when they fall due. The main output of the funding valuation is the Rates and Adjustments certificate containing the contribution rates payable by employers from 1 April 2020 to 31 March 2023.

Prior to the Public Sector Pension Scheme reforms, this would be the completion of the valuation process. However, a part of these reforms was a requirement included in the Public Service Pensions Act 2013 to review each LGPS fund's 'local' funding valuation to ensure compliance with four aims:

1. The valuation is in accordance with the LGPS Regulations ("Compliance")
2. The valuation has been carried out in a way which is not inconsistent with other LGPS funds' valuations ("Consistency")
3. Employer contribution rates are set at an appropriate level that ensures solvency of the fund ("Solvency")
4. Employer contribution rates are set such that they are fair between generations ("Long term cost efficiency")

This review is colloquially known as the "Section 13 Valuation" and its primary purpose is to provide a mechanism that allows Central Government to gain comfort that no LGPS fund is setting inappropriate funding plans which increase the likelihood of their being insufficient monies to pay members' benefits when they fall due.

As the responsible authority for the LGPS, the Ministry of Housing, Communities and Local Government ("MHCLG") were required to appoint an appropriately qualified person to carry out the Section 13 Valuation. MHCLG appointed the Government Actuary's Department ("GAD").

The first Section 13 Valuation was carried out after the 2016 round of local valuations and GAD's final report was made publicly available[1] in September 2018. Shortly after its publication, the four actuarial advisors to LGPS

[1] https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

funds issued a joint public letter outlining their thoughts about the report and process. This letter is contained in Appendix A.

The Fund did not raise any flags for concern in the 2016 report.

2019 Section 13 Valuation

GAD have recently been in touch with all LGPS funds to outline their approach for the 2019 Section 13 Valuation. The timetable for GAD's valuation is below:

- March/April 2020: Data collation by Administering Authority and Fund Actuary
- End of April 2020: Submission of data to GAD
- Q4 2020: GAD engage with actuarial firms who advise LGPS funds to discuss initial findings
- Q1 2021: GAD engage with those funds where further information/discussion is needed
- Summer 2021: GAD publish final report

GAD have confirmed that they will continue to review each LGPS fund's local valuation against the four aims of compliance, consistency, solvency and long-term cost efficiency using a similar approach to that taken during the 2016 exercise.

GAD have also confirmed in a draft letter to the England & Wales LGPS Scheme Advisory Board[2] that they intend to focus on two additional areas for the 2019 Section 13 Valuation, these are:

- Allowance for the impact of the McCloud case; and
- Falling contribution rates.

Allowance for the impact of the McCloud case

GAD explicitly state in their draft letter that they plan to review Funding Strategy Statement ("FSS") and final valuation report to check if the approach towards potential additional McCloud costs has been clearly set out. A corollary to that is that GAD will also be checking to see if funds have made provision for the potential of additional costs due to the resolution of the McCloud case.

Surrey Pension Fund's position

The risk associated with the McCloud case is that, although the remedy is expected to increase the cost of LGPS benefits, the format or nature of the remedy is currently unknown. It is therefore difficult to make an explicit allowance for McCloud when setting employer contribution rates.

As such, during the 2019 valuation process we considered and discussed with Officers in depth how to best mitigate the McCloud risk. As detailed in the FSS, the Fund has increased the likelihood of success in nearly all employers' funding plans. By including additional prudence in the funding plans, we expect that all, or a large proportion, of the increased costs due to the McCloud remedy can be absorbed which reduces the need to revisit employer contribution rates. Where an allowance hasn't been made e.g. in the instance of contractors, if cessation occurs, allowance will be made where appropriate.

Given this approach, we would **not anticipate** GAD raising any concerns about the FSS or valuation report for the Fund as far as the McCloud treatment is concerned.

[2] https://www.lgpsboard.org/images/PDF/CMBDAJanuary2020/Item8PaperB_2019Section13Report_ DraftGADletter.pdf

Falling contribution rates

The second area of additional focus for GAD concerns the long-term cost efficiency measure, which is intended to flag funds who are seen to be placing an undue burden on future taxpayers. In their draft letter, GAD state that where funds have reduced overall contribution rates, they will review the FSS and valuation report to check this has not led to an 'adverse impact' on future taxpayers. In these cases, GAD would expect a fund to have:

- kept the same deficit recovery end date, or brought it forward, and
- made an explicit allowance for potential McCloud costs

As well as the specific points about funds who have reduced contributions, GAD also intend to increase their scrutiny of the long-term cost efficiency measure (for example flagging funds with low funding levels and low contributions compared to the LGPS peer group).

Surrey Pension Fund's position

We are supportive of the principles of long-term cost efficiency and intergenerational fairness within the LGPS. However, we do have some concerns with various aspects of GAD's approach to evaluating the long-term cost efficiency measure and have raised them with GAD in the past (see "How deficit recovery periods should be set" in Appendix A for further information).

Specifically, we believe that funding an open pension scheme with a decreasing recovery period (for a fund either in surplus or deficit) leads to volatile contributions and increased potential for intergenerational cross-subsidy. If GAD will carry out their calculations as outlined in their draft letter, we expect that it is likely that the Fund will not be flagged against the long-term cost efficiency measure.

Our understanding is that GAD will continue to only look at the whole fund contribution rate i.e. the aggregate total of employer rates, when they carry out their analysis.

The table below shows the whole Fund contribution rates for the periods 1 April 2017 to 31 March 2020 and 1 April 2020 to 31 March 2023 for comparison.

Period	Primary rate	Secondary rate		
		Year 1	Year 2	Year 3
1 April 2017 to 31 March 2020	15.8% of pay	£43,770,000	£44,044,000	£44,324,000
1 April 2020 to 31 March 2023*	18.2% of pay	£36,262,000	£37,511,000	£38,814,000

* The rates for the period from 1 April 2020 have not yet been finalised for all employers and as such are subject to change

As you can see from the table above, the whole Fund **secondary contribution rates** for 1 April 2020 to 31 March 2023 are expected to be less than those disclosed in the 2016 valuation report for the previous 3 years. However the whole Fund **total rate** when considered in percentage of pay terms has increased from 23.5% of pay in 2019/20 to 24.4% of pay in 2020/21 (based on the 2019 valuation payroll).

Note the above is subject to the contribution rates for employers being agreed as per our proposed rates. We will confirm the whole Fund total rates from 1 April 2020 once the final rates are agreed. On this basis we would not expect there to be a flag.

Further commentary

Whilst we don't believe there will be a flag, it may be helpful for the Fund to have an awareness of their position in relation to the points that GAD intend to focus on, namely deficit recovery period and deficit recovery end date, (although we expect the focus to be on those funds were rates are decreasing).

The Fund's **deficit recovery period** is 20 years as per the 2016 valuation period. This is reasonable in an open pension scheme when new benefits are continued to be accrued and there is no crystallisation or end in the future. However, this means that under GAD's interpretation the **deficit recovery end date** is now three years further in the future, 31 March 2039. **Therefore, GAD will view this as an extension of the deficit recovery timeframe.**

Based on GAD's 2016 Section 13 Valuation, it was known that an extension of the deficit recovery timeframe may result in a flag, this did not sway the funding strategy considerations during the 2019 valuation for the following reasons:

- we believe that GAD's expectation around reducing deficit recovery timeframes is not appropriate for open pension schemes;
- the primary objective during the valuation is to set long term, affordable and robust funding plans that the Fund's Actuary, Officers and Committee believe are appropriate.

As such, the funding plans set at the 2019 valuation are appropriate, risk-aware and aim to achieve inter-generational fairness.

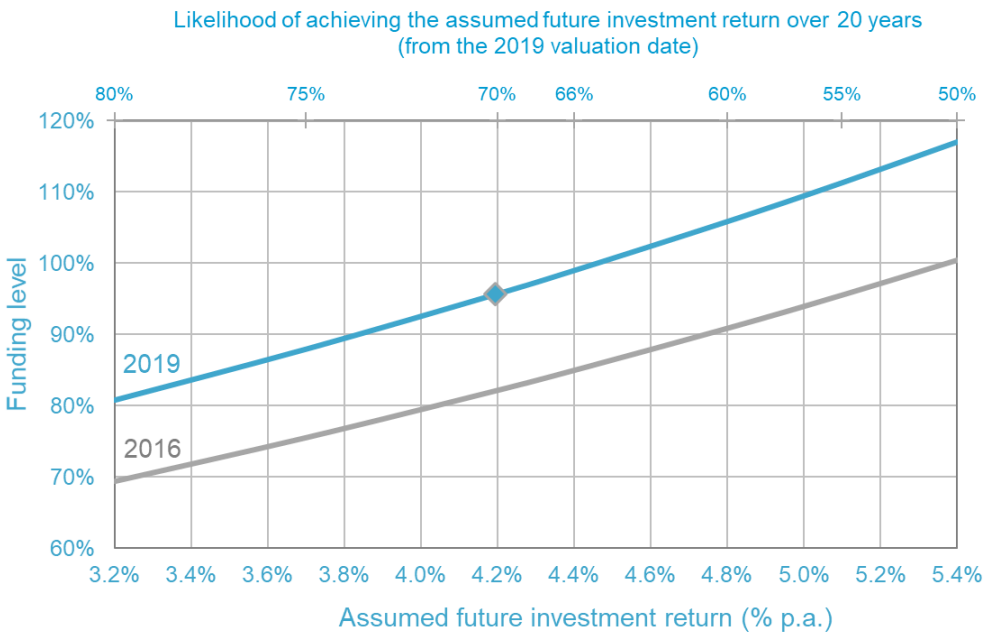
Evidencing intergenerational fairness

To give the Fund comfort we have outlined why we believe the funding plans set at this valuation are appropriate and inter-generationally fair. These can be summarised as:

1. Less reliance on future investment returns;
2. Higher proportion of contribution receipts in relation to funding deficit;
3. Appropriate likelihood of success of the funding plan

Future investment returns

The chart below shows how the past service funding position of the Fund at the 2019 valuation has genuinely improved since 2016. The chart details how the past service funding level varies (vertical axis) with the assumed level of future investment return (horizontal axis) at both the 2016 and 2019 valuation.



Given that the 2019 line is above 2016, this means Fund now needs a lower level of future investment return to have enough monies to pay members' future benefits. For example, to be 100% funded at the valuation date, the Fund would have needed a future investment return of 5.4% p.a. at the 2016 valuation. At the 2019 valuation, the required return has reduced to 4.5% p.a..

Contributions funding deficit

The Fund is receiving more secondary contributions per £ of funding deficit than 2016.

	2016 valuation	2019 valuation
Funding deficit at valuation date (£000)	679,000	196,000
Secondary contribution rate (£000) *	44,324	37,904
Contribution per £ of deficit	6.5%	19.3%

* 2016: 2019/20 whole fund secondary rate, 2019: 2022/23 whole fund secondary rate

Likelihood of success of the funding plan

At the 2016 valuation, a funding plan was agreed for the employers that make up most of the Fund which had a minimum likelihood of 66% of achieving full funding at the end of the funding time horizon. The funding time horizon was 20 years, so the funding plan end date we inspected was 2037 (20 years from introduction of new rates on 1 April 2017).

At the 2019 valuation, the funding time horizon of 20 years has continued to be used. However, when agreeing funding plans, inter-generational fairness was considered by reviewing the likelihood of success at both 2035 and 2038 (as the modelling was carried out as at 31 March 2018). The Fund then agreed a funding plan which had a minimum likelihood of 70% of achieving full funding at the end of 20 years this would be in 2038. The Fund then concluded that the funding plans agreed at 2019 did not place an undue burden on future taxpayers (or were unfair to the current generation of taxpayers).

We are happy for the Fund to use the above information when liaising with GAD during their engagement phase in Q1 2021 to give them comfort that the Fund's funding plans are cost efficient in the long term. We would be happy to provide any further information or support during this engagement phase if necessary.

Next steps

At this stage of the process there is no further action for the Fund to take regarding the Section 13 Valuation and the areas considered in this paper. We will keep the Fund informed as any new information or details emerge regarding the 2019 Section 13 Valuation.

Reliances and limitations

This paper has been prepared to provide an overview of the 2019 Section 13 Valuation. It has not been prepared for any other purpose and should not be used for any other purpose.

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).

I am happy for this paper to be shared with the Government Actuary's Department to help support the Administering Authority during any discussions related to the 2019 Section 13 Valuation.

Please note that the comments made in this paper regarding whether the Fund raises any concerns or 'flags' are based on my opinion only and interpretation of the draft approach to be undertaken by GAD which may be subject to change. As we are not carrying out the Section 13 valuation we cannot be certain or guarantee the approach that will be taken.

The results contained in this document are for the Fund as a whole. It does not set out the valuation results for individual employers. We would advise against extrapolating the results contained in this document to predict possible funding positions or contribution rates for employers at this stage.

The following Technical Actuarial Standards[3] are applicable in relation to this report and have been complied with where material given the summary nature of the paper:

- TAS100

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

03 March 2020

[3] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

Appendix A: Actuarial advisors' reply to 2016 Section 13 Valuation

Dear Sirs

Local Government Pension Scheme 2016 Section 13 Valuation

We are writing to you as the responsible authority for the LGPS and Chair of the Local Government Pension Scheme Advisory Board (England and Wales) on behalf of the four firms who provide actuarial advice to LGPS funds regarding the Section 13 review carried out by the Government Actuary's Department (GAD).

We recognise that the initial headline messages in the report are positive about the overall progress being made by the LGPS, and this has been identified in the initial press reports which have emerged since the report's publication. Clearly this is something which we are pleased to see. However, on reading the detail of the report we have some material concerns over its content. We believe that it is important to highlight these, as we do below, and that it is not in the interests of the LGPS for some of GAD's recommendations to be taken forward.

Our concerns relate to GAD's:

- lack of recognition of the LGPS's updated financial position and outlook;
- approach to engagement during the process;
- interpretation of consistency as applied to LGPS funding plans; and
- understanding of LGPS funding plans and expectation of how deficit recovery plans should be set.

We consider each of these areas in turn.

The LGPS Funding Position and Outlook

We believe that the LGPS's financial position has improved significantly over the last few years and, for most local authorities, we do not currently expect that monetary contributions will need to rise following the 2019 valuations (albeit the valuation date is still six months away so that cannot be guaranteed).

The Section 13 report is based on the position as at 31 March 2016. It does acknowledge the significant improvement in funding since 31 March 2013 (from 79% to 85% on average on prudent local bases and from 92% to 106% on average on GAD's best estimate market basis). However, despite being published 18 months after the 2016 valuations were signed off, the report does not acknowledge that the funding position would have been expected to increase further due to continuation of deficit contributions and due to the funds' strong asset performance since 2016. Instead, the report is largely focussed on highlighting perceived failures by Funds against a series of arguably rather arbitrary actuarial metrics, many of which focus on a single point when in fact there are a number of interrelated issues at play.

Our concerns are that readers (particularly lay readers) may conclude that:

- The LGPS is not being well managed from a funding perspective, with more than 20 amber or red flags being allocated.
- There will be significant employer contribution increases at the 2019 valuation based on GAD's asset liability modelling work (work which we believe goes beyond the remit and requirements of Section 13). Based on current financial conditions, this does not reflect what we expect will happen in reality and seems to emanate from GAD's assumption that contributions are set solely based on prevailing market conditions and gilt yields.

Engagement
We recognise that GAD do not carry out valuations of LGPS funds for funding purposes, so all four firms of actuarial advisers have invested considerable time and effort assisting GAD in their work preparing this report.

Our concerns are that:

- Very little of the extensive feedback that we provided has been reflected in the final approach and published report, and similarly for the feedback which has been provided by those clients consulted directly by GAD. It therefore seems to us that GAD have not taken fully into account how the LGPS is funded and how this differs from private sector schemes.
- The metrics are in our view too simplistic and could lead to incorrect/invalid conclusions. Whilst it is accepted that there is a balance to be struck between simplicity by applying metrics (where there is a risk of applying them rigidly despite them potentially offering limited insight) and a detailed bespoke analysis which would offer a more rounded view, in many cases, in our view, there hasn't been sufficient detailed engagement with the administering authority and Fund Actuary to understand local circumstances or the risk management measures already in place to mitigate the identified risks. Readers of the report will see the metrics used as a valid test (especially with the Red/Amber/Green classification used). This could influence funding behaviours in an effort to avoid a future red or amber flag and lead to lay readers drawing incorrect conclusions about the performance of a fund and its officers and committee. Ultimately this could result in actions being taken which are not in the best interests of the LGPS and/or individual funds.

We believe GAD should recognise more explicitly that these metrics are limited in nature and instead undertake a more holistic review of, and commentary on, funding plans with considerably more engagement with key stakeholders at individual funds.

Interpretation of consistency
We have no objection to GAD's recommendation in relation to presentational consistency (Recommendation 1) as long as any "template" reporting is provided in good time to be implemented and is mandatory (since some administering authorities may otherwise refuse to agree to any changes).

However, we fundamentally disagree with how GAD has approached what they call "evidential consistency": the wording in the Public Service Pensions Act is “not inconsistent” implying a focus on identifying outliers which is entirely logical for a review analysing and comparing local LGPS valuations. GAD has instead interpreted their role as requiring a comparison of individual assumptions (focusing on those used to calculate the past service funding level) and commenting on whether or not they are identical. Our concern is that readers will be given a completely false impression of what we understood to be the intentions of Section 13.

In addition, our concerns are that:

- There is very little commentary on the main output from a local LGPS funding valuation, i.e. the employer contributions payable. Given LGPS funds are open, ongoing and long term statutory schemes, the contributions payable are far more relevant and important than the assessment of the past service funding position (on which GAD has focused). We believe that there is far greater consistency in relation to employer contributions and the report as drafted will give readers a false impression of what is most important in the overall funding plan.
- GAD does not acknowledge that different assumptions and funding mechanisms are valid when setting employer contribution rates nor that this diversity in approach allows administering authorities to adopt the approach which maximises the chance that they meet their objectives in light of their appetite for risk and the specific circumstances of the Fund. Equally important, the Fund Actuary is required to have regard to the Funding Strategy Statement when carrying out the valuation. This is an administering authority document and administering authorities may appoint an adviser on the basis of the funding approach adopted. Our concern is that GAD's assertion that house views are responsible for the assumptions adopted for local valuations is misleading, ignores the administering authorities’ (and employers') key role within the valuation process and does not provide an appropriately balanced view.

In putting forward Recommendation 2, GAD has neither outlined what the benefits for the LGPS and its stakeholders would be, nor has it considered the potential downsides in terms of the reduced input from the administering authority into the funding process and the fundamental change in governance arrangements which would be involved. A change of this nature needs to be considered from a policy point of view with consultation with all stakeholders, rather than being introduced by the back door. We therefore do not agree with Recommendation 2 and believe that the Scheme Advisory Board should consider the feedback we provided to GAD before taking this recommendation forward.

In particular, we believe that a better focus for the Section 13 review would have been:

- consideration of the consistency of output of the valuation, i.e. employer contribution rates rather than focusing on certain individual assumptions used to calculate funding levels;
- commentary and analysis of the overall funding strategy and assumptions, including level of prudence, rather than a focus on individual assumptions in isolation; and

- a comparison of employer contribution rates against funding levels (assessed on a standardised funding basis), which would give a visual representation of the above two points and some insight into relative prudence of the overall funding approach for each fund.

How deficit recovery periods should be set

Deficit recovery periods can form an important part of the funding strategy, particularly where funding levels are low, but in practice are often not key drivers of the contribution plan. Our concern is that the application of a strict "rules-based" approach could potentially inadvertently lead to the wrong conclusions in cases where the funding plan overall is robust and meets the cost-efficiency requirements. In particular:

- A fund wishing to adopt a more prudent actuarial valuation basis may be reluctant to do so if the result is an increased deficit recovery period and hence a risk of triggering on this measure.
- A fund which feels it can sensibly afford to adopt a more risk-averse investment strategy may decide against doing so if it will give rise to a longer deficit recovery period.
- When deficit recovery periods are relatively short, there comes a point where seeking to shorten them further at every actuarial valuation may lead to increased volatility of contributions and therefore come into conflict with cost-efficiency.
- Funds/employers may fall foul of this trigger simply due to seeking to manage their budgets prudently within their financial constraints (e.g. paying increased contributions whilst it can afford them with a view to reducing them in future years when its financial position is tighter).
- GAD has interpreted CIPFA's guidance on deficit recovery periods to mean that these should have a fixed end date. However, as GAD has acknowledged, they were not part of discussions when the guidance was drawn up. During these discussions, we have already confirmed to GAD that a deficit recovery period was used to mean a number of years e.g. 20 years, so the intention was for funds to operate with a rolling recovery period which does not extend in the number of years. We are concerned that because GAD has a different interpretation of CIPFA's guidance, even if funds follow that guidance on our advice, they may still be flagged on this metric.

We think it would make more sense for the deficit recovery period not to be flagged in isolation, but for a more rounded view of the funding plan to be taken in the context of viewing whether a fund meets the cost-efficiency requirement. Rather than Recommendation 5, of the report, we would have preferred to have seen:

- the deficit recovery period at this and the previous valuation being noted; and
- a flag being raised only if it were felt that the cost-efficiency requirement was not being met overall.

We are disappointed that after so many months of discussions we are in a position to have to write this letter to you. However, we feel very strongly that it is important to ensure that the requirements of Section 13 can be met whilst recognising the positive steps taken by local authorities to date so it does not become the driver of LGPS funding plans to the detriment of the vast majority of well-managed LGPS Funds and the public perception of the LGPS. One of the great strengths of the LGPS is that it is

funded, giving it a far greater degree of transparency and accountability particularly when compared with the other public service schemes. We would be more than happy to provide further input and gather further feedback from our administering authority clients if that would assist you in determining how best to respond to GAD's review.

Yours faithfully

Alison Murray FFA
Partner
For and on behalf of Aon

Graeme Muir FFA
Partner
For and on behalf of Barnett Waddingham

Catherine McFadyen FFA
Partner
For and on behalf of Hymans Robertson

Paul Middleman FIA
Partner
For and on behalf of Mercer

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **LGPS SCHEME ADVISORY BOARD (SAB) – CONSULTATION ON DRAFT RESPONSIBLE INVESTMENT GUIDANCE**

SUMMARY OF ISSUE:

Strategic objectives
Governance

To provide details of the Scheme Advisory Board's (SAB) consultation on draft responsible investment guidance for LGPS funds and the response from Surrey.

RECOMMENDATIONS:

To note the report and annexe.

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 Fund's strategic governance objectives.

BACKGROUND:

1. In November 2019 the Scheme Advisory Board for the LGPS (SAB) issued a consultation on draft responsible investment (RI) guidance for LGPS funds.

2. The aim of this RI guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy statements.

3. The SAB also agreed that work should commence on drafting part two of the guidance, the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy.

4. A response on behalf of Surrey County Council, from Anna D'Alessandro, Director of Corporate Finance, was issued to the SAB on 10 January 2020 (it is included as Annexe 1).

DETAILS:

5. The guidance is based on the extant LGPS investment regulations 2016 and associated statutory guidance together with our understanding of related

legislation. It does not anticipate or include any work undertaken by the SAB in conjunction with scheme stakeholders to explore the scope for recommending changes to the Ministry for Housing, Communities and Local Government (MHCLG) to amend the scheme's RI requirements to reflect recent changes made to the regulatory framework applying to schemes based on trust law. If changes to regulations and statutory guidance are made, this guidance will be updated to reflect them and will then be regularly reviewed to ensure that it remains timely and relevant.

6. The guidance is intended to be permissive in that it does not seek to provide operational direction but rather seeks to clarify the parameters within which decisions can be made and policies formulated with regard to the integration of ESG considerations into the overall investment strategy of the authority. The SAB recognises that there will be variation between different administering authorities in terms of their approach to RI and no one guidance document could successfully cover all local situations.

7. Surrey is supportive of much of the SAB guidance, and believes it to be consistent with the Fund's approach to RI. Surrey understand that the guidance is limited to the current regulatory framework and trust law and does not reflect any anticipated recommended changes to the MHCLG.

8. Surrey expresses the hope that the second part of the guidance will address more clearly the expectations by the SAB around what practical steps administering authorities should be taking in the area of RI.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

12. 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

13. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

14. This does not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

16. 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

Sources/background papers:

The SAB consultation on the draft RI guidance

http://www.lgpsboard.org/images/Consultations/RIGuidance/DRAFT_Part_1_Responsible_Investment_Guidance_Final_pdf_version.pdf

Annexes:

1. Surrey County Council response to the SAB consultation on the draft RI guidance

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12

Tel: 020 8213 2739

E-Mail: neil.mason@surreycc.gov.uk

Our Ref: Responsible Investment in the LGPS
Your Ref:

Bob Holloway
Scheme Advisory Board

By email

10 January 2020

Dear Bob,

RE: Responsible investing in the Local Government Pension Scheme

Surrey County Council (Surrey) welcomes the opportunity to respond to the draft guidance on Responsible Investment (RI) issued by the Scheme Advisory Board (SAB).

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 much of the guidance and understand that it is limited to the current regulatory framework and trust law and does not reflect any anticipated recommended changes to the Ministry of Housing, Communities and Local Government (MHCLG). We have made some observations which are contained in this document.

Introduction and purpose

Surrey supports the stated purpose of the guide is not to provide operational direction and recognises that there will be a difference in the approaches of administering authorities.

We welcome the identification of the term “Spectrum of Capital”, as this is a useful tool for Funds to understand how RI fits with their core investment beliefs. It should be noted that the

12 “Spectrum of Capital” should not been seen as linear definition of policy intent and the guidance would benefit from using an alternative descriptor to “journey” to avoid this being inadvertently insinuated.

Surrey commends the identification of the role of the Local Pension Board in the context of their statutory duty to assist the administering authority in complying with their Investment Strategy Statement (ISS) and its statutory compliance.

1A. What is Responsible Investment?

Surrey notes the use of the Principle for Responsible Investment (PRI) definition of Responsible Investment, but, would welcome further work in this area, linking this definition specifically to the LGPS policy framework. We are aware of the drafting of the second part of this guidance and the intent to include a “toolkit” for Funds and we would hope that further guidance could develop this.

1B. What are ESG factors?

This section would benefit from a general introduction to the three themes, rather than providing limited examples. More comprehensive examples could then be revered to as an Annexe.

1C. What about climate risk?

The highlighting of this risk is justified, although, it should be acknowledged that this is only one risk within the wider ESG landscape. Reference should also be included to the opportunity for Funds to report in accordance with TCFD requirements.

1D. Financially Material Factors?

Surrey notes the absence of a statutory definition of Financially Material Factors for the LGPS and supports the application of the definition included in the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018.

1E. Non-Financial Factors

A clearer definition of what might constitute “significant financial detriment” would be a useful addition to this section and is something the SAB could engage with the investment industry and LGPS funds to understand, in order to identify a range of tolerances in the sector.

1F. Asset Stewardship

It is desirable to add reference to the new version of the FRC Stewardship Code and how this may affect Funds.

2B. Statutory Guidance

The emphasis on the statutory requirement for Funds to publish their policies on how ESG considerations are taken in to account is welcome.

2D and 2E. What an Administering authority should and may do

There needs to be a recognition that arrangements will differ depending on the agreement within respective LGPS pools. While Funds “should” strongly encourage their fund managers to vote their company shares in line with their policy, this may be problematic if the policies of different Funds in pooled funds are not consistent.

12

3C. Elected member code of conduct

The relevance of this section is not immediately clear in the context of the pre-eminence of statutory compliance.

Part 4 – Recent developments in trust based pensions

The comparison of the LGPS with legislative measures applicable to trust based schemes is useful and it would be desirable in the future for best practice on RI in the trust based sector to be included in statutory guidance to the LGPS and applicable to LGPS funds.

Surrey welcomes a number of elements in this draft guidance, but, also recognises its limitations. It is hoped that the second part of the guidance will address more clearly the expectations by the SAB around what practical steps administering authorities should be taking in the area of RI.

Yours sincerely

Anna D’Alessandro
Director of Corporate Finance

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

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

SUBJECT: **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE**

SUMMARY OF ISSUE:

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.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Notes the main findings of the report; The Fund's 3 year annualised performance return for the period ending 31 December 2019 was +6.2% against its target return of 6.6%. The funding level as at 31 December 2019 was 101.6%.

REASON FOR RECOMMENDATIONS:

In order to judge the performance of the Fund's investment managers against the Fund's target returns, and whether it is meeting its Strategic Investment objective in line with its Business Plan

DETAILS:

1. Manager Issues during the Quarter

Manager	Issue	Status/Action Required
Various	Client meetings	Issues/ Actions related to recent manager meetings held on 14 February 2019 are included as Annex 3.

2. Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

Date of Response	Organisation	Request	Response

29/10/2019	Altman	Summary of Alternative investments	Summary of Alternative investments as at 31 March 2019
05/11/2019	Bloomberg	Summary of Alternative investments	Summary of Alternative investments as at 31 March 2019
20/12/2019	Financial Times	Information on Foreign Exchange Transactions	Custodian Information on Foreign Exchange Transactions Jan 19 – Sep 19

3. Stock Lending

In the quarter to 31 December 2019, stock lending earned a net income for the Fund of £77,886.10.

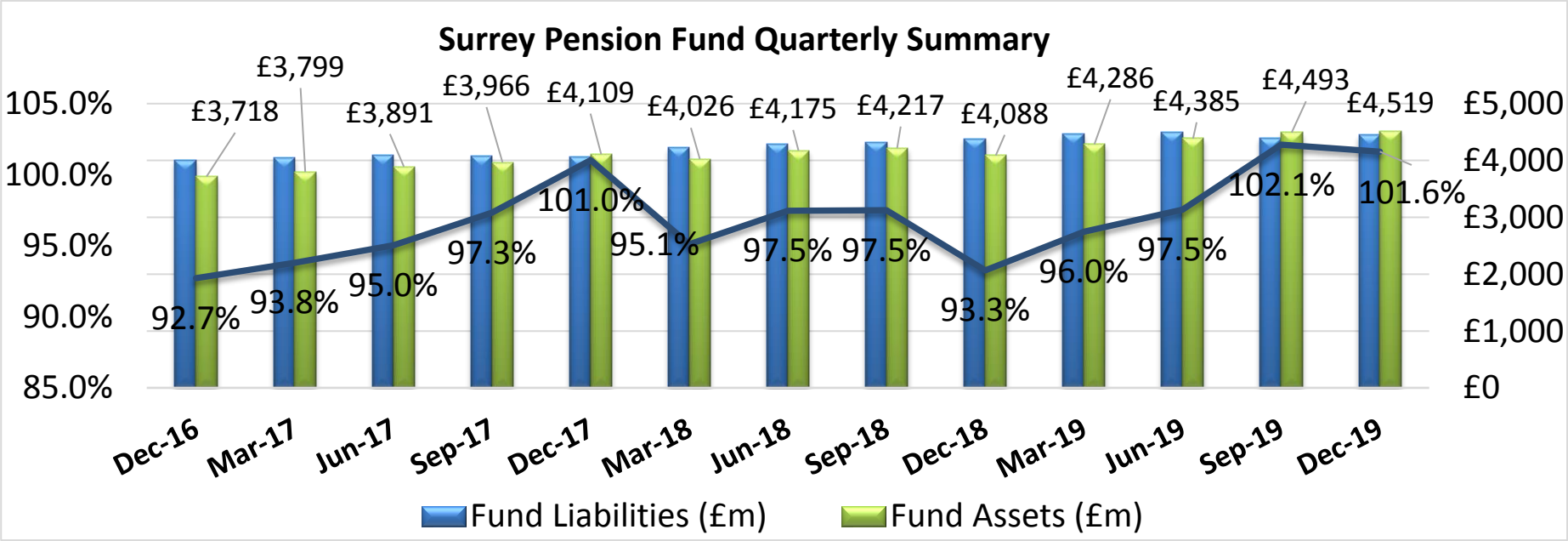
4. Internally Managed Cash

The internally managed cash balance of the Fund was £91.9m as at 31 December 2019. Drawdowns for private equity and infrastructure are expected over the coming months

5. Funding Level

The funding level has reached 101.6% (96% as at 31 March 2019) and is based on the formal valuation results, updated for market conditions at 31 December 2019, estimated contributions paid and benefit outflow to that date and actual Fund assets as provided. Based on the data that has been provided, the market value of assets is approximately £4.519bn and the value placed on the liabilities is £4.447bn.

The assumptions used are as follows: A discount rate of 4.2%, Salary inflation of 3.0%, Pension increases of 2.1%

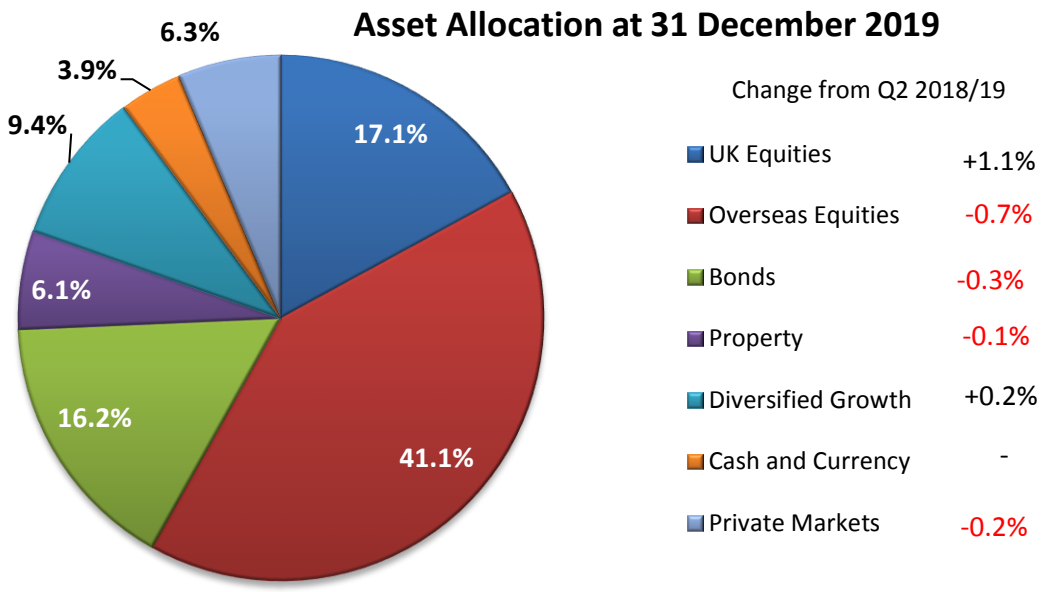


6. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at 31 December 2019.The table below compares the actual asset allocation as at 31 December 2019 against target asset weightings.

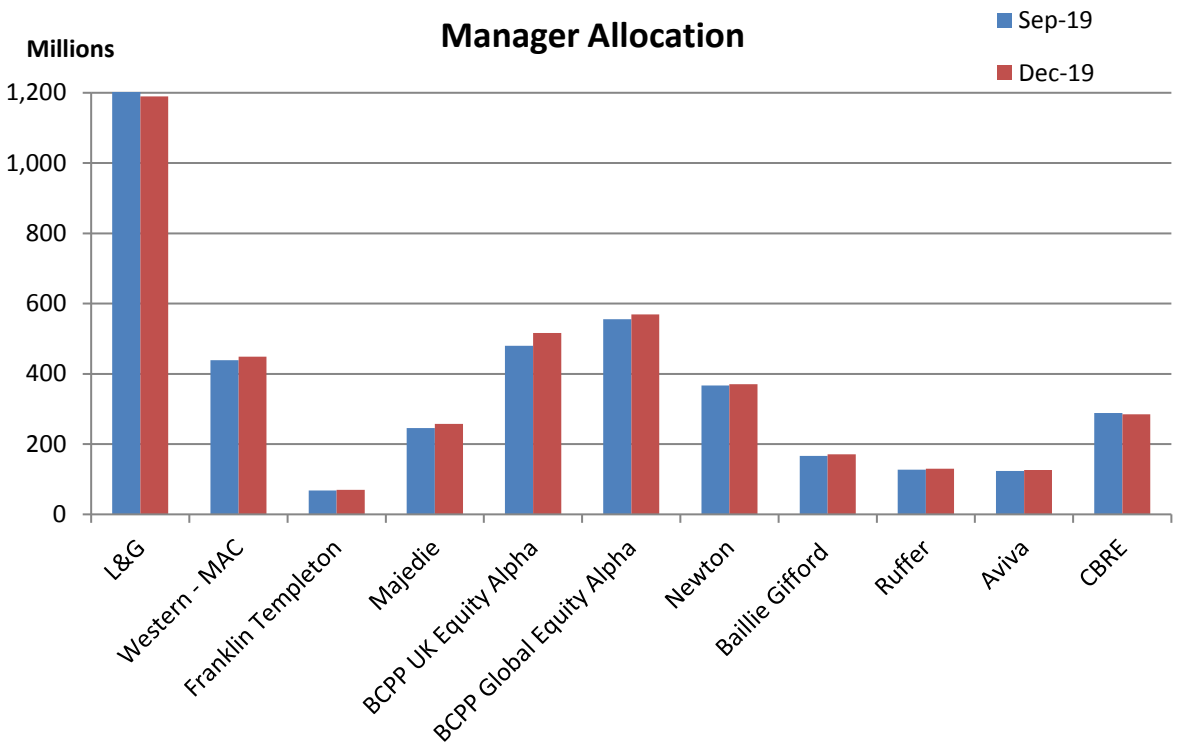
	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	448.4	9.9%	9.7%
Index Linked Gilts	212.2	4.7%	5.5%
Unconstrained	69.7	1.5%	2.4%
Equities			
UK	770.5	17.1%	17.4%
Global Equities (Overseas)	1,176.7	26.0%	19.0%
EME Synthetic (Overseas)	153.8	3.4%	3.8%
Multi Factor (Overseas)	373.2	8.3%	9.8%
Low Carbon (Overseas)	153.8	3.4%	9.8%
Property Unit Trusts	274.0	6.1%	6.2%
Diversified growth	426.4	9.4%	11.4%
Cash*	156.3	3.5%	0.0%
Currency hedge	17.8	0.4%	0.0%
Private Markets	286.4	6.3%	5.0%
TOTAL	**4,519.2**	**100.0%**	**100.0%**

**The Asset Allocation table includes The Fund's holding of cash, whereas the Asset Allocation in Annex 1, is the Fund's Strategic Asset Allocation of its Funds under Management based on its most recent Investment Strategy Statement*



7. Manager Allocation

The graph below shows the manager allocation as at 31 December 2019 and 30 September 2019.



Fund Manager Benchmarks

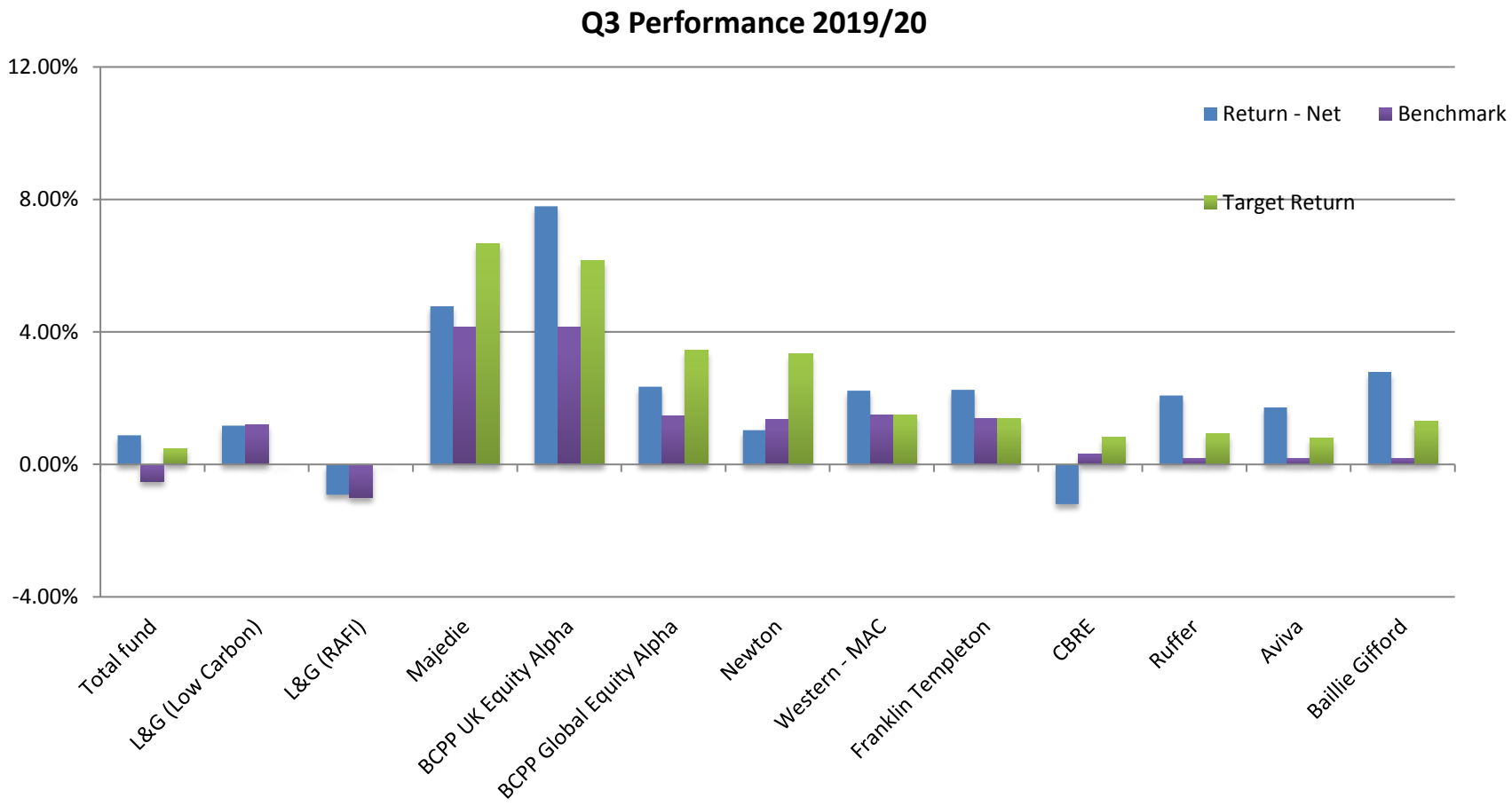
Fund	Portfolio	Benchmark Index	Performance Target relative to Benchmark
Surrey Pension Fund	Total Portfolio	Weighted across the fund	+1.0%

Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities	FTSE All Share	+2.0%
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5%
Marathon	Global Equities	MSCI AC World	+2.0%
Newton	Global Equities	MSCI AC World	+2.0%
Various*	Private Equity	MSCI World Index	+5.0%
CBRE	Property	IPD UK All Balanced Funds	+0.5%
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5%
Ruffer	Diversified Growth	UK Base Rate	+3.0%
Aviva	Diversified Growth	UK Base Rate	+5.0%
Western	Multi Asset Credit	Total return Fund (6% return has been used as a comparator/ benchmark against its performance)	+5% to +7% (+6% per annum used for reporting purposes)
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to +7% (+5.5% used for reporting purposes)
LGIM	Multi-Asset Equities and Bonds RAFI Multi-Factor Low Carbon Index CN - AAA-AA-A Bonds – All Stocks Index Index-Linked Gilts	MSCI World MSCI World Low Carbon Target Index Markit iBoxx GBP Non Gilts ex BBB All stock Portfolio of single stock funds structured by reference to Fund liabilities	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate

8. Fund Performance - Summary of Quarterly Results

Overall, the Fund returned +0.88% in Q3 2019/20, in comparison with the Fund's customised benchmark of -0.52% and the target return of 0.48%. The table below shows manager performance for Q3 2019/20 (net of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Net of Fees Performance	Benchmark Index	Benchmark Performance	Target Return
Total fund	0.88%	Customised	-0.52%	0.48%
L&G (Low Carbon)	1.17%	MSCI World Low Carbon	1.19%	0.0%
L&G (RAFI)	-0.92%	MSCI World	-1.00%	0.0%
Majedie	4.77%	FTSE All Share	4.16%	6.66%
BCPP UK Equity Alpha	7.79%	FTSE All Share	4.16%	6.16%
BCPP Global Equity Alpha	2.35%	MSCI ACWI Index	1.46%	3.46%
Newton	1.04%	MSCI AC World	1.35%	3.35%
Western – MAC	2.22%	Total Return Fund (Using +1.5% target return as comparator)	1.50%	1.50%
Franklin Templeton	2.25%	Barclays Multiverse Index	1.38%	1.38%
CBRE	-1.20%	IPD UK All Balanced Funds	0.32%	0.82%
Ruffer	2.08%	UK Base Rate	0.19%	0.92%
Aviva	1.72%	UK Base Rate	0.19%	0.80%
Baillie Gifford	2.79%	UK Base Rate	0.19%	1.30%


Q3 Performance 2019/20
12.00%
8.00%
4.00%
0.00%
-4.00%
Return - Net
Benchmark
Target Return
Total fund
L&G (Low Carbon)
L&G (RAFI)
Majedie
BCPP UK Equity Alpha
BCPP Global Equity Alpha
Newton
Western - MAC
Franklin Templeton
CBRE
Ruffer
Aviva
Baillie Gifford

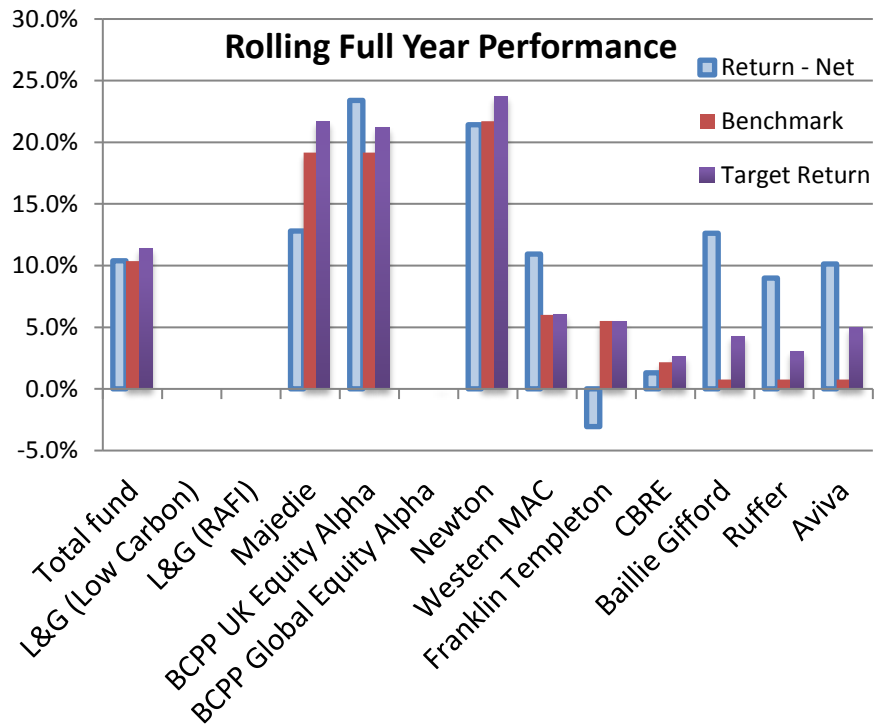
9. Summary of Full Year Investment Results

During the course of the previous 12 months to 31 December 2019, the Fund returned 10.4% net of investment fees against the customised fund benchmark of 10.36% and target return of 11.36%

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	10.4%	10.36%	11.36%
L&G (Low Carbon)*	-	-	-
L&G (RAFI)*	-	-	-
Majedie	12.8%	19.17%	21.67%
BCPP UK Equity Alpha	23.4%	19.17%	21.17%
BCPP Global Equity Alpha*	-	-	-
Newton	21.4%	21.71%	23.71%
Western MAC	10.9%	6.00%	6.00%
Franklin Templeton	-3.1%	5.50%	5.50%
CBRE	1.3%	2.17%	2.67%
Baillie Gifford	12.6%	0.75%	4.25%
Ruffer	9.0%	0.75%	3.00%
Aviva	10.1%	0.75%	5.00%

**The performance of these funds is not yet known due to their new inception*

***The Total Fund performance should be reviewed in isolation of each individual fund manager, mainly due to former mandates/ funds from the last year who are not currently being reported on, which have contributed to the Total Fund return. The actual performance is also driven by actual asset allocation, where an overweight asset class performing strongly can contribute more to the Total Fund return relative to its target.*



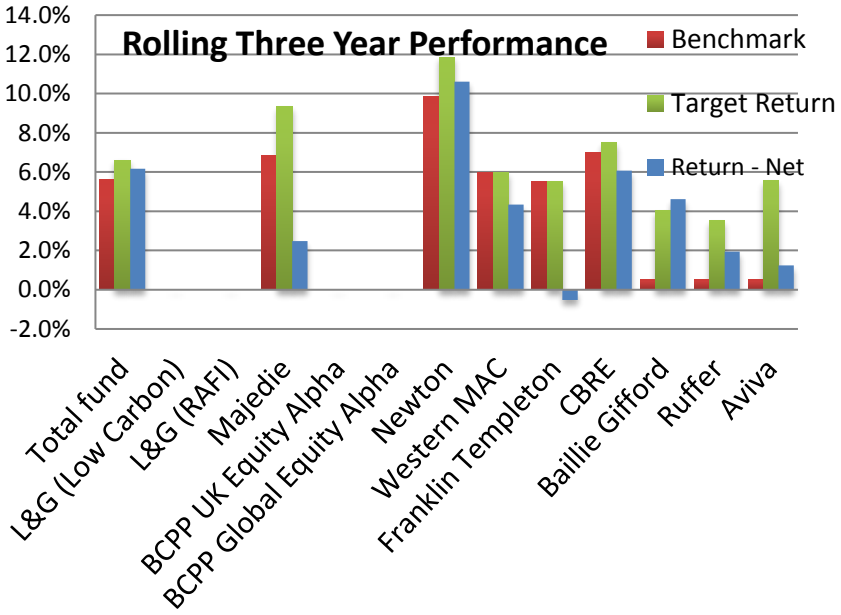
10. Summary of Rolling Three Year Performance Returns per annum as at 31 December 2019

During the course of the previous 3 years to 31 December 2019, the Fund returned 6.2% net of investment fees per annum against the customised fund benchmark of 5.6% and target return of 6.6%

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	6.2%	5.6%	6.6%
L&G (Low Carbon)*	-	-	-
L&G (RAFI)*	-	-	-
Majedie	2.5%	6.9%	9.4%
BCPP UK Equity Alpha	-	-	-
BCPP Global Equity Alpha*	-	-	-
Newton	10.6%	9.9%	11.9%
Western MAC	4.3%	6.0%	6.0%
Franklin Templeton	-0.5%	5.5%	5.5%
CBRE	6.1%	7.0%	7.5%
Baillie Gifford	4.6%	0.5%	4.0%
Ruffer	1.9%	0.5%	3.5%
Aviva	1.2%	0.5%	5.5%

**The performance of these funds is not yet known due to their new inception*

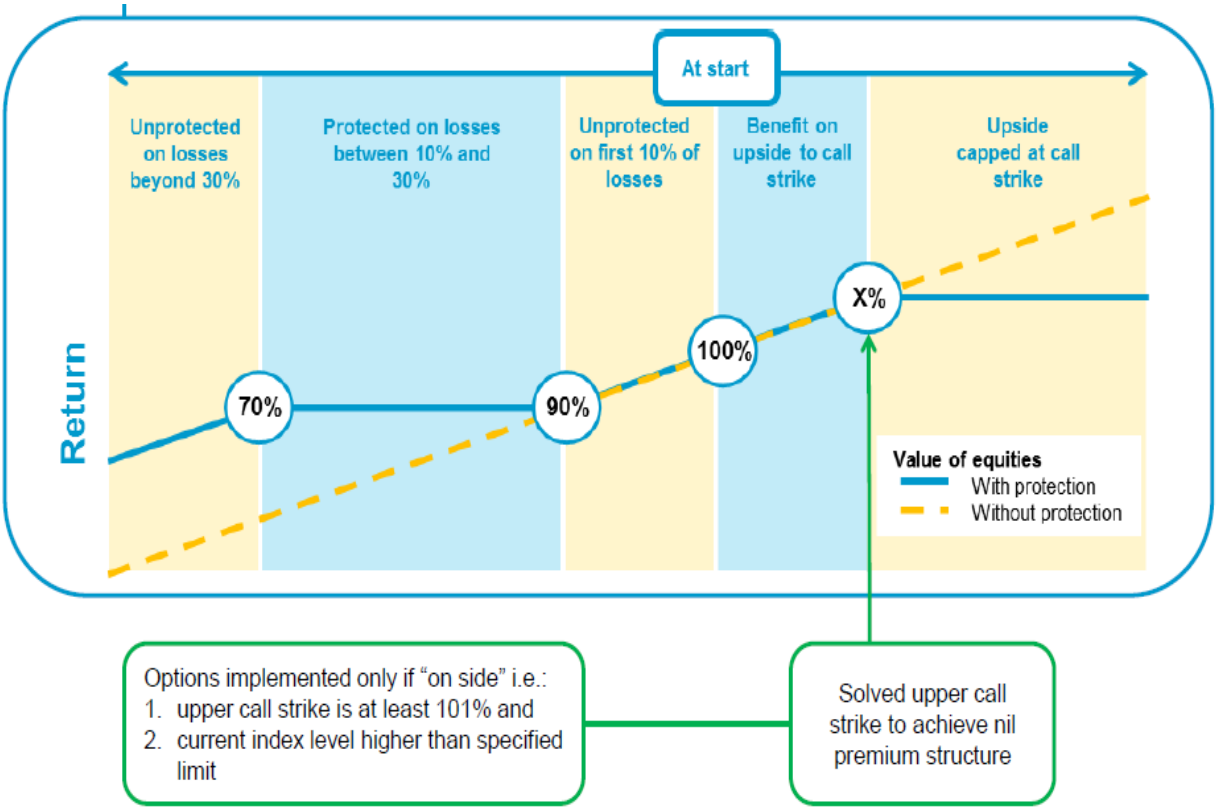
***The Total Fund performance should be reviewed in isolation of each individual fund manager, mainly due to former mandates/ funds from the last year who are not currently being reported on, which have contributed to the Total Fund return. The actual performance is also driven by actual asset allocation, where an overweight asset class performing strongly can contribute more to the Total Fund return relative to its target.*



11. Legal & General Equity Protection Strategy Update

The Objective of the Strategy was to provide protection against falls in equity markets, with equity upside sold to cover the cost of protection; this is referred to as a “nil premium” approach. The equities accounted for around 75% of the current total risk and significant downward movement or correction in this asset class could be partially protected via this Strategy, leading into the March 2019 Triennial Valuation.

The final tranches of Fund’s Downside Protection Strategy expired on 2 January 2020. The strategy was successful in protecting downside risk exceeding 10% for approximately £2.05bn worth of equities. The cost of this would be met by excess performance at an agreed level consistent with the Actuarial recovery plan. As a result of strong market performance in mainly the S&P 500, as well as the FTSE 100 and Euro Stoxx 50, the Fund gave up potential equity upside of its portfolio of approximately £107m (approximately 2.37% of Total Fund Value as at 31 December 2019). The graph below summarises the nature of the Downside Protection Strategy.



CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

15. 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

16. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

17. 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

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

WHAT HAPPENS NEXT

19. The following next steps are planned:

    - Continue to transition assets onto BCPP and enhance risk adjusted returns

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Contact Officer:
Mamon Zaman, Senior Pensions Finance Specialist

Consulted:
Pension Fund Committee Chairman

Annexes:
Annexe 1: Asset Allocation Policy and Actual as at 31 December 2019
Annexe 2: Manager fee Rates
Annexe 3: Minutes from Manager Meeting

Sources/background papers:

Asset Allocation Update

The table shows the actual managed asset allocation as at 31 December 2019.

	Category	Advisory Ranges (%)	Allocation Policy (%)	Allocation at 31/12/2019 (%)	Variance to Allocation Policy (%)
Equities		**56.8 – 62.8**	**59.8**	**60.6**	***0.8***
UK					
Majedie	*Concentrated Active*		*5.4*	*5.8*	*0.4*
BCPP UK Equity Alpha	*Core Active*		*12.0*	*11.7*	*-0.3*
Overseas		*RAFI*	*9.8*	*8.8*	*-1.0*
Legal and General	*Passive*	*Low Carbon*	*9.8*	*9.3*	*-0.5*
		Emerging Market Equities	*3.8*	*3.6*	*-0.2*
		Overseas	*0*	*0.1*	*0.1*
*Marathon**	*Concentrated Active*		*11.4*	*0*	*-11.4*
*BCPP Global Equity Alpha**	*Active*		*0*	*12.9*	*12.9*
Newton	*Core Active*		*7.6*	*8.4*	*0.8*
Property					
CBRE	*Core Active*	**3.2 - 9.2**	***6.2***	***6.4***	***0.2***
Alternatives		**8.4 – 14.4**	**11.4**	**9.7**	**-1.8**
Baillie Gifford	*Diversified growth*		*3.8*	*3.9*	*0.1*
Ruffer	*Diversified growth*		*3.8*	*2.9*	*-0.9*
Aviva	*Diversified growth*		*3.8*	*2.9*	*-1.0*
Growth Fixed Income Assets		**9.1 – 15.1**	**12.1**	**11.7**	**-0.4**
Total Return					
Franklin Templeton	*Unconstrained*		*2.4*	*1.6*	*-0.8*
Multi Asset Credit					
Western	*Unconstrained*		*9.7*	*10.1*	*0.4*
Index-linked gilts					
Legal and General	*Core Active*	***2.5 - 8.5***	***5.5***	***5.0***	**-0.5**
Private Markets	*Various*	***2.0 - 8.0***	**5.0**	***6.6***	***1.6***
Total			**100.0**	**100.0**	**0.0**

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