Surrey Pension Fund Committee

SURREY COUNTY COUNCIL

Date & time
Friday, 10 December 2021 at 2.00 pm

Place
Woodhatch Place, 11 Cockshot Hill, Reigate RH2 8EF

Contact
Angela Guest
angela.guest@surreycc.go·

Chief Executive
Joanna Killian

We're on Twitter: @SCCdemocracy

Please note that the meeting will be held in public, but because of Covid requirements and room restrictions, members of the public wishing to attend in person will be limited. if you would like to attend or you have any special requirements, please email angela.guest@surreycc.gov.uk

The meeting will also be webcast live, and can be viewed here: https://surreycc.public-I.tv/core/portal/webcasts

If you would like a copy of this agenda or the attached papers in another format, e.g. large print or braille, or another language please email angela.guest@surreycc.gov.uk.

Elected Members
Nick Harrison (Chairman), David Harmer, Trefor Hogg (Vice-Chairman), George Potter, Richard Tear and Mark Sugden

Co-opted Members:
Borough Councillor Mark Maddox (Borough & Districts), Borough Councillor Steve Williams (Borough & Districts), Kelvin Menon (Employers) 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 substitutions.

2 MINUTES OF THE PREVIOUS MEETING: 10 SEPTEMBER 2021 (Pages 1 - 8)

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 (*06 December 2021)*.
2. The deadline for public questions is seven days before the meeting (*03 December 2021)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 PENSION FUND COMMITTEE- FORWARD PLAN (Pages 9 - 10)

The Committee is asked to review its Forward Plan.

6 RESPONSIBLE INVESTMENT POLICY (Pages 11 - 76)

This paper provides details of the progress made in developing the Surrey Pension Fund's (the Fund's) standalone Responsible Investment Policy, consistent with the actions agreed in the Pension Fund Committee meeting of 10 September 2020 and a sub-Committee meeting of 19 November 2021.

7 **INVESTMENT STRATEGY REVIEW** (Pages 77 - 84)

The Pension Fund reviews its Investment Strategy, in accordance with the 2022 valuation, taking it to account its investment core beliefs and in line with Border to Coast's asset offerings. This paper provides the high-level project plan for this review.

8 **COMPETITION AND MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES** (Pages 85 - 92)

Local Government Pension Schemes (LGPS) are required to set strategic objectives for their Investment Consultant (IC) Provider and monitor their performance against these objectives at least every three years.

9 **LOCAL PENSION BOARD UPDATE** (Pages 93 - 108)

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

10 **COMPANY ENGAGEMENT & VOTING** (Pages 109 - 124)

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.

NB – there is a Part 2 annex at item 13

11 **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE** (Pages 125 - 146)

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.

NB – there is a Part 2 annex at item 14

12 **EXCLUSION OF THE PUBLIC**

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

13 **COMPANY ENGAGEMENT & VOTING** (Pages 147 - 152)

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

14 **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE** (Pages 153 - 162)

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

15 **BORDER TO COAST UPDATE** (Pages 163 - 182)

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

16 **PUBLICITY OF PART 2 ITEMS**

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

17 **DATE OF NEXT MEETING**

The next meeting of the Surrey Pension Fund Committee will be on 10 March 2022.

Joanna Killian
Chief Executive
Published: Wednesday, 1 December 2021

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, Council has wifi available for visitors – please ask at reception for details.

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

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

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

Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 10 September 2021 at Woodhatch Place, 11 Cockshot Hill, Reigate RH2 8EF.

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

Elected Members:

*	Nick Harrison (Chairman)
*	David Harmer
*	Trefor Hogg (Vice-Chairman)
*	George Potter
	Richard Tear
*	Mark Sugden

Co-opted Members:

	Borough Councillor Mark Maddox, Borough & Districts
*	Borough Councillor Steve Williams, Borough & Districts
*	Kelvin Menon, Employers
*	Philip Walker, Members

121/21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Richard Tear and Mark Maddox.

122/21 MINUTES OF THE PREVIOUS MEETING [9 JULY 2021] [Item 2]

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

123/21 DECLARATIONS OF INTEREST [Item 3]

There were none.

124/21 QUESTIONS AND PETITIONS [Item 4]

There were three questions from six members of the public. These and the Committee responses were published as a supplement to the agenda.

Supplementary questions included:

1. Jenifer Condit explained how Railpen was going to go completely Paris aligned and asked if Surrey Pension Fund would consider taking this route. The Chairman responded that there many things on the table to be considered including looking at the Investment Policy and that these were work in progress.

2. Jenifer Condit, on behalf of Isobel Griffiths, asked if the Fund would poll its members views on holding fossil fuel assets? The Chairman could not add much to responses previously given for the same question but reiterated that engaging with members was paramount. The Strategic Finance Manager (Pensions) explained that polling members had not been

2

discounted and that it was being assessed as to what the most effective ways of getting members views was. One Member stated that he would pursue divestment on the Committee. Another Member put forward the idea of a simple email to members to gain a temperature check should be considered.

3. Ian Chappell stated that engagement with companies did not work and had provided research that showed this with his original question. He went on to ask the Committee to defend its stance with this information in mind and what lessons had been learned over the last six years and how would he know if the engagement policy was not fit for purpose. The Strategic Finance Manager (Pensions) explained that the Responsible Investment Policy set out some metrics for measuring success.

125/21 PENSION FUND COMMITTEE - FORWARD PLAN [Item 5]

Speakers:
Chairman

Key points raised during the discussion:

1. The Chairman highlighted that responsible investment would be on the agenda for December 2021 and March 2022 meetings.

Resolved:

That the Forward Plan be noted.

126/21 LOCAL PENSION BOARD UPDATE [Item 6]

Speakers:
Tim Evans, Independent Chairman of Local Pension Board

Key points raised during the discussion:

1. The Local Board Chairman gave a detailed introduction to the papers contained in the agenda pack.
2. The Chairman stated that the Committee supported the work to improve the Fund's operational service to scheme members (the "Turnaround Programme") and urged Members to look at the papers that went to the Local Board which were available online.

Actions/ further information to be provided:
None.

Resolved:

1. That the minutes of the Local Pension Board meeting of 5 August 2021 be noted.

2. That the following changes to the administration risk register be approved:

    - risk A5, poor reconciliation process leads to incorrect contributions,

- risk A11, failure to get on top of the backlog leads to resource issues and management distractions,
- risk A12, failure to identify GMP liability leads to ongoing costs for the pension fund,
- risk A13, Inability to respond to a significant event leads to prolonged service disruption and damage to reputation and,
- risk A23, poor management control of the backlog leads to inaccurate Key Performance Indicators (KPI's) leading to a loss of confidence in levels of assurance from the Pensions Administration team.

127/21 INVESTMENT CORE BELIEFS / RESPONSIBLE INVESTMENT UPDATE [Item 7]

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

Key points raised during the discussion:

1. The Committee discussed the Part 2 addendum that replaced recommendation 3 of the submitted report. Members requested that the addendum be redacted and made public.
2. There was discussion around the timelines for setting up a working group to discuss a proposed Responsible Investment Policy. Volunteers were requested for this working group. It was also confirmed that Border to Coast were developing their own strategy on climate change.
3. It was noted that the submitted report referred to an annex 4 but this was an error.

Actions/ further information to be provided:

1. That the addendum be redacted and made public.

Resolved:
1. That the proposed revised Investment Strategy Statement be approved.
2. That the proposed structure for a standalone Responsible Investment Policy be approved and a sub-committee of Committee members to be convened to work with officers, Minerva and the Fund's consultants and independent advisors to progress the drafting of a policy for future consideration was approved. The Strategic Finance Manager (Pensions) to issue invitations to participate in the sub-committee to all Committee members.
3. Recommendation 3 of the published report was replaced with a Part 2 addendum that was discussed in the private part of the meeting. (see Minute 135/21).

128/21 COMPANY ENGAGEMENT AND VOTING [Item 8]

Speakers:
Ayaz Malik, Senior Pensions Finance Specialist
Neil Mason, Strategic Finance Manager (Pensions)

2

Key points raised during the discussion:

1. A Member asked if a tracker could be included in future reports which indicates for the companies engaged - where we started, and movement / progress against goals. He also asked how many improvements were a result of shareholder engagement, rather than other factors such as legal changes or other outside pressures? The Chairman stated that was difficult to know in that there were often numerous factors involved. The Strategic Finance Manager (Pensions) suggested inviting the Local Authority Pension Fund Forum (LAPFF) to give a presentation with more granular detail.
2. A Member noted that 145 companies had been engaged with through LAPFF, but the committee report recorded the impact on only seven of them. The Senior Pensions Finance Specialist stated that this information came from the LAPFF and he would circulate the more detailed information to the Committee. Another Members asked that this information be an appendix to future reports.

Actions/ further information to be provided:

1. That the Local Authority Pension Fund Forum (LAPFF) be invited to speak at a future meeting.
2. That the LAPFF information be circulated and attached as an appendix to future reports to the Committee.

Resolved:

1. That Pension Fund Committee reaffirmed the ESG Factors fundamental to the Fund's approach, consistent with the Mission Statement through;
   - Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment.
   - Acknowledging the outcomes achieved for quarter ending 30 June 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 June 2020.

129/21 DRAFT ANNUAL REPORT 2020/21 AND STATEMENT OF ACCOUNTS [Item 9]

Speakers:
Ayaz Malik, Senior Pensions Finance Specialist

Key points raised during the discussion:

1. The Senior Pensions Finance Specialist introduced the annual report and statement of accounts to the Committee. In response to Member questions he reported that:
   - The number of deferred members (page 74 of the agenda pack) had decreased as a result of aggregating different periods of member service/ employment.
   - The report would be uploaded onto the Pension Fund website.
1. The Committee expressed its thanks to staff for the enormous amount of work gone into the report.

Actions/ further information to be provided:
That next year's report shows the year-on-year progress regarding responsible investments.

Resolved:
That the Draft Annual Report with the Audited Pension Fund Accounts be approved for publication subject to audit approval.

130/21 2022 DRAFT VALUATION PROJECT PLAN [Item 10]

Speakers:
Mel Butler, Pensions Finance Specialist
Anne Cranston - Hymans
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Pensions Finance Specialist introduced the report as a draft plan and the Strategic Finance Manager (Pensions) highlighted annex 2 of the submitted report and the intention to roll out training to the Committee and the Board on the triannual process.
2. A Member queried whether there would be consultation with employers on the assumptions used in the actuarial valuation. The Strategic Finance Manager (Pensions) explained that employer consultation would be part of developing the agreed Funding Strategy.

Actions/ further information to be provided:
None.

Resolved:
That the report and draft valuation project plan from Hymans Robertson be noted.

131/21 INVESTMENT AND FUNDING REPORT [Item 11]

Speakers:
Ayaz Malik, Senior Pensions Finance Specialist
Neil Mason, Strategic Finance Manager (Pensions)
Steve Turner, Mercer
Anthony Fletcher, Mercer

Key points raised during the discussion:

1. The Senior Pensions Finance Specialist highlighted key elements of the reports including the Fund being over 100% funded as at end of June 2021, and cash flow continuing as positive.
2. In response to a Member query about the continuation of the good funding position the Chairman explained that the report was a snapshot position at the end of the quarter, and it was important to also consider the discount rate, small changes in which could lead to significant changes in the funding position. The Strategic Finance Manager (Pensions) went on to say that the tri-annual actuarial valuation took a more comprehensive view

2

3. It was noted that annexes 2 and 3 of the submitted report were in the Part 2 agenda.

Actions/ further information to be provided:
None.

Resolved:
That the main findings of the report in relation to the Fund's valuation and funding level, performance returns, asset allocation and performance fees be noted.

132/21 EXCLUSION OF THE PUBLIC [Item 12]

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

PART TWO – IN PRIVATE

133/21 INVESTMENT AND FUNDING REPORT [Item 13]

Speakers:
Anthony Fletcher, Independent Advisor
Jamie Roberts, Border to Coast
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. Further to Minute 132/21 the Independent Advisor explained the Part 2 annexes to the main report submitted. These detailed the performance and fees of individual managers.
2. There was some discussion about the Border to Coast Partnership and their reporting. The Committee Members were also invited to attend quarterly meetings if they so wished.

Resolved:
That the Part 2 annexes to the main Part 1 report be noted.

134/21 BORDER TO COAST UPDATE [Item 14]

Speakers:
Neil Mason, Strategic Finance Manager (Pensions)
Jamie Roberts, Border to Coast
David Crum, Minerva
Tim Sankey, Border to Coast

Key points raised during the discussion:

1. The Strategic Finance Manager (Pensions) and Border to Coast introduced this Part 2 update report.

2. In response to a Member query the Strategic Finance Manager (Pensions) reported that it had been fed back to Border to Coast that more detail was needed in relation to ESG, which had been taken on board.
3. A Member requested that future reports include:
   - Benchmarking against local authority funds in relation to average climate change market practice assessment score, and
   - Performance against other funds with different investment intentions.

   The committee were informed that a small number of funds had committed to disinvest to meet climate change targets but had not done so at the moment. It was also explained that it would be very difficult to make comparisons as yet as limited information was available, and that this was not common practice. It was also not useful as a comparator as Funds have different investment strategies.
4. The setting up of a property fund was detailed with an investment strategy to provide long term benefits for both UK and global investments, delivering economy of scale. Initially work was being undertaken with investment managers to develop a Gateway Fund.

Actions/ further information to be provided:
None.

Resolved:

1. That the background and progress of Border to Coast activity be noted, including details of the following:
   - Border to Coast Joint Committee (JC) meeting of 13 July 2021;
   - The proposed Border to Coast Climate Change Policy;
   - Developments in the alternatives investment proposition (series 2);
   - Developments in the property proposition.

135/21 INVESTMENT CORE BELIEFS / RESPONSIBLE INVESTMENT UPDATE ADDENDUM [Item 7a]

Speakers:
Neil Mason, Strategic Finance Manager (Pensions)
Hymans

Key points raised during the discussion:

1. Further to Minute 127/21 the Committee considered a late Part 2 addendum that replaced recommendation 3 of the Part 1 report.
2. The Strategic Finance Manager (Pensions) explained the options put forward in the report as:

   'In respect of the proposed internal transition of RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund:

   a) Switch from RAFI multi-factor and low carbon indexed equity assets to the Future World Fund and consider further possible changes as part of a future review of the investment strategy.

   b) Make no immediate switch from RAFI multi-factor and low carbon indexed equity assets to the Future World Fund until

2

further possible changes have been considered as part of a future review of the investment strategy.'

3. There was much debate on the options and concerns raised about both of the options. The concerns were mainly about timescale, strategy, costs and possible delays.
4. A motion was put forward by Steve Williams, and seconded by George Potter, that a decision be deferred until December 2021. The motion was lost with three voting for and five against.

Actions/ further information to be provided:
None

Resolved:

1. That, in respect of the proposed internal transition of RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund, to switch from RAFI multi-factor and low carbon indexed equity assets to the Future World Fund and consider further possible changes as part of a future review of the investment strategy within twelve months or sooner.

136/21 PUBLICITY OF PART 2 ITEMS [Item 15]

Resolved:
That once redacted, the Investment Core Beliefs / Responsible Investment Addendum could be made public.

137/21 DATE OF NEXT MEETING [Item 16]

The date of the meeting was NOTED.

Meeting ended at: 1.12 pm

____
Chairman

Surrey Pension Fund Committee: Forward Plan

Standing Items
a) Border to Coast Update Investment | Governance
b) Investment and Funding Update Investment | Funding
c) Local Pension Board Update Governance | Delivery
d) Engagement and Voting Update Investment

New items

Date	Investment	Funding	Governance	Delivery
10/12/2021	a) Review Competitions Market Authority (CMA) investment consultant strategic objectives b) Responsible Investment update c) Investment strategy review		a) LGPS Update (background paper)	

Item 5

5

Surrey Pension Fund Committee: Forward Plan

March 2022	a) Pension fund budget 2022/23 b) Responsible Investment update c) Report on Cost Effective Measurements (CEM) investment benchmarking d) Investment strategy review	a) 2022 valuation update	a) Business plan 2022/23	
June 2022	a) Investment strategy review	a) 2022 valuation update	a) Business plan 2021/22 outturn report	

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **10 DECEMBER 2021**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **RESPONSIBLE INVESTMENT POLICY UPDATE**

SUMMARY OF ISSUE:

Strategic objectives
Investment

This paper provides details of the progress made in developing the Surrey Pension Fund's (the Fund's) standalone Responsible Investment Policy, consistent with the actions agreed in the Pension Fund Committee meeting of 10 September 2020 and a sub-Committee meeting of 19 November 2021.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the progress of the sub-committee on drafting a Responsible Investment Policy for further consideration.
2. Approve for officers to work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to establish a total emissions and weight adjusted carbon intensity (WACI) for backward looking metrics and portfolio aligned, implied temperature rise for forward looking metrics in respect of the Fund's Taskforce for Climate Related Financial Disclosures (TCFD) report.
3. Approve for officers to work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to model a low carbon transition plan, applying scenario analysis using the agreed TCFD metrics based on dates of 2030, 2040 and 2050.
4. Supports the revised Border to Coast Responsible Investment (RI) Policy 2022 and Corporate Governance and Voting Guidelines 2022, subject to the continuing work between the Fund and Border to Coast to align our approaches consistent with the Fund's standalone Responsible Investment Policy currently in design stage.

REASON FOR RECOMMENDATIONS:

To keep the Pension Fund Committee apprised of the progress made drafting a standalone Responsible Investment Policy. This is consistent with the Fund's strategic investment objectives.

BACKGROUND:

1. At its meeting of 10 September 2021, the Pension Fund Committee approved the proposed structure for a standalone Responsible Investment Policy and for

6

further work on the following areas to inform key elements of the standalone Responsible Investment Policy:

a) An ambitious but realisable net zero carbon target date for the Fund to aspire to.
b) A robust framework to consider exclusions and the consequences of engagement.
c) Agreement of metrics for carbon measurement.

2. The Committee further approved for a sub-committee of Committee members to be convened to work with officers, Minerva and the Fund's consultants and independent advisors to progress the drafting of a policy for future consideration.

3. The sub-committee first met on 19 November 2021 and the recommendations in this report are derived from agreed actions from this meeting.

DETAILS:

Progress of the sub-committee on drafting a Responsible Investment Policy for further consideration.

4. At its meeting of 10 September 2021, the Pension Fund Committee approved the proposed structure for a standalone Responsible Investment Policy (this is included as Annexe 1).

5. The structure includes five pillars:

a) Governance;
b) Investment;
c) Implementation;
d) Stewardship;
e) Monitoring and reporting.

6. In drafting the RI policy the sub-committee agreed to concentrate on the following specific areas of these five pillars, identified as key to this policy:

a) Investment:

i- Definition of what RI means for the Fund, making the clear link to the UN Sustainable Development Goals (SDGs);
ii- RI priorities – for the next year, highlighting any agreed specific objectives or areas of focus;
iii- Outline different techniques available to the Fund to help identify RI risks – e.g. climate modelling.

b) Implementation:

i- General approach to implementing the RI beliefs;
ii- Delivering RI objectives in the short, medium and long term;
iii- Explicit RI expectations for Border to Coast, asset managers, custodian and other third parties;
iv- Surrey's approach to collaboration.

c) Stewardship:

i- Surrey's high-level position on engagement focusing on the United Nations Sustainable Development Goals;
ii- Engagement responsibilities - who is responsible for what;
iii- Engagement policy themes and link to prioritised RI themes;
iv- Position on 'divestment'/Just Transition to a low carbon economy;
v- Engagement across asset classes – summary of different methods available. 6

d) Monitoring and progress:

i- Commentary on monitoring expectations Surrey has of Border to Coast;
ii- Reporting commitments (existing or aspirational);
iii- Expectations of Border to Coast in terms of supporting the Fund's own RI reporting requirements.

7. The delivery timeline for the RI policy is expected to be as follows:

2021

November RI Sub-Committee

- affirm principles of the draft RI policy
- TCFD forward looking metrics agreed
- consider range of net zero options in respect of scenarios
- consider realizable initiatives to sign up to (e.g., net zero framework, Stewardship code etc)

December Pension Fund Committee

- draft RI policy progress update
- TCFD metrics approved
- ISS review framework approved

2022

January / February RI Sub-Committee

- agree draft RI policy including net zero date and measuring framework and reporting

March Pension Fund Committee

- discuss draft RI policy and for any resulting changes to ISS
- TCFD report presented

June Pension Fund Committee

- approve ISS

Taskforce for Climate Related Financial Disclosures (TCFD) metrics

6

8. The first point in the delivery timetable is to agree the metrics for measuring Scope 1 and 2 carbon emissions in respect of TCFD. Scope 3 is expected to come in the future, assuming data availability and robustness

9. The Department of Work and Pensions (DWP) Regulations came into force on 1 October 2021, which impose requirements on trustees of larger occupational pension schemes, and all authorised schemes, for the identification, assessment and management of climate-related risks and opportunities. The DWP is currently consulting on changes to existing climate reporting for schemes. This impacts all trust-based schemes who are, or expect to be, required to report in the TCFD framework and/or Implementation Statements. The proposals include a requirement to report on a forward-looking Paris alignment metric.

10. It is important to note that the Department for Levelling Up, Housing & Communities (DLUHC) have yet to consult on the requirements of LGPS funds regarding TCFD, however, it is prudent to be minded of developments in the area under DWP regulations.

11. The investment consultant, Mercer, introduced a high-level analysis of the differing Scopes 1, 2 and 3 and recommends the following approach (see Annexe 2):

    a) Absolute greenhouse gas (GHG) emissions: likely market standard to report on total GHG emissions;
    b) Weighted Average Carbon Intensity (WACI): average exposure (weighted by portfolio allocation) to GHG emissions normalised by a factor such as enterprise value or revenue.
    c) Implied Temperature Rise (portfolio alignment): seeks to consolidate the carbon reduction and net zero targets of issuers in whom the Fund is invested into a forward-looking measure of exposure to climate related risks and their ability to capitalise on opportunities in the low-carbon transition.

12. It is recommended that the Committee approve for officers to work with the independent investment advisor, investment consultant and Border to Coast and taking account of any developments from the DLUHC, to establish Scope 1,2 and 3 carbon emissions metrics in respect of the Funds TCFD report.

13. A further proposed objective is to increase over time the proportion of the assets which the Committee have high quality and robust data in order to calculate the above metrics. At present, such metrics are widely available for listed equities, but data is limited for other asset classes such as bonds and private market assets. By engaging with managers, and making it clear that we expect data availability to improve over time, we expect to be able to improve measurement over time.

Net zero scenario analysis

14. The sub-committee considered a high level low carbon transition plan including four stages:

    a) Establish a current emissions baseline: agree and apply Scope 1 and2 and 3 carbon emissions metrics to the total portfolio (Scope 3 expected to come in the future, assuming data availability and robustness);
    b) Establish portfolio possibilities: analysis of 'grey', 'green' and 'in-between' transition possibilities of the portfolio;
    c) Target and timing: e.g. 2030, 2040, 2050 and interim targets;
    d) Transition plan for implementation: integration, stewardship, investment, screening.

15. It is recommended that the Committee approve for officers to work with the independent investment advisor, investment consultant and Border to Coast to model a low carbon transition plan, applying scenario analysis using the agreed TCFD metrics and assuming net zero carbon dates of 2030,2040 and 2050.

The revised Border to Coast RI Policy 2022 and Corporate Governance & Voting Guidelines 2022

16. The Border to Coast Responsible Investment Policy and Corporate Governance & Voting Guidelines (included as Annexe 2 and Annexe 3) are reviewed annually and updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds to ensure a strong, unified voice.

17. Both policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks. Policies have also been reviewed against asset managers and asset owners seen to be RI leaders.

18. Responsible Investment workshops are held at regular intervals for the Partner Fund Officers and the Joint Committee to discuss RI topics and issues to be included in the policy review. Topics covered included the development of the Climate Change Policy, Net Zero, the approach to exclusions and refreshing the priority engagement themes.

19. The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2022 proxy voting season. Partner Fund Officers have provided feedback on the proposed revisions and suggested amendments.

20. The policies of best-in-class asset managers, and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. Policies assessed included RLAM, LGIM, NZ Super, NEST and Brunel. The Investment Association Shareholder Priorities for 2021 have also been taken into account.

21. There were some areas highlighted as part of last year's review that were due to be addressed during 2021. Transition risk and scenario analysis being one area. Following the ESG/carbon data procurement and appointment of

6

6

successful providers, Border to Coast will be able to conduct scenario analysis from early next year. Border to Coast are also looking at how to support Partner Funds in their TCFD reporting and this has been considered in the procurement.

22. One other area was exclusions. As Border to Coast advocate engagement over divestment, they have previously not had any exclusions in place. Development of the Climate Change Policy has, however, led to the exclusion of companies with >90% of revenues derived from thermal coal or tar sands. Any exclusions must be explicit for them to be adopted by our private market managers. Considerable engagement has been conducted with Partner Funds to reinforce Border to Coast's active stewardship approach and dispel any concerns of being influenced by pressure group lobbying.

23. This year's RI Policy review reflects work undertaken during the year, including the development of the Climate Change Policy and associated exclusions, and the refreshment of the key engagement themes.

24. The proposed amendments to the RI policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
1. Introduction	2	Addition	Include wording on diversity/diversity of thought.
5.4 Integrating RI into investment decisions – Real estate	5	Addition	New asset class.
5.6 Climate change	6	Revision	Section edited as Climate Change Policy details our approach.
5.6 Climate change	6	Addition	Wording on exclusions covered in Climate Change Policy.
6. Stewardship	8	Revision	Explanation on UK Stewardship Codes signatory status.
6.2.1 Engagement themes	11	Addition	New section on key engagement themes and review process.

25. The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2021 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text.

26. Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below:

Section	Page	Type of Change	Rationale
Diversity	5	Addition	Strengthening position on ethnic diversity at FTSE 100 companies.
Long-term incentives	8	Clarification	Splitting out executives from other employees.
Directors' contracts	8	Clarification	Executive pensions.

Lobbying	10	Addition	Company stance on climate change lobbying.
Shareholder proposals	12	Clarification	Shareholders' best interests.
Climate change	12	Addition	Strengthening voting stance to include CA100+ net zero benchmark indicators.

6

27. In 2018 Border to Coast set three priority areas for engagement with portfolio companies. These are 'Governance', 'Diversity' and 'Transparency and Disclosure'. Whilst they recognise that these areas continue to be important, they wanted to reflect their growth and maturity as an organisation and review the themes whilst also considering the views of the Partner Funds. They developed an Engagement Themes Framework consisting of four stages, to assist with the process and set our themes for the next strategic period.

28. The four final themes with high-level aims are as follows:

a) Low Carbon Transition: Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. The focus will be on the big carbon emitting companies and banks.

   Engagement objective: Climate change is a systemic risk that poses significant risks and opportunities for our portfolio investments. In high emitting sectors companies need to adapt and, in some cases, fundamentally change their business models. The aim of this engagement is to focus on the companies in high emitting sectors and banks identified as key to financing the transition to a low-carbon economy, to commit to credible plans to meet net-zero targets.

b) Waste and Water Management: The focus is on companies assessed as having high exposure to water-intensive operations and/or producing high levels of packaging waste and plastic pollution.

   Engagement objective: Water is becoming an increasingly scarce and costly resource and a material financial risk for companies and investors. Packaging waste is a huge environmental problem with increasing regulation. This engagement theme will focus on engaging portfolio companies with high exposure to water-intensive operations, exposure to operations producing high levels of packaging waste to develop policies and initiatives to address the issue(s).

c) Social Inclusion through Labour Management: This theme seeks to blend two of the previous proposed themes around Social Inclusion and Supply Chain Management. The focus is on companies assessed as having high exposure to labour intensive operations, those scoring lower on human capital development and those that are scoring lower on supply chain labour management. This includes engaging with companies on modern slavery policies.

6

Engagement objective: Human capital management and supply chain issues are recognised as financial risks emphasised by the pandemic. Engagement will be with companies with high exposure to labour-intensive operations and lower scoring companies in relation to human capital development and supply chain labour management risk. The aim is to promote sustained, inclusive growth with productive and decent work for all, including elimination of child labour in supply chains.

d) Diversity of Thought: The focus will be on companies that have been flagged as not having diversity management programs in place, including UK companies that are not meeting the recommendations of the Hampton Alexander and Parker Reviews where we believe we hold sufficient market cap to have an influence.

Engagement objective: The need for diversity of thought and experience on boards has never been more compelling. The pandemic has caused massive economic disruption with companies needing to be able to adapt and be innovative in order to be resilient and survive for the long-term. The focus of this engagement is to enhance the diversity of boards reducing the risk of 'group think' leading to better decision making and wider diversity across the organisation to increase the resilience and long-term sustainability of companies. To ensure a pipeline of diverse talent is being developed and utilised, this engagement will also cover improving the approach to building diversity and inclusion in executive committees, other senior leadership roles.

29. Border to Coast is the jointly owned asset manager of the Surrey Fund and its RI Policy and Corporate Governance & Voting Guidelines are intrinsic to how the Surrey Fund manages its RI approach.

30. Through consultation with all partner funds, including Surrey, Border to Coast has produced its revised 2022 RI Policy and Corporate Governance & Voting Guidelines. It is recommended that the Committee approves the revised Border to Coast RI Policy 2022 and Corporate Governance & Voting Guidelines 2022, subject to the continuing work between the Fund and Border to Coast to align our approaches consistent with the Fund's standalone Responsible Investment Policy currently in design stage.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

32. The consideration of risk related issues, including investment, governance and reputational risk, are an integral part of this project and will be considered as part of the project development.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

33. There are no financial and value for money implications contained in this report.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

34. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

6

35. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

36. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

38. The following next steps are planned:

    a) A further meeting of the sub-committee will be convened to action recommendations as outlined in this paper.

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

Consulted:
Pension Fund Committee Chairman

Annexes:

1. RI policy framework.
2. Mercer report.
3. Revised Border to Coast RI Policy
4. Revised Border to Coast Corporate Governance & Voting Guidelines

Sources/background papers:

Surrey Pension Fund RI Policy Project

Summarised Structure and Content V1.0

MINERVA ANALYTICS

1. Governance	2. Investment	3. Implementation	4. Stewardship	5. Monitoring & Reporting
1.1 Definitions and Purpose	**2.1 RI Perspective**	**3.1 RI Perspective**	**4.1 Stewardship**	**5.1 RI Monitoring**
1.1.1 Purpose statement of the Fund	2.1.1 Summary of Process for identifying RI issues/themes/risks	3.1.1 General approach to implementing the RI Beliefs	4.1.1 Overview of Surrey's approach to stewardship - why it is important and activities undertaken	5.1.1 General statement on Surrey's approach to RI monitoring
1.1.2 Background info on Surrey - origin and structure	2.1.2 Linkage of RI risks to investment strategy (short/medium/long term) from stakeholders' perspective	3.1.2 Delivering RI Objectives in the Short / Medium / Long term	4.1.2 Details on any separate Stewardship Policy	5.1.2 Expectations of information transparency from asset managers for different asset classes
1.1.3 Purpose of the RI Policy - sets out the rationale behind the creation of the Policy, and what it seeks to achieve	2.1.3 Outline of the way RI belief/issues are expected to be integrated into the investment process	3.1.3 Details on Different Roles in the Governance Structure - County Council, Pensions Committee, Local Pensions Board, Officers, Border to Coast	4.1.3 How Surrey's approach dovetails with agents/third parties' approaches	5.1.3 High level RI reporting standards/info expected from agents/third parties
1.1.4 Definition of what RI means for the Fund	2.1.4 Summary of process for reviewing and revising RI risks		4.1.4 Processes in place to monitor Stewardship activities - directly or indirectly	5.1.4 Summary of how RI monitoring process fits into reporting
1.1.5 RI links to assets - explains where responsibility sits for RI in the context of the investment arrangements of the Fund (B2C / LGIM / the Fund for directly held assets)				
1.2 RI Beliefs	**2.2 RI Factors and Investment Process**	**3.2 RI Expectations & Third Parties**	**4.2 Voting**	**5.2 RI Reporting**
1.2.1 Surrey's RI Beliefs - concise summary of RI views	2.2.1 Outline of different techniques available to the Fund to help identify RI risks – e.g. climate modelling	3.2.1 Summary on how the Fund's RI beliefs will be acknowledged by agents/third parties	4.2.1 Surrey's high level position on Voting	5.2.1 General statement on approach to RI reporting
1.2.2 RI and Asset Classes - explains how the RI beliefs relate to different asset classes	2.2.2 Detals on how Surrey expects third parties/investment managers to address RI issues - specific focus on Border to Coast	3.2.2 Details of current third parties used by the Fund for whom RI issues are relevant	4.2.2 Surrey's Voting Policy summary (+ link to actual policy)	5.2.2 Reporting commitments (existing or aspirational)- e.g. PRI /2020SC /TCFD/SDGs
1.2.3 RI Priorities - for the next year, highlighting any agreed specific objectives or areas of focus	2.2.3 Summary of material ESG considerations in the context of each asset class	3.2.3 Explicit RI expectations for Border to Coast, asset managers, custodian and other third parties	4.2.3 How Surrey supports its managers in their voting	5.2.3 Planned delivery methods – e.g. Pensions Committee / website / Annual Report
1.2.4 Specific section on the SDGs - summarising previous work done, and what that means for the Fund's approach going forward	2.2.4 Key RI Risks and Opportunities for Institutional Investors	3.2.4 Details on how RI expectations will be codified in contracts, and monitored	4.2.4 Use of any third parties / proxy advisors / expectations of them	5.2.4 Outline of Surrey's reporting expectations of its third-party agents
			4.2.5 Approach to Securities Lending from a voting perspective - e.g recall or assess before recall	5.2.5 Expectations of Border to Coast in terms of supporting the Fund's own RI reporting requirements
1.3 Governance Arrangements		**3.3 RI Collaboration**	**4.3 Engagement**	**5.3 Stakeholder RI Communications**
1.3.1 Surrey's Governance Structure - showing how RI fits into the Fund's governance structure		3.3.1 Surrey's approach to collaboration	4.2.1 Surrey's' high level position on Engagement	5.3.1 Summary of process for reporting RI issues to stakeholders
1.3.2 RI Resources - stating what is in place, and who is accountable and responsible for any RI monitoring and reviewing		3.3.2 Summary of collaborative actions undertaken, explaining how collaboration furthers the Fund's RI objectives	4.2.2 Engagement responsibilities - who is responsible for what	5.3.2 Setting of expectations for reporting to stakeholders - content, access, frequency
1.3.3 Surrey Culture & RI Fit - summary of the Fund's culture in relation to RI		3.3.3 Clear aims of any partnerships or affiliations e.g. LAPFF	4.2.3 Engagement policy themes and link to prioritised RI themes	
1.3.4 Statement on Conflicts of Interest - link to Fund's existing CoI policy, and summary of approach			4.2.4 Position on Divestment	
			4.2.5 Engagement across asset classes - summary of different methods available	

Mercer

Surrey Pension Fund

Climate-Related Risk Metrics and Proposal

Sam Wreford & Steve Turner
November 2021

welcome to brighter

Executive Summary

Summary and Key Messages

Recent Changes

The Committee agreed a switch from RAFI and Low Carbon into the Future World fund which was implemented at 30 September 2021

20%+

Reduction in carbon footprint and absolute emissions and

TCFD

This analysis establishes the baseline climate risk metrics to put into the TCFD report. Full details on the metrics are set out on slides 18-20

3

At least three metrics will need to be included in the TCFD report

Net Zero

An immediate consideration for the Committee will be to set an ambitious but realisable net zero carbon target date

2050

Border to Coast have set a net zero carbon date of 2050

Investment Strategy

The metrics in this report will likely inform the investment strategy review, including the approach to investing in areas with a higher carbon footprint

36%

Contribution to the carbon footprint comes from emerging markets

Next Steps

1 Metrics
Agree the metrics that the Committee is comfortable to include within the TCFD report

2 Net Zero
Agree a net zero target date

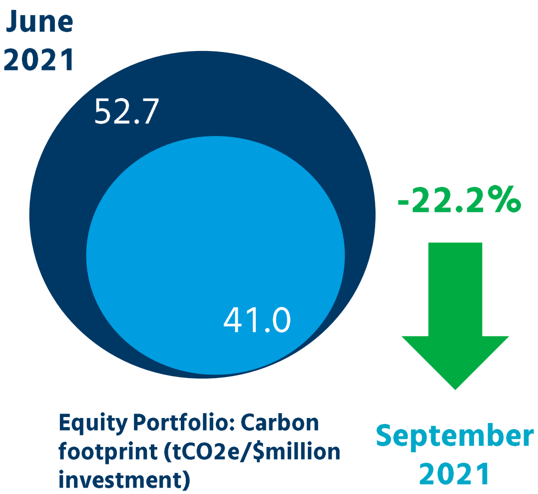
3 TCFD Report
Draft the TCFD report for approval by the Pensions Committee

4 Investment Strategy Review
To be completed during the first half of 2022

5 Manager Engagement (Ongoing)
Engage with managers on key issues

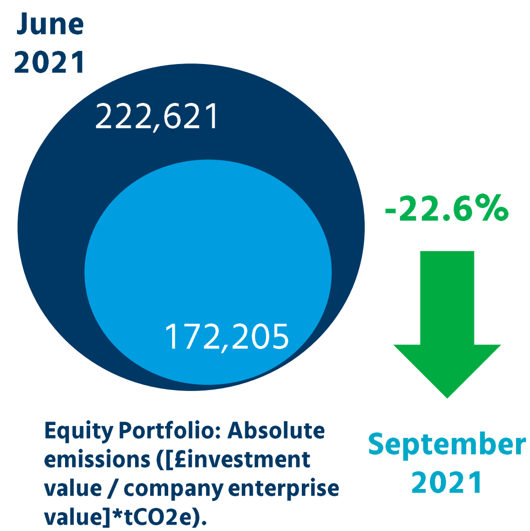
Recent Changes
Summary

Listed Equity Carbon Footprint (Backward Looking)



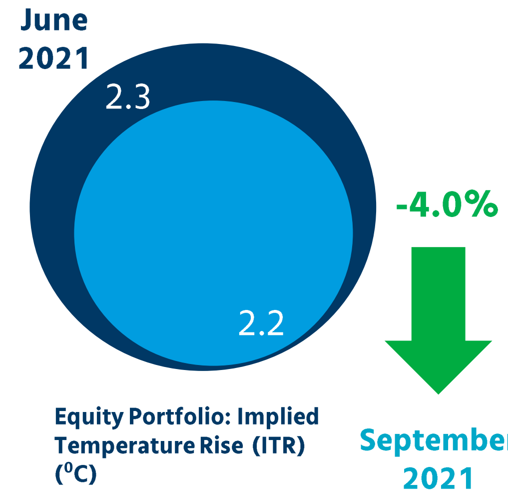
The **listed equities holdings' carbon footprint fell by** c.-22.2% over the 3 month period to September 2021.

Listed Equity Absolute emissions (Backward Looking)



The **listed equities holdings' absolute emissions fell by** c.-22.6% over the 3 month period to September 2021.

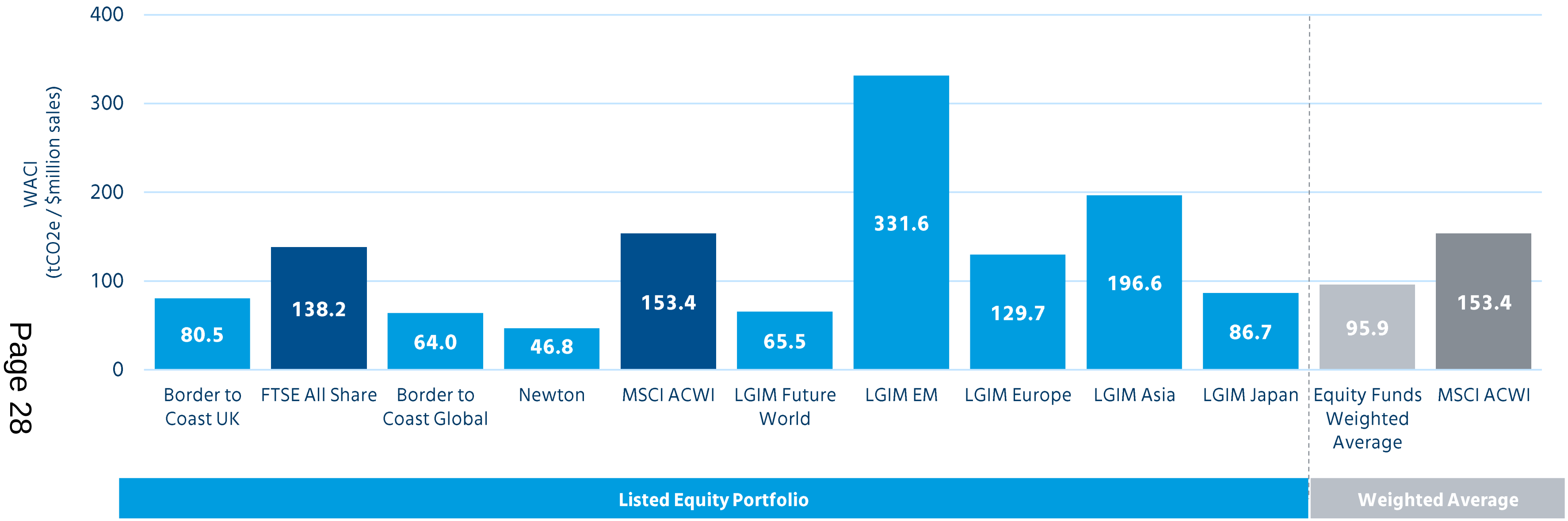
Listed Equity ITR (Forward Looking)



The **listed equities holdings' ITR fell by** c.-4.0% over the 3 month period to September 2021.

Mercer

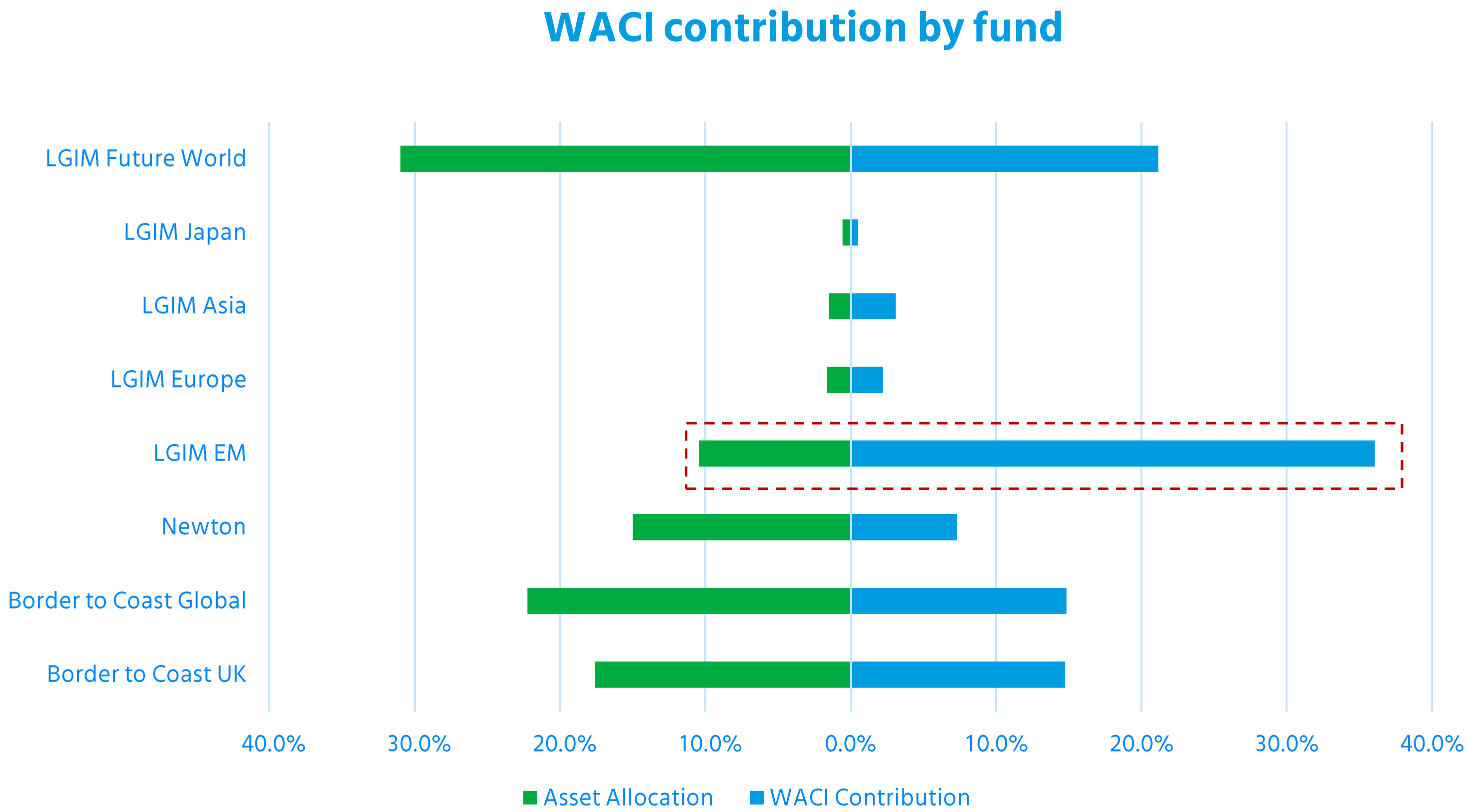
Carbon Intensity – WACI
Listed Equity Portfolio – September 2021*



The overall portfolio has a c.-37.5% lower carbon intensity than MSCI ACWI (the global benchmark)
Active funds have a significantly lower carbon intensity than their benchmarks
All LGIM funds are passively managed so metrics are in-line with the respective benchmark

*Note that while the allocation is at September 20201, all data is at June 2021.

Carbon Intensity – WACI
Listed Equity Portfolio – September 2021



The Emerging Markets equity allocation contributes more than any other allocation to carbon intensity, despite having a relatively low allocation.

We expect emerging market equities to outperform developed markets by c. 2% p.a. over the long-term

Mercer

Source: Managers data.

Guidance

Page 31

Low Carbon Transition targets
Definitions

Paris Alignment

Bringing investments in line with the objectives of the Paris Agreement.

To hold the mean surface temperature increase to "well below 2^{0}C above preindustrial levels and to pursue efforts to limit the increase to 1.5^{0}C".

Net Zero

Bringing investments to a carbon neutral target.

In September 2020, the UN noted that 22 regions, 452 cities, 1,101 businesses, 549 universities and >45 of the biggest investors had net zero commitments.

The United Nations-Convened Net-Zero Asset Owner Alliance

Aiming to achieve net zero by 2050, representing $5.5 trillion of AUM and align portfolios with a 1.5 ^{0}C scenario.

IIGCC

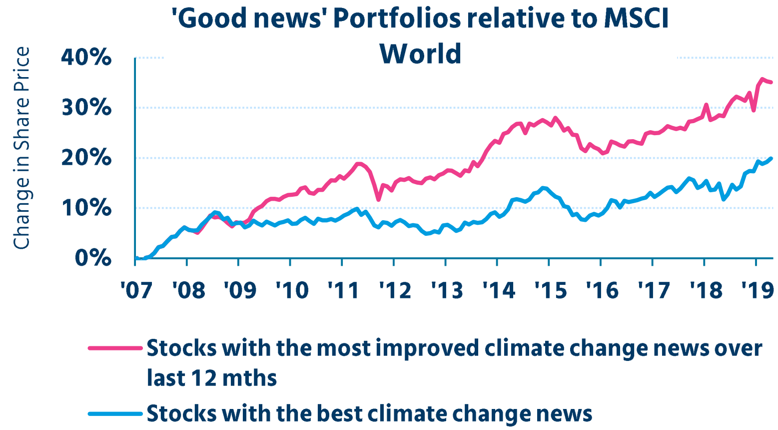
"Paris Aligned Investor Initiative - PAII". Committing to a goal of net zero emissions 2050 or sooner. The framework was developed by 70 investor representing $16 trillion of AUM.

Emerging but strong net zero target industry movement, regulatory direction and existing practice make target setting possible and targets achievable.

Sources: UNFCCC; IIGCC; Net Zero Asset Owner Alliance

From Disclosure to Transition Commitments
Investors Are on the Move

- There is evidence that ESG considerations are making their way into **price movements.**
- Investors **already face transition risk,** including stranded assets. Assessing those companies and countries most vulnerable to transition risk is needed to stay ahead of market movements.



After 10 years on investor radars, 5 years since the Paris Agreement, 3 years since the TCFD framework, a growing investor cohort are now focused on action plans for decarbonising.

TCFD

- **Disclosure** framework released in 2017, with DWP guidance on mandatory disclosures for larger schemes, and the UK Chancellor of the Exchequer announcing mandatory disclosure across the UK economy by 2025.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

- 500+ companies have approved decarbonisation targets under the **Science Based Targets Initiative** (SBTi). This framework has been used as one possible avenue of analysis in this report.

Sources: Asset Owner Alliance - https://www.unepfi.org/net-zero-alliance/; Science Based Targets - https://sciencebasedtargets.org/; IPCC 1.5^{0}C report; Deutsche Bank Research: 'Past the Tipping Point with Customers and Stockmarkets, Sept 2019

© 2021 Mercer Limited. All rights reserved.

Low Carbon Transition Plan
Analytics for Climate Transition (ACT)

Investing for a <2°C scenario recognises the risks, opportunities, likelihood and fiduciary duty requirements in changes happening now and anticipated in future. A low carbon transition plan, helps to ensure key questions can be answered: Can we reduce emissions and still meet investment objectives? Can we isolate where emissions reductions should come from without just divesting high intensity companies? How can we set a target that is aligned, can be implemented and monitored?

Manage 'Grey' Risks
High carbon intensity, low transition capacity

Steward the 'In-between'
Varying carbon intensity and transition prospects

Target 'Green' Solutions
Low carbon intensity, high transition capacity

2021 — 2030 — 2050

Page 33

1. Current emissions baseline

Calculations complete, dashboard drafted – total portfolio: e.g. absolute emissions, emissions intensity

	Mercer Single Sector Funds	Coverage	Weighted Average Carbon Intensity	Metric By Asset Class	Dark Grey %	Light Grey %	Grey/ In-between %	In-between %	Green/ In-between %	Light Green %	Dark Green %
Public – Liquid	Australian Shares		189.7	T CO2e / $M Rev	0.4	0.5	30.9	40.0	22.6	1.6	0.2
	Australian Shares Plus		185.9	T CO2e / $M Rev	0.4	0.3	33.3	41.8	21.7	1.6	0.2
	Australian SR Shares		148.3	T CO2e / $M Rev	0.1	0.8	30.4	38.3	25.2	1.2	0.8
	Australian Tax Exempt		197.1	T CO2e / $M Rev	0.4	0.6	34.1	37.3	24.7	0.8	0.4
	Passive Australian Shares		218.3	T CO2e / $M Rev	0.7	0.8	31.7	41.0	23.6	1.5	0.3
	Australian Small Caps		145.1	T CO2e / $M Rev	0.0	0.6	30.7	39.2	11.6	0.6	0.8
	Global Shares		86.0	T CO2e / $M Rev	0.3	0.3	9.7	42.1	36.4	4.9	1.5
	Global SR Shares		73.6	T CO2e / $M Rev	0.0	0.0	4.1	31.8	39.6	9.2	9.8
	Global Enhanced Low Volatility		219.0	T CO2e / $M Rev	0.4	0.7	17.6	32.8	35.5	8.3	0.4

2. Portfolio possibilities

Analysis complete on 'grey, green and in-between' transition capacity

3. Target and timing

Setting decarbonisation targets:

- 2030 and interim targets e.g. to 2025
- Net zero targets to 2050, or earlier/later

4. Transition plan for implementation

Integration
- Climate change scenario analysis
- Monitor developments and prices

Stewardship
- Engage with companies
- Utilise voting rights

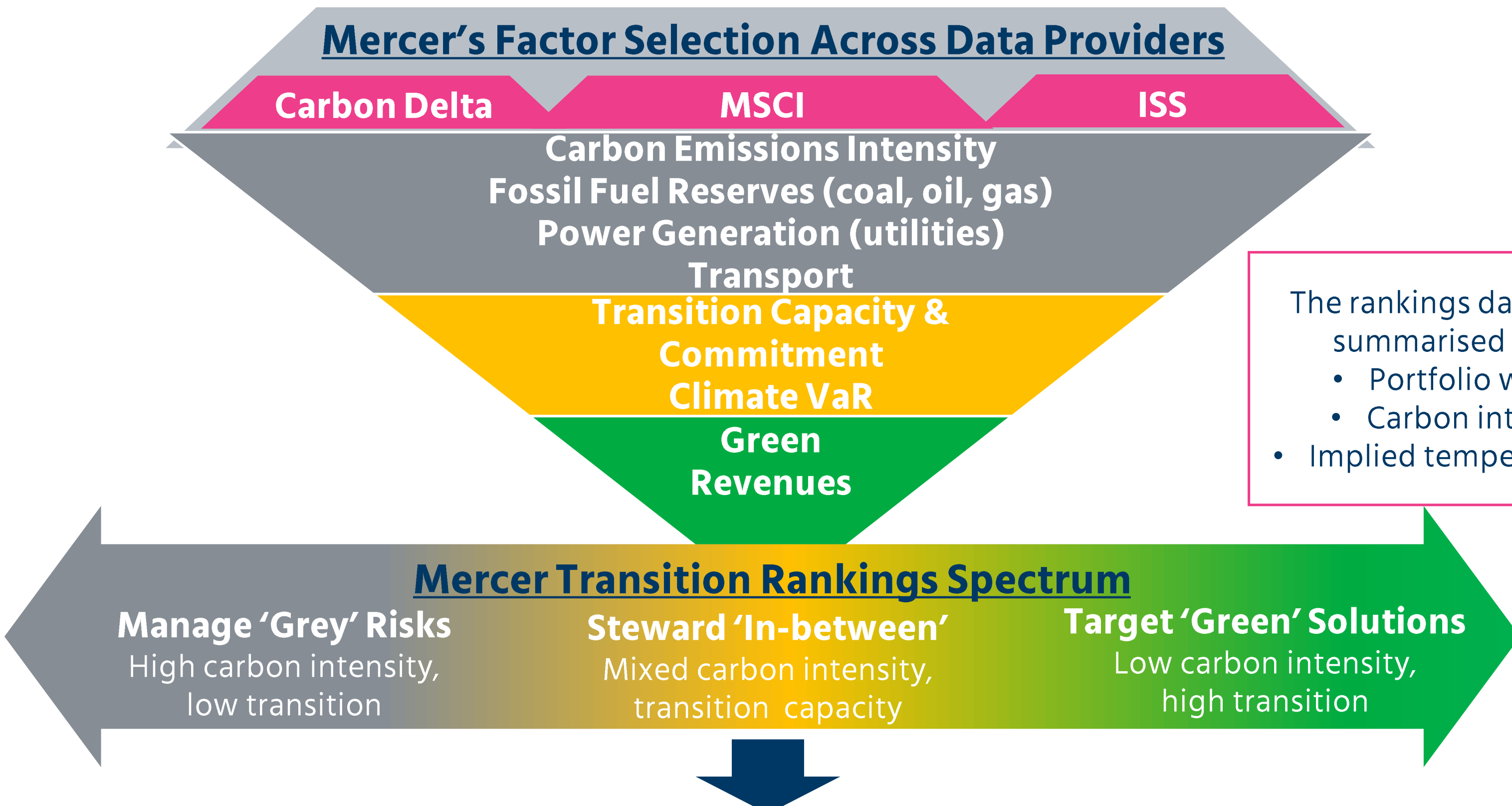
Investment
- Allocate to innovation and solutions
- Monitor developments and prices

Screening
- Restrict high carbon solutions where needed

Mercer

Mercer
ACT Metrics

The objective is to identify the 'grey', the 'green' and the 'in-between' i.e. from the likely 'losers' to the potential 'winners' in a low carbon transition, with the company names evolving each year.



The rankings data can be summarised using:

- Portfolio weight
- Carbon intensity
- Implied temperature rise

Test Against TPI Rankings to double check stock names in grey end in particular

+

Test For Scenario Alignment emissions reductions required for 'science-based alignment'

+

Test For Scenario Downside Risk test potential portfolio changes in different climate scenarios

Mercer

Mercer
ACT Decarbonisation Target Setting

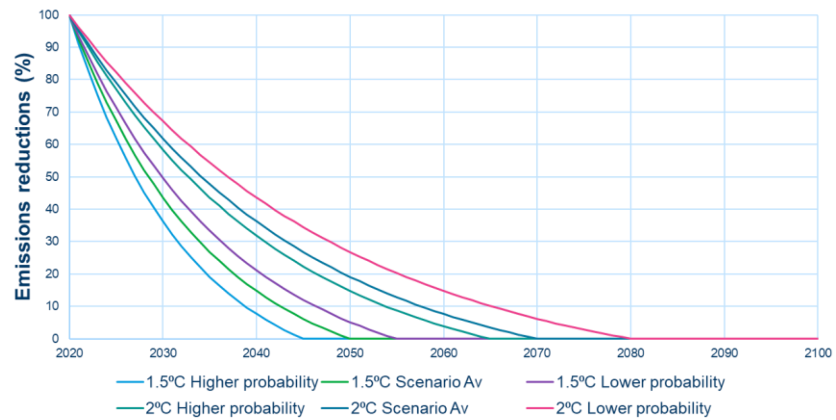
Scientific Guidance – from the Intergovernmental Panel on Climate Change (IPCC)

Pathway Group	*Pathway Class*	*Pathway selection criteria and description*	*Number of scenarios*	*Number of scenarios*
1.5°C or 1.5°C-consistent	*Below-1.5°C*	*Pathways limiting peak warming to below 1.5°C during the entire 21st century with 50-66% likelihood**	*9*	*90*
	1.5°C-low-OS	*Pathways limiting median warming to below 1.5°C in 2100 and with a 50-67% probability of temporarily overshooting that level earlier, generally implying less than 0.1°C higher peak warming than Below-1.5°C pathways*	*44*	
	1.5°C-high-OS	*Pathways limiting median warming to below 1.5°C in 2100 and with a greater than 67% probability of temporarily overshooting that level earlier, generally implying 0.1–0.4°C higher peak warming than Below-1.5°C pathways*	*37*	
2°C or 2°C-consistent	*Lower-2°C*	*Pathways limiting peak warming to below 2°C during the entire 21st century with greater than 66% likelihood*	*74*	*132*
	Higher-2°C	*Pathways assessed to keep peak warming to below 2°C during the entire 21st century with 50-66% likelihood*	*58*	

** No pathways were available that achieve a greater than 66% probability of limiting warming below 1.5°C during the entire 21st century based on the MAGICC model projections.*

Page 35

Mercer Emissions Reduction Curves



IPCC Guidance on Net Zero Targets

IPCC Scenarios	**Target Net Zero Year** (Average)
1.5°C	2050
2°C	2070

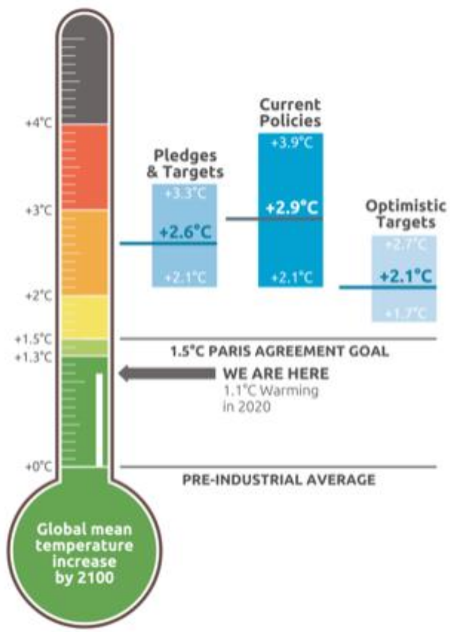
Source: IPCC 2018 1.5°C report

The analysis will help establish:

- **Absolute emissions reductions targets** for the Scheme, based on science and policy;
- Can also be applied to emissions intensity reduction targets, drawing on the science and policy.

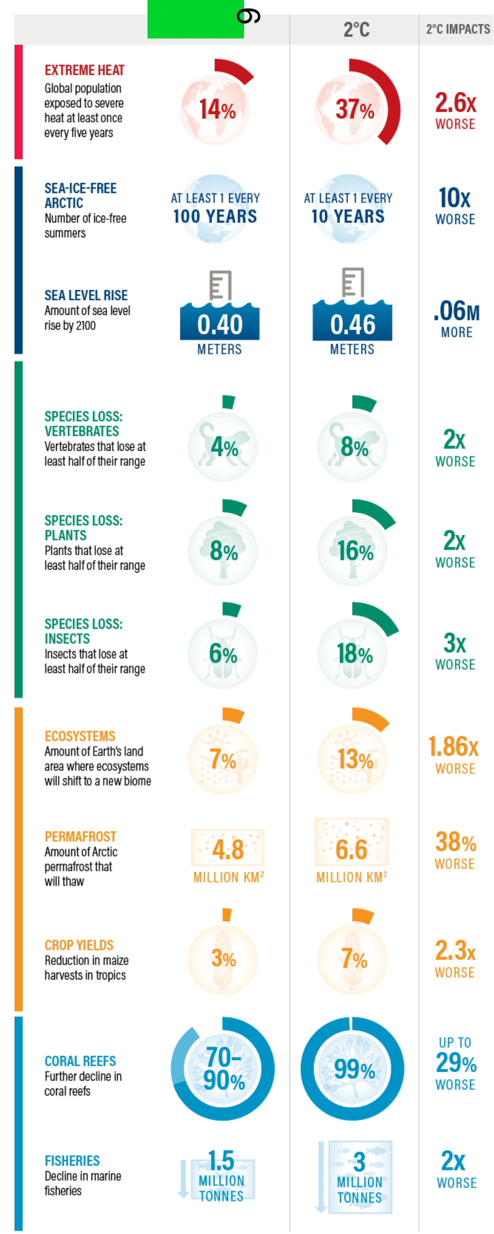
Climate Change Scenarios
Commitments and the Science

Page 36



- **Paris Agreement Aim:** "well below 2°C"
- **Global implementation of policies and pledges:** ~2.6°C to ~2.9°C
- **Business as usual (RCP 8.5):** ~2.6°C to ~4.8°C

- What the low carbon scenarios mean in practice:
  - For a c.50-67% chance of achieving a **1.5°C scenario**:
    - a 45% emissions reduction is required from 2010 levels to 2030 and the net zero target year is ~2050.
  - For a c.50-66% chance of achieving a **2°C scenario:**
    - a 25% emissions reduction is required from 2010 levels to 2030 and the net zero target year is ~2070.
  - The diagram (right) illustrates the difference **0.5°C** can make



Sources: Climate Action Tracker (December 2020 http://climateactiontracker.org/); IPCC - https://www.ipcc.ch/sr15/; WRI (2018) "8 Things You Need to Know About the IPCC 1.5°C Report"; IPCC (2018) "Global Warming of 1.5°C"

Regulatory Recap

TCFD Reporting Best Practice
Elements to Understand

An overview of the TCFD recommendations is provided below:

Governance

- Review your **climate change-related investment beliefs**
- Prioritise actions and understand the roles and responsibilities
- Establish processes for asset owners to satisfy themselves that persons managing the Fund are assessing and managing climate-related risks and opportunities
- Clear governance structure for (board) oversight of climate-related factors, including assigned senior leaders with oversight of climate responsibilities
- Best practice may include hiring climate specialists and regular **climate training for investment colleagues**

Strategy

- Firm-wide public **strategy on climate change**, including the impact of climate-related risks and opportunities on investments, over different timeframes
- **Conduct climate change scenario analysis** (using two scenarios, including a scenario of 2^{0}C or lower) to understand impacts on assets/liabilities, the resilience of the investment strategy and (for DB) the funding strategy
- Understand the sponsor's exposure to climate risk and how they are adapting to such risks
- Stewardship included in the strategy, with a focus on policy and industry engagement, including collaborative and climate change initiatives

Risk Management

- Include climate change risk within the Fund's **risk register**
- Describe the process to identify and assess, manage, and integrate climate risks (transition and physical risks)
- Include climate change considerations as part of the **selection and monitoring of managers**, with a particular focus on: how are they integrating/voting/engaging on climate change?
- Annual review of Mercer manager ESG ratings for your managers alongside other climate change data
- Consider sustainable asset allocations, such as low carbon or ESG funds

Metrics and targets

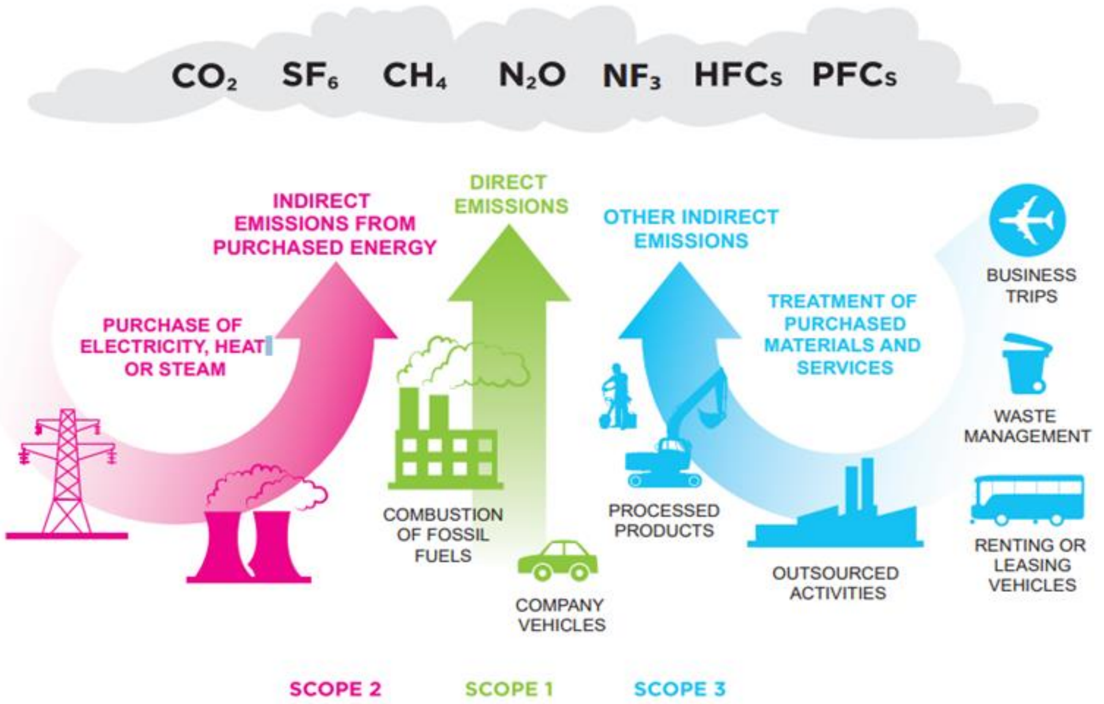
- Align with best practice approaches, in terms of metrics to measure risk and opportunity
- **Set at least one climate-related target**, e.g. decarbonisation by a target date, or alignment with a temperature target, or net zero emissions by 2050 or earlier
- **Monitor absolute emissions, an emissions intensity metric, and an additional metric** (e.g. implied temperature rise, climate VaR, or green revenues)
- Annually monitor metrics for the asset classes with data availability, and understand what is possible in other asset classes. Describe why data may not cover the whole portfolio

Formally adopting TCFD reporting could further enhance the Fund's governance and reputation

Carbon footprinting

Scope 1, 2 and 3 emissions

- **Carbon footprinting** is an analysis that shows the **amount of greenhouse gas emissions an entity produces** directly through it's day-to-day operations and indirectly through its utility usage and wider supply chains.
- The statutory guidance: **the Committee should take into account scope 1, 2 and 3 greenhouse gas emissions** in the calculation of total emissions and carbon footprint metrics, as far as they are able.



Source: https://www.savemoneycutcarbon.com

The Committee are not required to obtain Scope 3 emissions in the first scheme year during which they are subject to the requirements in the Regulations

Page 39

6

Emissions based metrics

DWP statutory guidance – absolute and intensity metrics

Metric type	Recommendations	Description
1. Absolute GHG emissions	Total greenhouse gas (GHG) emissions	Likely market standard to report on total GHG emissions
2a. Emissions intensity	Carbon Footprint	Total GHG Emissions figure weighted to take account of the size of the investment made
2b. Alternative emissions intensity	Weighted Average Carbon Intensity (WACI) (in tCO_2e / £m)	Average exposure (weighted by portfolio allocation) to GHG emissions normalised by a factor such as enterprise value or revenue. The Committee may calculate and report WACI in place of Carbon Footprint, but they should explain their reasoning

Additional metrics

DWP statutory guidance – One of the following

Metric type	Description
3a. Portfolio Alignment	Seeks to consolidate the carbon reduction and net zero targets of issuers in whom the Scheme is invested into a forward-looking measure of exposure to climate-related risks and their ability to capitalise on opportunities in the low-carbon transition.
3b. Climate Value at Risk (VaR)	Aims to measure the size of the loss attributable to climate-related risks a portfolio may experience, within a given time horizon, if a particular scenario unfolds.
3c. Data Quality	Aims to represent the proportions of the portfolio for which the Committee have high quality data. The Committee should calculate the proportion of the portfolio for which each of Scope 1-2 emissions are verified, reported, estimated or unavailable (and from the second scheme year onwards Scope 3). For the portion of the portfolio in the "estimated" category, the Committee may also calculate the proportions estimated to different degrees of certainty.

Mercer

Recommended metrics

Regulatory requirement

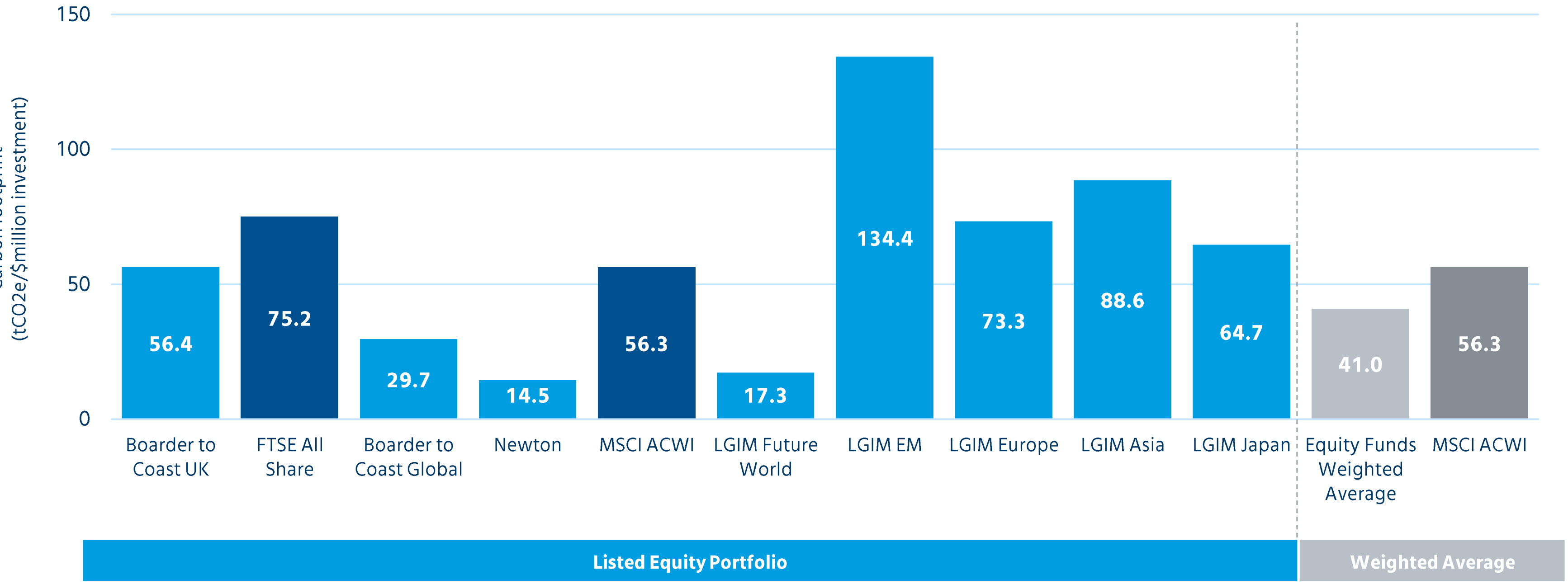
- Set at least **one absolute greenhouse gas emissions** based metric;
- Set at least one emissions intensity based metric;
- Set at least one additional (non-emissions based) metric.

Recommendations

1. **Total emissions.** Simplest available and standard absolute emissions metric. Data availability expected to be reasonable.
2. **Carbon footprint.** Emphasised as preferred intensity metric in DWP statutory guidance. WACI can still be reported.
3. **Portfolio alignment – Implied temperature rise.** Most aligned metric with ultimate climate outcome.
4. **Data quality.** Also monitor data quality (but perhaps not as a formal TCFD metric).

Portfolio Analysis

Carbon Intensity – Carbon Footprint*

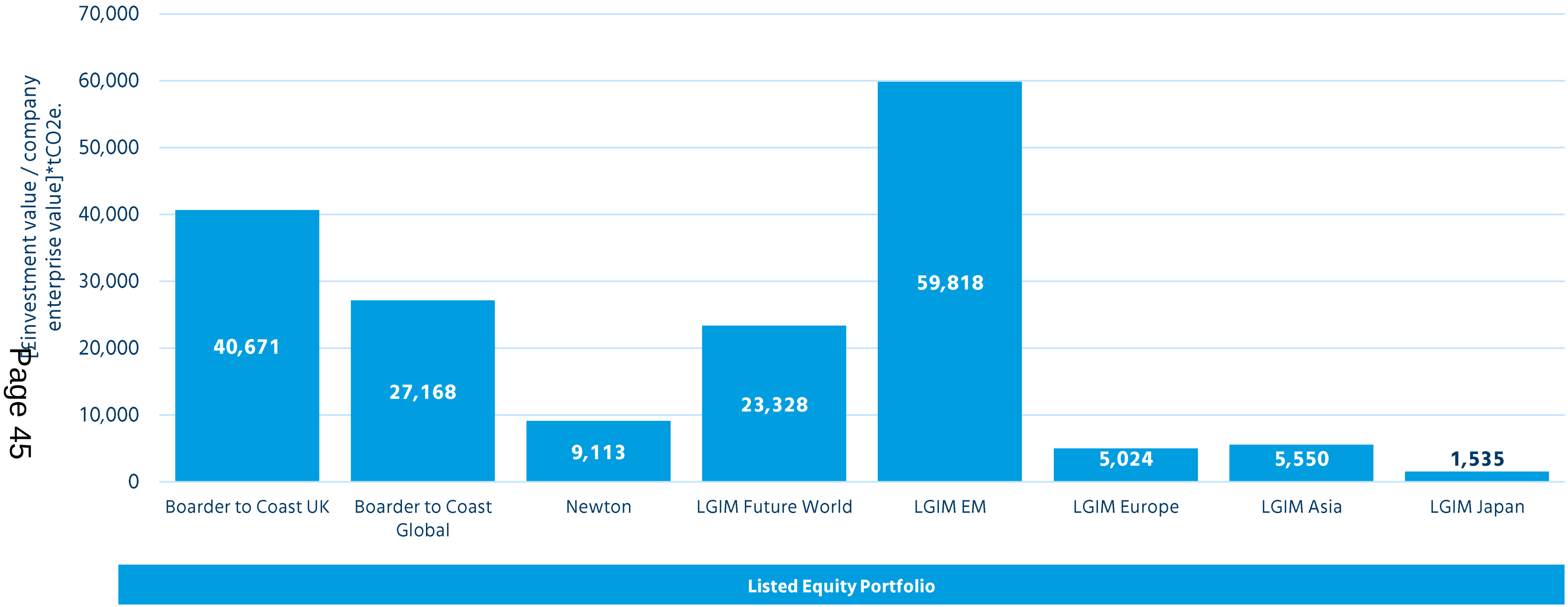


When considering the September 2021 allocation, **the listed portfolio has a c.-27.1% lower carbon intensity than MSCI ACWI.**

It is a c.-22.2% lower Carbon Footprint when comparing with the June 2021 allocation (52.7 tCO2e per $million invested versus 41.0 tCO2e per $million invested).

*Note that while the allocation is at September 20201, all data is at June 2021.

Absolute Emissions*



Given the methodological approach for calculating absolute emissions (based on the value of Surrey Pension Fund's value of investment in investee companies), it is not possible to provide benchmark comparisons.

Attributing company emissions to the Fund is based on the value of investment, with all measurements on an absolute basis making changes in total investment value essential.

*Note that while the allocation is at September 20201, all data is at June 2021.

Mercer

Summary of Results *

Asset Class	Manager/ Mandate	Benchmark	% of fund successfully analysed	Benchmark WACI (tons CO2e / $M revenue)	Fund WACI (tons CO2e / $M revenue)	Benchmark Carbon Footprint (tons CO2e / $M invested)	Carbon Footprint (tons CO2e / $M invested)	Absolute Emissions (tons CO2e)	% of Portfolio
Listed Equity	Border to Coast UK	FTSE All Share	92.9%	**138.2**	**80.5**	**75.2**	**56.4**	40,671	10.6%
	Border to Coast Global	MSCI ACWI	96.5%	**153.4**	**64.0**	**56.3**	**29.7**	27,168	13.4%
	Newton	MSCI ACWI	97.2%	**153.4**	**46.8**	**56.3**	**14.5**	9,113	9.1%
	LGIM EM	-	95.0%	-	**331.6**	-	**134.4**	59,818	6.3%
	LGIM Europe	-	96.6%	-	**129.8**	-	**73.3**	5,024	1.0%
	LGIM Asia	-	97.6%	-	**196.6**	-	**88.6**	5,550	0.9%
	LGIM Japan	-	98.3%	-	**86.6**	-	**64.7**	1,535	0.3%
	LGIM Future World*	-	93.8%	-	**65.6**	-	**17.3**	23,328	18.7%

Notes: % of fund directly analysed reflects coverage under the MSCI tool used in this analysis.
*Note that while the allocation is at September 20201, all data is at June 2021.

Key:

Green (below index)

Grey (in line with the index)

Red (contributed negatively with above index performance)

Implied Temperature Rise*

Asset Class	Manager/ Mandate	% of Fund Covered by Assessment	Benchmark	Benchmark ITR	Fund ITR	Percentage of Portfolio
				°C	°C	(%)
Listed Equity	Border to Coast UK	92.9%	FTSE All Share	2.3	**2.3**	10.6%
	Border to Coast Global	96.5%	MSCI ACWI	2.4	**2.2**	13.4%
	Newton	97.2%	MSCI ACWI	2.4	**2.1**	9.1%
	LGIM EM	95.0%	-	-	**2.9**	6.3%
	LGIM Europe	96.6%	-	-	**2.3**	1.0%
	LGIM Asia	97.6%	-	-	**2.8**	0.9%
	LGIM Japan	98.3%	-	-	**2.6**	0.3%
	LGIM Future World	93.8%	-	-	**2.1**	18.7%

Notes: The range of holdings analysed reflects both coverage under the MSCI tool used in this analysis.
*Note that while the allocation is at September 20201, all data is at June 2021.

Key:

Green 2°C or below

Amber between 2°C and 3°C

Red over 3°C

Grey (Limited / Directional / No data)

Mercer

Border to Coast Update

BORDER TO COAST COMMITS TO NET ZERO

Recognising the urgent need to tackle climate change, Border to Coast Pensions Partnership, one of the largest UK pension pools, today confirms its commitment to achieving net-zero greenhouse gas emissions across its investments by 2050 or sooner.

Announced as part of its first standalone Climate Change Policy, Border to Coast will use the Net Zero Investment Framework to set out a roadmap over the next 12 months defining how it will support this commitment. This will include:

- Setting interim targets for 2030, supporting efforts to achieve up to a 50% global reduction in CO2 emissions identified as a requirement in the IPCC special report on global warming;
- Prioritising engaging with policymakers, regulators and companies to work to achieve real economy emissions reductions within the sectors and companies in which it invests;
- Creating and evolving investment propositions aligned with net zero emissions by 2050, and facilitating increased investment in climate transition solutions;
- Working with the industry to improve carbon data disclosure and transparency in fixed income and private markets, where information is currently unreliable; and
- Implementing a revised stewardship and engagement strategy with a clear escalation and voting policy that is consistent with being Net Zero across its investments by 2050 or sooner.

Source: Border to Coast

Conclusions & Recommendations

Summary and Key Messages

Recent Changes

The Committee agreed a switch from RAFI and Low Carbon into the Future World fund which was implemented at 30 September 2021

20%+

Reduction in carbon footprint and absolute emissions and

12% reduction in WACI

TCFD

This analysis establishes the baseline climate risk metrics to put into the TCFD report. Full details on the metrics are set out on slides 18-20

3

At least three metrics will need to be included in the TCFD report

Net Zero

An immediate consideration for the Committee will be to set an ambitious but realisable net zero carbon target date

2050

Border to Coast have set a net zero carbon date of 2050

Investment Strategy

The metrics in this report will likely inform the investment strategy review, including the approach to investing in areas with a higher carbon footprint

36%

Contribution to the carbon footprint comes from emerging markets

Important Notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

All analysis in this document is subject to change.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

6

Page 52

Mercer

Responsible Investment Policy

Border to Coast Pensions Partnership

6

November 2021

Responsible Investment Policy

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

6 1. Introduction

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

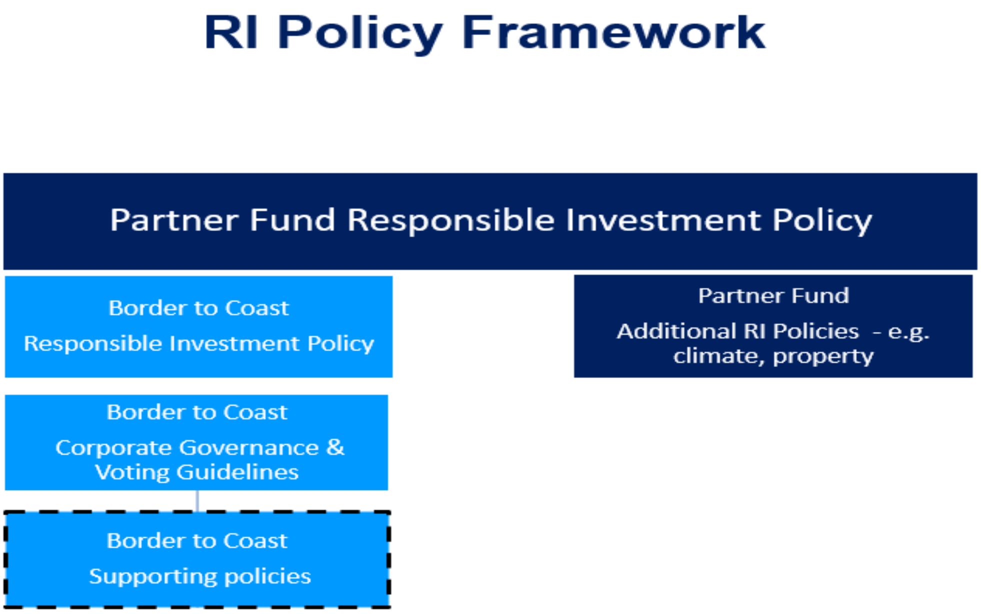
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

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

1.1 Policy framework

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

6



2. What is responsible investment?

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

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

3. Governance and Implementation

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

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

6

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

Environmental	**Social**	**Governance**	**Other**
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all internally and externally managed assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

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

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase and maintain knowledge, and portfolio managers will be involved in the voting process.

5.2. Private markets

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

- The assessment of ESG issues is integrated into the investment process for all private market investments.

- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

6

5.3. Fixed income

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

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

5.4. Real estate

Border to Coast is considering making Real Estate investments through both direct properties and real estate funds. For real estate funds, a central component of the fund selection/screening process will be reviewing the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will be energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which will involve procuring a third-party manager and working with them to develop a best-in-class approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

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

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. We will encourage managers to become signatories to the UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

6

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition 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.

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[4] and [have made an application to become a signatory by submitting our 2021 Responsible Investment & Stewardship Report to the Financial Reporting Council] ; we are also a signatory to the UN - supported Principles of Responsible Investment[5].

---

[4] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

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

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our **website** at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund. 6

6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also monitors the services provided by Robeco monthly, with a six monthly and full annual review.

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

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

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

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

6

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

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all eleven Partner Funds are members of the LAPFF. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.

- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[6] breaches or OECD Guidelines[7] for Multinational Enterprises breaches.
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

6

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[8] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process.

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

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

---

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

[7] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[8] SMART objectives are: specific, measurable, achievable, relevant and time bound.

6

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider, is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

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

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We also report in line with the TCFD recommendations.

9. Training and assistance

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

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

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

This page is intentionally left blank

Corporate Governance & Voting Guidelines

6

Border to Coast Pensions Partnership

November 2021

1. Introduction

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

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

2. Voting procedure

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

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

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

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

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

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe. 6

Composition and independence

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

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

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

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

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

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

6

Leadership

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

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

Non-executive Directors

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

Diversity

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

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed. 6

Succession planning

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

Directors' availability and attendance

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

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

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate
6 their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

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

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

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

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary

---

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases. 6

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

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

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

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

6 Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

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

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

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

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting. 6

Audit

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

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

Non-Audit Fees

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

Political donations

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

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

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

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

6

Share Repurchases

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

Memorandum and Articles of Association

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

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

Virtual Shareholder General Meetings

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

6

Shareholder Proposals

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

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools enable us to assess how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

Investment trusts

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

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

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

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 10 DECEMBER 2021

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

SUBJECT: INVESTMENT STRATEGY REVIEW

SUMMARY OF ISSUE:

Strategic objectives
Investment

The Pension Fund reviews its Investment Strategy, in accordance with the 2022 valuation, taking it to account its investment core beliefs and in line with Border to Coast's asset offerings. This paper provides the high-level project plan for this review.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the high level project plan for the Investment Strategy Review.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee is required to review the investment strategy at least annually. The 2022 valuation is an appropriate and necessary time to undertake a full review of the investment strategy of the fund. This is consistent with the Fund's strategic investment objectives.

BACKGROUND:

1. The Investment Strategy and associated asset allocation is a key driver of actuarial assumptions for the triennial valuation.

2. It is an appropriate time to review the Investment Strategy, in accordance with the 2022 triennial valuation, in light of the Fund's investment core beliefs and particularly its evolving approach to responsible investing. The review of the Investment Strategy also informs product development with the Fund's asset management pooling company, Border to Coast.

3. In reviewing its Investment Strategy, the Fund is supported by its Independent Investment Advisor, Anthony Fletcher and its Investment Consultant, Mercer.

DETAILS:

Investment Strategy Review, high level project plan

4. The Investment Strategy Review incorporates training for the Pension Fund Committee and work currently in progress to produce a stand-alone Responsible Investment Policy. It also requires collaboration with the Fund's actuary and Border to Coast.

5. It is expected that review of the Investment Strategy will progress through 2022, with a target completion date of June 2022.

6. Mercer have produced a high-level project plan for the Committee to approve, this is shown as Annexe 1.

7

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

8. The consideration of risk related issues, including investment, governance and reputational risk, are an integral part of this project and will be considered as part of the project development.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9. There are no financial and value for money implications contained in this report.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

11. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

12. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14. The following next steps are planned:

a) Officers to work with the Independent Investment Advisor, Investment Consultant, Fund actuary and Border to Coast to progress the review in accordance with the high level project plan.

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

Consulted:
Pension Fund Committee Chairman 7

Annexes:

1. High level investment review project plan

Sources/background papers:

This page is intentionally left blank

Mercer

welcome to brighter

Surrey Pension Fund

Investment Strategy Project plan

November 2021
Steve Turner & Sam Wreford

Project Plan

1

Responsible Investment Policy Sub-Committee Meeting
19 November 2021
Work towards approving the proposed structure for a standalone investment policy

2

Pension Fund Committee Training
10 December 2021

Introduce the Investment Committee to the current investment strategy and provide the rationale for each of the relevant building blocks. Training will also cover the role of the Committee, Border to Coast, advisors and external investment managers

3

Pension Fund Committee
10 December 2021

Agree the monitoring framework and key metrics for the TCFD reporting.

4

Draft TCFD Report
Ahead of 10 March 2022 Committee

Provide draft report for discussion at the Committee meeting. Consider a net zero target beforehand.

5

Investment Strategy Key Considerations
10 March 2022

By linking the outcome of the TCFD analysis and the proposed RI Policy, provide initial key considerations for the investment strategy, including high level recommendations.

Provide opportunity for discussion and stress testing, possibly as part of a sub-Committee meeting

6

Final Recommendations
June 2022 Committee or later

Provide final detailed recommendations to the Committee. Ideally, this would be done after discussions with Fund Actuary, to allow for the Actuarial Valuation.

Implementation of any changes to follow.

Mercer

Mercer Limited is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 984275. Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU

A business of Marsh McLennan

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **10 DECEMBER 2021**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

SUBJECT: **COMPETITION & MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES**

8

SUMMARY OF ISSUE:

Strategic objectives
Investment

Local Government Pension Schemes (LGPS) are required to set strategic objectives for their Investment Consultant (IC) Provider and monitor their performance against these objectives at least every three years.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the Strategic Objectives for Investment Consultants of the Fund in line with Competition and Markets Authority Requirements.
2. Note compliance against these strategic objectives by the Investment Consultant provider for 2021.
3. Approve for the submission of the Competition and Markets Authority Compliance Statement and Certificate for 2021.

REASON FOR RECOMMENDATIONS:

Performance monitoring of the IC meets CMA requirements and is consistent with the Fund's strategic investment objectives.

DETAILS:

Background

1. The Pensions Act 1995 requires the trustees of a LGPS to appoint certain 'professional advisers' to carry out specific tasks in relation to the scheme. The advisers, more specifically, the IC Provider, should have the knowledge, experience and professional qualification to provide investment advice to the Fund.
2. The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 applied an obligation to the LGPS to set strategic objectives for providers of IC services.
3. At its meeting of 20 December 2019 the Surrey Pension Fund Committee

approved the Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements (these are shown as Annex 1).

4. The CMA's expectation is that investment consultancy providers' objectives will be reviewed at least every three years and after any significant change to investment strategy and objectives.

5. In addition, the CMA expects clients will ask their investment consultancy providers to report periodically on their performance in meeting the objectives, although there is no set frequency for this.

6. The annual compliance statement must be submitted to the CMA by 7 January 2022, covering the period 10 December 2020 to 9 December 2021.

8

7. The Surrey Fund's current IC is Mercer.

Performance against the strategic objectives by the IC provider for 2021

8. The Fund retendered for IC services in April 2021 and, at its meeting of 9 July 2021, the Committee approved the appointment of Mercer as the IC on a 3 year contract with an option to extend for 2 year, with effect from July 2021.

9. As part of the tender process Mercer were required to satisfy the following service criteria:
    a) Review of investment strategy including strategic and tactical asset allocation to include a full range of asset classes including alternative investments and emerging products and services.
    b) Investment beliefs.
    c) The use of overlays.
    d) Risk management and reporting.
    e) Setting appropriate performance targets and benchmarks.
    f) Working with the Fund Actuary to undertake asset liability modelling as required.
    g) Working with the Fund Actuary on an on-going basis in respect of the integrated management of fund assets and liabilities.
    h) Advising on the Investment Strategy Statement and other statutory policy or reporting requirements including monitoring, reporting and assessment of investment management service providers.
    i) Advising on Responsible Investment and Stewardship policies which set how Social, Environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments on the exercise of the rights (including voting rights attached to investments).
    j) Advising on the investment market and solutions (at a strategic and fund investment strategy level) based upon the application of current market intelligence (or advising on investment markets and the outlook for different asset classes).
    k) Attend meetings and provide training to members of the pensions committee, local pension boards, officers etc.in support of maintaining high standards of investment governance.
    l) Review and selection of Additional Voluntary Contributions providers.
    m) Climate risk reporting and scenario analysis in line with the Taskforce for Climate Related Financial Disclosures (TCFD).
    n) Advising on Pooled Fund design when transitioning assets to Border to Coast Pensions Partnership.

o) Advising on compliance with the Stewardship Code.
p) Advising on the Fund's compliance in aligning its investment approach against the United Nations Sustainable Development Goals.

10. Mercer's successful satisfaction of this criteria as part of the tender process demonstrates compliance against the IC strategic objectives for 2021.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

8

12. Risk management implications of the strategic objectives could involve how the IC Provider advises the Fund in monitoring the risk attrition of its portfolio.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. There could be financial and value for money implications should the IC not meet its strategic objectives.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

14. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. It is a legislative requirement to set and monitor performance against IC strategic objectives as part of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

EQUALITIES AND DIVERSITY

16. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

18. The following next steps are planned:

    a) Submission of the CMA Compliance Statement and Certificate for 2021.
    b) An assessment of performance versus the objectives set, will be carried out in respect of 2022 and presented to the Committee at its meeting of 16 December 2022.

Contact Officer:
Ayaz Malik, ayaz.malik@surreycc.gov.uk

Consulted:
Pension Fund Committee Chairman

Annexes:

1. Strategic Objectives of the Surrey Pension Fund IC.

Sources/background papers:

8

Surrey Pension Fund: Strategic Objectives for Investment Consultants (IC)

Background

The Pensions Act 1995 requires the trustees of a Local Government Pension Scheme (LGPS) to appoint certain 'professional advisers' to carry out specific tasks in relation to the scheme. The advisers, more specifically, the IC Provider, should have the knowledge, experience and professional qualification to provide investment advice to the Fund. The IC Provider must be formally appointed by the Fund through letter of appointment, as per The Pensions Regulator (TPR) guidance below:

The letter of appointment sent to the adviser must mention:

- The date the appointment begins;
- To whom the adviser will report; and
- Who will give instructions to the adviser.

The adviser must acknowledge the appointment in writing within a month. They must also confirm that they will disclose any conflict of interest that affects their role as soon as they become aware of one.

The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (‘the Order’)

The Order was published by the Competition & Markets Authority on 1 August 2019 and provides notice of new responsibilities for LGPS funds.

Following dialogue between the Competition Markets Authority (CMA), Ministry of Housing, Communities & Local Government (MHCLG) and Department for Work & Pensions (DWP) and subsequent consultations published by DWP and TPR, there is agreement that the Order applies two new obligations to the LGPS, as well as a potential change to the Financial Conduct Authority’s (FCA) regulator perimeter. The obligations are as follows:

- A requirement to tender for services provided by some pool companies which fall under the definition of Fiduciary Management (FM)
- A requirement to set strategic objectives for providers of Investment Consultant (IC) services
- It also flagged a potential change to the FCA’s regulatory perimeter to bring advice on strategic asset allocation within the definition of a regulated activity

Only the second objective immediately applies to the Surrey Pension Fund. This paper will outline the strategic objectives set by Surrey Pension Fund for the IC Providers.

The Objective of the Fund

The Trustees and those responsible for managing the Fund, seeks to ensure that it has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible.

Subject to being consistent with the agreed investment consultancy services to be provided by the IC Provider, the following objectives for the IC Provider will, if well executed, contribute towards achieving the Fund's Overall Objective:

1. Alignment of services with the Objective of the Fund

8

The IC Provider should take into account the Objective of the Fund above and, in doing so, will give due consideration to relevant circumstances of the Fund when advising in its interests. Those relevant circumstances include; but are not limited to, the contributions policy, developments in the funding level of the Fund from whatever cause, the tolerance for investment risk of the Fund and the employers, economic and market conditions and outlook.

The IC Provider should also consider the fiduciary duty of the Fund to act in the best interests of pension members as per the Objective of the Fund, and consider Environmental, Social and Governance (ESG) factors and stewardship risks when providing advice.

The IC Provider should also avoid potential conflicts of interest between the objectives of the IC Provider and the objectives of the Fund.

2. Investment strategy objective

Where applicable, the IC Provider should guide the Fund in determining appropriate strategic investment objectives to achieve optimal funding levels to meet liabilities. This can be achieved through improved performance or management of investment risk over the long term;

- The IC Provider should develop an investment strategy robust enough in steering through volatile market movements which can impact asset and liability values
- The IC Provider should advise the Fund on setting a strategic asset allocation that is well diversified and expected to generate returns in excess of the expected rise of the Fund's liabilities.
- The IC Provider should, when advising on the overall level of risk in the strategic asset allocation, take into consideration the Fund's current risk appetite
- The IC Provider should advise the Fund in maintaining sufficient liquid resources to meet its ongoing obligations
- The IC Provider should advise the Fund on new investment opportunities and emerging risks and periodically propose amendments to the investment strategy where appropriate.

3. Investment manager selection objective

The IC Provider should make recommendations on the appointment and retention of suitable investment managers and also on construction of prospective sub funds within the Border to Coast Pensions Partnership (BCPP), which are consistent with the Fund's strategic objectives.

The IC Provider should recommend investment managers/ sub funds that the IC Provider believes have a high degree of confidence in achieving the objective set for the investment manager after fees over a market cycle.

4. Implementation objective

The IC Provider should assist with achieving timely and cost-effective implementation of the Fund's investment decisions where appropriate, also in the context of current market conditions. 8

5. Investment Strategy Statement

The IC Provider should provide guidance on any matters in respect of which the Fund is required by law to seek advice in relation to the preparation or revision of the Fund's Investment Strategy Statement.

6. Breaches of Law

The IC Provider has a legal duty to report any breaches of law, in relation to its investments, if they have reason to believe there has been a breach made by the Fund that is likely to be of material significance to the Pensions Regulator.

7. Monitoring objective

The IC Provider should assist with the monitoring of the Fund's performance against its Investment Strategy in the following areas;

- Monitoring current legacy manager and asset class performance, and advising courses of action as and when required
- Monitoring performance of Fund Managers, asset classes of BCPP Sub-funds, and advising courses of action as and when required
- Monitoring the liquidity of the Fund in meeting its ongoing obligations and at what stage the Fund should begin to improve its cash flow requirements
- Monitoring current risk attrition of the Fund's portfolio in relation to its risk appetite and advising when the Fund should increase/ decrease risk in its portfolio.

This page is intentionally left blank

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **10 DECEMBER 2021**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY**

SUBJECT: **LOCAL PENSION BOARD REPORT**

SUMMARY OF ISSUE:

Strategic objectives	
Governance	Delivery

This report provides a summary of administration and governance issues reviewed by the Local Pension Board at its last meeting for noting or action by the Pension Fund Committee. 9

RECOMMENDATIONS

This report recommended that the Pension Fund Committee:

1. Notes the minutes of the Local Pension Board meeting of 5 August 2021 (shown as Annexe 1).

2. Approves the following changes to the administration risk register (Shown as Annexe 2):

   i- Risk A2 Lack of process ownership leads to ineffective processes and errors,
   ii- A3 Failure to follow up on outstanding issues results in inefficiency and damaged reputation.
   iii- A4 Lack of capability of the admin system leads to inefficiency and disruption,
   iv- A7 Unstructured training leads to underdeveloped workforce resulting in inefficiency,
   v- A10 Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance,
   vi- A11 Failure to get on top of the backlog leads to resource issues and management distractions,
   vii- A12 Failure to identify GMP liability leads to ongoing costs for the pension fund,
   viii- A14 Lack of productivity leads to impaired performance,
   ix- A19 The Pensions Payroll process had migrated onto the Altair system from SAP in Nov 17. The risk of errors in the current processes are increased by the core Altair payroll system not being integrated with the BACS generator application meaning items have to be recorded twice.
   x- A20 Head of Pension Administration leaving the Council may dilute the organisation's collective knowledge and impact on decision making,

xi- 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 and new risk and

xii- A24, 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.

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 into 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.

9

This meets the Fund's strategic governance and delivery objectives.

DETAILS:

Forward plan and action tracker

1. The Board was asked to review the forward plan and action tracker and the Chair noted that it was an incorrect version.

2. The Board discussed training requirements.
   Actions

   a) Corrected action tracker version to be provided.
   b) Public Sector Toolkit link to be resent and the completion monitored more closely.
   c) The material on SharePoint and its archive are to be shared.

Turnaround Programme Update

3. After a review of the Orbis partnership between ESCC and SCC, it was decided that management of pension administration should revert to the sovereign control of both councils.

4. SCC retained legacy responsibility for managing the administration of Surrey fire fighters pension scheme and the 4 London Boroughs' LGPS funds (Kensington & Chelsea; Westminster; Hammersmith & Fulham and Hillingdon).

5. After initially failing to agree on a revised pricing model, these bodies are all now in the process of exiting Surrey's management from April 2021 to February 2022.

6. The Pension Turnaround Programme was established with Phase 1 overseeing the dissolution of the Orbis pension partnership, along with reversion to sovereign authorities and the exit of the London Boroughs and Phase 2 focusing on redesigning the organisation. A three-year roadmap has been developed, which was presented to the Board.

Phase 1 programme update

7. Completed activity since the last update:
   a) Migration of SFRS.
   b) Migration of London Borough of Hillingdon.

8. Planned activity:
   a) Ongoing activity with the exits of Westminster City Council and the London Borough of Hammersmith and Fulham.

Phase 2 programme update

9. Executive Summary:
   a) Consultation period closed
   b) Response to consultation including final structure issued to all staff and Tus
   c) Bespoke workshops to support staff with expressions of interest and interview planning underway
   d) Recruitment for Heads of Service planned and interview dates known
   e) Recruitment approach for all other roles agreed
   f) Marketing campaign starting with AON webinar and "teaser" video planned

9

10. Organisational redesign update:
    a) Completed activity this period: n/a
    b) Planned activity for next period:
       i- Meeting with Heywoods to explore what capability is available that we may not be leveraging;
       ii- Prepare Business Case to set out options for Pensions Helpdesk.
    c) Risks/dependencies:
       iii- Maintain ongoing dialogue with Business Operations re Pensions Helpdesk (i.e. to determine whether current design can meet future aims and ambitions at a cost that delivers the best value) so that decision can be made at an appropriate point

11. People and recruitment update:
    a) Completed activity this period:
       i- Equality Impact Assessment completed;
       ii- Voluntary severance applications confirmed;
       iii- Response to consultation document including confirmed structure issued to staff and Trade Unions (confirmed structure is included as Annexe 1);
       iv- Marketing campaign in progress.
    b) Planned activity for next period:
       i- Finalise marketing campaign;
       ii- "Teaser" marketing video launched;
       iii- AON webinar;
       iv- Head of Service advertisements and shortlisting completed;
       v- Head of Accounting & Governance interviews (ringfenced post).
    c) Risks/dependencies:
       i- Date by which leadership structure can be in place is dependent on notice periods of successful candidates – likely to be longer notice periods if external appointments made.

12. Process and technology update:

a) Completed activity this period: n/a
b) Planned activity for next period:
    i- Complete review of process maps and make recommendations for next steps;
    ii- Early engagement with IT&D to ensure resource is in place when needed;
    iii- Engagement with Heywoods to ensure leveraging capability with current system and exploring future capabilities.
c) Risks/dependencies:
    i- Progress and completion of process mapping could be delayed due to impact of consultation on staff leading this work.

13. Culture and training update:
    a) Completed activity this period:
        i- Work continuing with Human Resources for most appropriate approach to culture change strategy.
    b) Planned activity for next period:
        i- Identify resource to build new process training manuals and approach.
    c) Risks/dependencies:
        i- Resistance to change could undermine success of new culture.

14. Communication and engagement update:
    a) Completed activity this period:
        i- Bespoke workshops to support staff with preparing expressions of interest and interviews have been well attended with positive feedback received;
        ii- Dedicated pensions inbox remains open for staff queries.
    b) Planned activity for next period:
        i- Further interview skills workshops;
        ii- Whole of Pensions meeting to take forward BAU priorities post consultation.
    c) Risks/dependencies: n/a

9

Administration Performance Report and Update

<u>Legacy Removal</u>

15. Surrey Pension Service procured JLT (now Mercer) to support the removal of a significant backlog in undecided leaver cases (also known as status 2s). It was agreed in 2019 that this backlog should be reduced in time for the valuation in 2022 in order to improve the accuracy of the triennial valuation.

<u>McCloud</u>

16. The government decided that the general principles apply to all public sector pension schemes and has consulted on amending the LGPS Regulations.
17. Employers will be required to provide additional payroll data including some pre-2014 data, which may pose challenges, in order apply the remedy.

18. The potential financial impact at the last valuation has been estimated by Hymans to be 0.5% of the total fund worth.

<u>Guaranteed Minimum Pension (GMP) Reconciliation Project</u>

19. Surrey Pension Service procured the service of JLT (now Mercer) to undertake the rectification of members' GMPs in line with the HMRC guidance, with a view to full rectification in the next 9 – 12 months.

20. This work should ensure that our member's GMPs are correct, resulting in fewer over/ underpayments.

<u>Performance</u>

21. Surrey Pensions Administration Team received 4,899 new KPI case in the quarter, 649 fewer than the number received between April and June 2021. However, 5,627 cases were completed during in quarter 2 compared to 5,298 cases completed in quarter 1.

22. The number of cases open at the end of September 2021 has fallen by 722 to 9,534 when compared to the previous quarter. 9

23. There were 6,913 cases more than six months old quarter 2 including 4,912 cases over 2 years old. It is expected that, as the London Borough Funds exit, there will be increased capacity within the team to tackle the overdue cases.

24. There have been improvements in Survivors' Pension Payments, Death Benefits payable and Balance of Payments all of which are KPIs set by the Pensions Regulator (tPR). These improvements are attributable to the introduction of a new method in allocating work to each Hub Team, coupled with the creation of a 5th Hub (team), by drawing members from the other 4 Hubs.

<u>Administration Team Update</u>

25. Following discussions regarding staff productivity at the last Local Pension Board meeting, an action was taken to provide further information on Performance.

26. A separate team was set up to focus on project work including the London Borough exits and other projects. The existing teams are focusing on Surrey pension fund work as it becomes due for action.

27. The implementation of a new work allocation process has begun to improve the monthly KPIs.

28. There was a slight dip in the number of tasks completed in August due to staff absences (annual leave), which was higher than July.

Complaints

29. During the period 1 July to 30 September 2021 a total of 10 complaints were received, a reduction from the 22 received in the previous quarter. 5 of these were responded to within the corporate service legal agreement and 5 were resolved outside that timescale.

30. The Board expressed an interest in receiving more insight into complaints.

Actions:

a) Officers will provide feedback on current complaints process

Internal Dispute Resolution Procedure (IDRP) Appeals

31. Two stage 1 appeals were determined, which were both declined, and one stage 2 was determined and partially upheld. Three Pensions Ombudsman cases were received in the quarter.

Breach of Law

32. There were no breaches to report.

9

Engagement and Education

33. The team has built a new Employer Website supported by Surrey County Council's Digital Team. This has now gone live and was launched to scheme employers in the employer newsletter issued on 30 September. The website was trialled with the District and Borough Councils first for early sight and feedback from this tranche of employers.

34. A new Surrey Pension Fund member website is also being developed in conjunction with Hymans who provide the website.

35. Quarterly meetings are now in place with HR and Finance representatives from the District & Borough Councils, and Surrey Police.

36. The Board noted its surprise that Helpdesk case handling was not provided within the integrated pension service.

Actions:

b) Officers will provide update on Helpdesk provision in future Turnaround Programme updates.

Valuation 2022

37. The Fund's actuary, Hymans Robertson, carries out a valuation of the Fund's assets and liabilities (currently) every three years. They set the primary and secondary contribution rates for all employers in the Fund and the accompanying investment strategy is derived from this valuation.

38. The next triennial valuation is due on 31 March 2022 (effective 1 April 2023) and the project timeline for the next valuation runs from July 2021 to April 2023.

39. Members of the Committee will be provided with training on the valuation process by the Fund actuary.

40. Officers will work with Hymans to refine this plan and report regularly on progress towards the valuation to the Board.

Compliance with the Pension Regulator's Code (tPR) of Practice 14

41. Compliance with the Pension Regulator's Code of Practice 14 gives assurance that the Fund has effective processes and practices in place for the administration of the Pension Fund.

42. Although tPR consulted on introducing a Single Code of Practice in 2021, it has been paused following mixed feedback and it is not expected to be implemented until late summer 2022.

43. The Compliance checklist shows Surrey Pension Fund's progress on 'Partially' complete sections of TPR Code of Practice no 14 and whether further actions are required. The Fund is compliant in most areas; however, there are some where the Fund is making progress towards being able to demonstrate full compliance and they will be prioritised.

Draft Annual Report and Statement of Accounts

9

44. The external auditor is required to report on the Pension Fund Financial Statements. During the external audit, Grant Thornton identified some inconsequential issues, which led to minor amendments being made to the 2020/21 draft financial statements and related notes to the accounts.

45. The draft Pension Fund Accounts were presented to the Pension Fund Committee in July 2021. They approved the draft accounts subject to them being fully audited.

46. The Final Pension Fund Accounts along with the Council Accounts will be presented to the Audit and Governance Committee.

Risk Registers 2021-22 Quarter

47. The Senior Finance Manager (Pensions) explained that Surrey is considering replacing the Treasury's Orange Book model of risk management and relacing with a different method.

    Action:

    a) The Chair to further explore the risk methodology.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

49. Risk related issues have been discussed and are included within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

50. 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 CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

51. The Director of Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

52. 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

53. 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.

9

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

55. The following next steps are planned:

    a) Monitor the progress of the Turnaround Program.
    b) Receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

Report contact: John Smith, Pension Governance and Employer Manager, Clare Chambers, Acting Head of Pensions Administration

Contact details: T: 020 8213 2700 E-mail: john.smith@surreycc.gov.uk, 07779 971634, clare.chambers@surreycc.gov.uk

Annexes:

1. Minutes of the Local Pension Board meeting 11 November 2021.
2. Administration Risk Register.

MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 11 November 2021 at Woodhatch Place, 11 Cockshot Hill, Reigate RH2 8EF.

These minutes are subject to confirmation by the Committee at its meeting on Friday, 18 February 2022.

(* present)
Elected Members:

* Tim Evans (Chairman)
* Siobhan Kennedy
David Lewis (Vice-Chairman)
* William McKee
Fiona Skene
* Jeremy Webster
* Trevor Willington

9

In attendance

Nick Harrison, Chairman of Surrey Pension Fund Committee

42/20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were apologies for absence from Fiona Skene and David Lewis. There was an apology from Jeremy Webster for lateness. Siobhan Kennedy joined the meeting remotely.

43/20 MINUTES FROM THE PREVIOUS MEETING: [Item 2]

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

44/20 DECLARATIONS OF INTEREST [Item 3]

There were none.

45/20 QUESTIONS AND PETITIONS [Item 4]

There were none.

46/20 FORWARD PLAN AND ACTION TRACKER [Item 5]

Speakers:
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised in the discussion:
1. The Board noted the Forward Plan and had no further comments on it.
2. The Board reports from officers that the tracker needed to be updated further and it was suggested that target dates should be included in the tracker.

Actions/further information to be provided:
That the tracker be updated and submitted at the next meeting.

Recommendations:
The Board noted the forward plan.

47/20 SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF 10 SEPTEMBER 2021 [Item 6]

Speakers:
Nick Harrison, Chairman, Surrey Pension Fund Committee
Tim Evans, Chairman, Surrey Local Pension Board

Key points raised in the discussion:

1. The Chairman of the Board highlighted various elements of the work undertaken by Committee as stated in the submitted report. He informed the Chairman of the Committee, and wished it registered, that the Board were in support of the work being done by the Committee on investments.

9

Actions/further information to be provided:
None.

Recommendations:
The Board noted the report.

48/20 TURNAROUND PROGRAMME UPDATE [Item 7]

Speakers:
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised in the discussion:

1. The Strategic Finance Manager introduced the submitted report and highlighted:
    - Phase 1 –completed migration of fire service; other migrations were on track.
    - Phase 2 – establishment of integration of one pension team was on track. In process of recruiting to the Head roles.
    - A process review was being undertaken
    - the turnaround programme was on track and milestones were being reached with no risk or concerns.
    - Trade unions had been consulted throughout the consultation process.
2. In response to a Member query regarding marketing the Strategic Finance Manager explained that the new vision was being marketed and promoted to attract a diverse set of candidates to take on the new roles advertised in the new structure.
3. In response to a Member query regarding whether there was a Gant chart to show the planned, versus actioned activities, the Strategic Finance Manager stated that he would share the timeline with Members. He stated that a report was going to the Audit & Governance Committee that gave a bit more detail around the timelines and he would share this with the Board as well.
4. The Strategic Finance Manager paid tribute to the whole team of staff.

Actions/further information to be provided:
That the Strategic Finance Manager share the timeline, and report going to Audit & Governance Committee, with Members.

.
Recommendations:
The Board noted the report.

49/20 ADMINISTRATION PERFORMANCE REPORT AND UPDATE - 1 JULY TO 30 SEPTEMBER 2021 [Item 8]

Speakers:
Clare Chambers, Acting Head of Administration
Neil Mason, Strategic Finance Manager (Pensions)
Tom Lewis,

Key points raised in the discussion:
1. The Acting Head of Administration highlighted several areas of the report including: 9
    - Fewer cases had been received and more had been completed, therefore the backlog had reduced
    - There had been an improvement on death cases
    - There were no breaches to report
    - Annual Benefit Statements were all sent out on time
    - A new employer website had been developed and was now live
    - The legacy removal work with Mercer was now completed
    - GMP reconciliation had moved on and the communication to members had been put together by Mercer
    - The McCloud project – 74 responses from providers had been received and another 53 responses were awaited. Once all the data had been received they would look at how to take forward. If all providers do not respond then the Acting Head of Administration would look to national guidance on how to take this forward.
2. In response to a Member query on whether there were any trends to the complaints received the Acting Head of Administration reported that the complaints received covered a broad spectrum of areas but none markedly more than others. The Strategic Finance Manager (Pensions) offered to provide an explanation of how complaints were categorised and defined to the next meeting.
3. A Member asked that where a complaint was upheld it would be useful to know if there was any action needed to prevent it happening again. The Acting Head of Administration agreed and explained that complaints were regularly monitored and whether there was any need to changes systems or processes.
4. A Member asked about whether the helpdesk information included non-response to telephone calls as this had been a problem highlighted previously. He also asked what the percentage of responses was to email enquiries against the service level agreement of three days. The Acting Head of Administration explained that the service desk did not sit under the administration team but could request the information if needed. The Strategic Finance Manager (Pensions) stated that the Programme Team were considering helpdesk activities and whether they should remain as is or sit within the Pensions Team.
5. A Member stated that it was coming up to the time when pension increases would be coming through and sought assurance that the amount

of increase would be included in the letters sent out. The Acting Head of Administration gave that assurance.

6. The Board requested that regular reports from the helpdesk be included on future agendas. The Strategic Finance Manager (Pensions) stated that this would be part of the programme update report.

Actions/further information to be provided:
The Strategic Finance Manager (Pensions) to provide an explanation of how complaints were categorised and defined to the next meeting.

Recommendations:
The Board noted the report.

Jeremy Webster arrived at 10.30am at the start of the debate on this item.

At 11am the Committee held a two minute silence for Armistice Day.

9

50/20 VALUATION 2022 [Item 9]

Speakers:
Tim Evans, Chairman
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised in the discussion:
1. The Chairman introduced this report which he stated he was happy with.
2. A Member asked whether climate risk would be addressed as a risk, rather than as an add-on to the valuation. The Strategic Finance Manager (Pensions) explained the work of the Pension Fund Committee with regards to the Responsible Investment Policy and how this would fit in with discussions with the actuary around risk parameters.

Actions/further information to be provided:
None.

Recommendations:
The Board noted the report.

51/20 COMPLIANCE WITH THE PENSION REGULATOR'S CODE OF PRACTICE NO. 14 [Item 10]

Speakers:
Neil Mason, Strategic Finance Manager (Pensions)

Key points raised in the discussion:
1. The Strategic Finance Manager (Pensions) introduced the report and stated that the Regulator was in the process of reviewing its Code, and whether there should be a combined Code was still under consultation.
2. There was much discussion around the difficulty of several Members attending training dates as there was no choice on many dates given.
3. The Strategic Finance Manager (Pensions) stated that he would update the Board on the Toolkit which was the required minimum for Members of the Board. He also urged the Board to attend the Investment Strategy training on 10 December and the Pension Fund Committee AGM on 19 November.

4. One Member stated that training sessions could be recorded if requested, as she had done in the past.

Actions/further information to be provided:
None.

Recommendations:
The Board noted the report.

52/20 DRAFT ANNUAL REPORT & STATEMENT OF ACCOUNTS [Item 11]

Speakers:
Ayaz Malik, Senior Pensions Finance Specialist

Key points raised in the discussion:
1. The Senior Pensions Finance Specialist presented the draft Annual Report and accounts. He explained that the accounts were in the process of being audited and the auditing was expected to finish soon. The accounts were due to be presented to the Audit and Governance Committee on 29 November 2021. 9
2. The Board thanked the Senior Pensions Finance Specialist for the work put into this document.

Actions/further information to be provided:
None.

Recommendations:
The Board noted the report.

53/20 RISK REGISTERS 2021/22 - QUARTER 2 [Item 12]

Speakers:
Neil Mason, Strategic Finance Manager (Pensions)
Ayaz Malik, Senior Pensions Finance Specialist

Key points raised in the discussion:
1. The Strategic Finance Manager (Pensions) presented a revised version of the cover report (revised report attached as Annex A) – paragraphs 13 and 14 of the revised report included the revisions. He highlighted the proposed changes to the risk register which was now in the ownership of the new integrated team.
2. The Senior Pensions Finance Specialist highlighted the tracked changes in the register and the new risks added as well as those removed.
3. Risk A24 should read 'failure to maintain' rather than 'failure to implement'.
4. A Member stated that the register was an improvement and there was still scope for modifying the risks in order to focus on what was important.

Actions/further information to be provided:
None.

Recommendations:
The Board agreed the changes to the register and noted the report.

54/20 DATE OF THE NEXT MEETING [Item 13]

The Board noted that the next meeting would be held on 18 February 2022.

Meeting ended at: 11.20 am

Chairman

9

Administration Risk Register 2021/22 Quarter 2

				Inherent Risk							Residual risk							
				Impact							Impact							
Risk group	Risk Ref.	Risk Description	Risk Owner	Fin	Service	Rep'n	Total	Likely	Total risk score	Control actions	Fin	Service	Rep'n	Total	Likely	Total risk score	Reviewed on	Changes made during review
	A1	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	Nick Weaver (NW)	4	1	3	8	3	24	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team, Pension Fund Committee and Local Board members are able to interrogate data to ensure accuracy.	3	1	3	7	3	21	Oct-21	
	A2	~~Lack of process ownership leads to ineffective processes and errors.~~ Processes do not all have a standardised approach and could lead to inefficiencies	NW	2	3	3	8	3	24	TREAT ~~1) Require transparent workflow reporting with clear identification of process ownership to be reported to the Local Pension Board.~~ 1) Review processes to ensure workflows are in line with regulatory requirements 2) Document processes and ensure guidance and checklists are in place 3) Report updates to the Local Pension Board.	2	2	2	6	2	12	Oct-21	The processes for immediate payments and Admin to Pay have given tighter controls around payments to members. The review of the death process and transfer process has reduced the risk of overpayments and created greater efficiencies.
	A3	Failure to follow up on outstanding issues results in inefficiency and damaged reputation.	NW/Neil Mason (NM)	2	3	4	9	3	27	TREAT 1) Include monitoring of task follow-up times as part of the revised service standards in the Administration Strategy	1	1	3	5	3	15	Oct-21	New allocation approach has put controls around this and the tasks are now updated in Altair to ensure the task is flagged at each reply due check point.
	A4	Lack of capability of the admin system leads to inefficiency and disruption.	NW	3	3	2	8	2	16	TREAT/TOLERATE 1) Ensure system efficiency is included in the annual improvement review. 2) Monitor system review and provide extra resource where business case supports it.	2	2	1	5	2	10	Oct-21	All upgrades now undertake a thorough UAT approach to ensure any fixed updates are tested thoroughly. Where any new developments are optional and require configuration, these are decided internally by management to be in line with service objectives. Results of systems audit will be provided at the next baord meeting.
	A5	Poor reconciliation process leads to incorrect contributions.	NW/NM	3	3	3	9	4	36	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process ~~3) Pensions admin team testing i-connect to ensure it is fit for purpose and if funding agreement reached it will be implement.~~ 4) Officers to undertake quarterly reconciliation to ensure contributions are paid on time. With a view to moving to monthly reconciliation as employers engage with I-connect.	2	2	1	5	2	10	Oct-21	
	A6	~~Lack of guidance and process notes leads to inefficiency and errors.~~	NW	3	3	3	9	3	27	~~TREAT~~ ~~1) Ensure process notes are compiled and circulated in Pension Fund and administration teams~~ ~~2) Process Improvement Officer developing Standard Operating Procedures for all process.~~ ~~3) Use of Heywood's Training and Education Centre allows for standardisation of training.~~	2	2	2	6	3	18	Oct-21	Risk similar to A2, proposing to remove.
	A7	Unstructured training leads to under developed workforce resulting in inefficiency.	NW	3	4	3	10	3	30	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the development programme. 2) Encourage and support formal training.	1	2	3	6	2	12	Oct-21	Training plans and matrices are now in place for all staff to enhance development, including formal external training which provides accreditation. The introduction of a Training Officer has formalised this and reduced the risk, giving the structure required.
	A8	Conflicting priorities (Orbis, SCCvsSPF, Pensions pooling) leads to lack of overall strategy, confusion and missed opportunities.	NW/NM	3	2	3	8	3	24	TREAT/TOLERATE 1) Establish transparent lines of communication between Orbis partnership leads and local service areas 2) Ongoing monitoring from the Pension Fund Committee and Local Pension Board 3) Rigorous prioritisation of tasks 4) Disolution of Orbis will mitigate this risk.	2	2	3	7	2	14	Oct-21	
	A9	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	NW/NM	3	3	4	10	3	30	TREAT 1) There is generally good internal controls with regard to the management of the fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Ensure processes are completed in a timely manner and that post 2014 refunds are paid within 5 years.	1	3	4	8	3	24	Oct-21	
	A10	Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance.	NW/NM	3	3	3	9	3	27	TREAT 1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. 4) Skills Matrices completed by all staff and standardised Personal Development Plans being introduced.	2	3	2	7	3	21	Oct-21	Training plans and matrices are now in place for all staff to enhance development, including formal external training which provides accreditation. The introduction of a Training Officer has formalised this and reduced the risk, giving the structure required.
	A11	~~Failure to get on top of the backlog leads to resource issues and management distractions.~~	NW/NM	4	3	4	11	4	44	~~TREAT~~ ~~1) Backlog to be closely monitored by the management board.~~ ~~2) Backlog to be included in revised Performance Statistics reported to and scrutinised by the Committee and Board~~ ~~3) Consideration being given to outsourcing the largest areas of the backlog.~~ ~~4) Uprade software to improve efficiency~~	2	2	4	8	4	32	Oct-21	Risk similar to A23, proposing to remove.
Delivery	A12	Failure to identify GMP liability leads to ongoing costs for the pension fund	NW/NM	3	3	3	9	4	36	TREAT 1) GMP to be closely monitored by the management board. 2) Stage 1 reconciliation reviews has been completed. 3) Acquila Heywoods have been appointed to carry out an intermim stage 2 review 4) GMP Reconciliation project is being progressed by Mercer (formerly JLT). 5) Seperate updates being issued.	2	2	2	6	4	24	Oct-21	Update in the admin report, please refer to this.
	A13	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	NW/NM	3	3	3	9	4	36	TREAT/TOLERATE 1) Disaster recover plan to be closely monitored by the management board. 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms should ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance 6) Tolerate consequences of McCloud judgement. ~~7)~~ ~~Please refer to the corona virus risk register.~~	3	3	3	9	1	9	Oct-21	
	A14	Lack of productivity leads to impaired performance.	NW	3	3	3	9	4	36	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff 2) Productivity outputs are being measured and reported on a monthly basis. 3) Enhance performance management	2	2	2	6	4	24	Oct-21	Weekly Team meeting and weekly 121 meetings have been in place over the last 9 months to create a focus on quickly and effectively making improvements, raising risks and celebrating successes. In conjunction with the introduction of the new allocation process, coupled with increased productivity as outlined in the administration report, this risk is being mitigated but should still be monitored.
	A15	Failure to continuously improve leads to inefficiency and missed opportunities.	NW/NM	2	2	2	6	3	18	TREAT: 1) Annual customer feedback survey to be carried out. 2) Quarterly complaints/praise feedback to be reported to and scrutinised by the Committee and Board 3) Implementation and monitoring of an annual Continous Improvement Plan as part of the Service Specification between the Fund and Orbis 4) Support and Development Team in place to identify and implement areas for improvement.	2	2	2	6	3	18	Oct-21	
	A16	Rise in ill health retirements impact employer organisations	NM	3	1	2	6	2	12	TREAT 1) Self-insurance implemented across the fund 2) Reactive reposition investment strategy if necessary	3	1	2	6	2	12	Oct-21	
	A17	Rise in inappropriate ill health retirements adversely affects self-insurance costs.	NW/NM	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations	2	1	2	5	1	5	Oct-21	
	A18	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond	NW/NM	3	4	2	9	4	36	TREAT/TOLERATE 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers implemented as part of 201~~6~~9 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. ~~7)~~ ~~Please refer to the corona virus risk register.~~	3	4	2	9	2	18	Oct-21	
	A19	The Pensions Payroll process had migrated onto the Altair system from SAP in Nov 17. Unlike the SAP payroll process the manual emergency payments made outside of the monthly payroll do not integrate with our banking processes or offer sound financial controls. This is due to these manual payments not being accounted for in the financial system when they occur and therefore payments made are not able to be checked. The risk of errors in the current process are increased by the core Altair payroll system not being integrated with the BACS generator application meaning items have to be recorded twice.	NW/NM	3	2	3	8	3	24	TREAT 1) Develop an automated process whereby the Altair payment log updated by the administration team, is then converted into a journal template on a daily basis. This is then processed onto SAP to ensure that all payments processed manually through Altair are accounted for and payments are then subject to the standard financial controls.	3	2	3	8	2	16	Oct-21	Immediate payments and Admin to pay have provided tighter controls and there is now a process that is as close to fully automated as possible. The move to Unit 4 for Surrey County Council as its new payroll and financial system may provide opportunities which will be explored.
	A20	~~Head of Pension Administration leaving the Council may dilute the organisation's collective knowledge and impact on decision making.~~	NW	3	3	3	9	3	27	~~TREAT/TOLERATE~~ ~~1) An interim Head of Pension Administration has been contracted until a permanent manager is appointed.~~ ~~2) Part of the JD of the interim is to assist in the appointment of a permannet replacement.~~ ~~3) Recruitment of additional resource has mitigated the risk.~~	3	3	3	9	2	18	Oct-21	Remove
	A21	McCloud Judgement - Impact on resources	NW/NM	3	3	2	8	4	32	TOLERATE/TREAT 1) The Pension Fund Team can allocate additional funds / resources to mitigate the impact and avoid reputational damage. 2) The proposed remedy will require additional resource and members who have already left will be prioritised.	3	3	2	8	2	16	Oct-21	
	~~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.~~	~~NW~~	~~2~~	~~4~~	~~3~~	~~9~~	~~3~~	~~27~~	~~TOLERATE~~ ~~1) Engage with staff early and to understand their concerns which should be fed into the consideration of new location.~~ ~~2) The loss of resource is partially mitigated by the hostile employment market.~~ ~~3) A permanent building has now been acquired in Weybridge for Fund's staff.~~	~~2~~	~~3~~	~~3~~	~~8~~	~~2~~	~~16~~	~~Oct-21~~	Remove
	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.~~ Backlog cases are present within the administration system and require careful management to see a reduction moving forward.	CC/TL	3	3	3	9	3	27	TREAT 1) Ensure total backlog is recorded accurately (backlog should include cases in Altair). ~~(backlog includes both BAU and Mercer [formerly JLT] cases).~~ 2) Ensure only completed BAU cases are recorded in Key Performance Indicators. 3) Ensure total number of backlog cases is correctly recorded on the system and presented accurately in the quarterly Administration Performance Report. 4) Continuously work towards improving the accuracy of the reported figures. 5) Backlog to be closely monitored by the management board.	2	2	2	6	3	18	Oct-21	The KPI reports now acurately show all work completed, pending or outstanding cases within the administration system. The introduction of the new work allocation process (as outlined in the administrtion/performance report) now ensures work is distributed by tasks, looking at the week ahead, to give increased focus on delvering BAU and tagretting backlog. This has bought about more transparency, closer monitoring and tighter mangement control.
	A24	Failure to implement proper cyber security policies.	NM	3	4	4	11	2	22	TREAT 1) Ensure the Fund's memorandum of understanding and privacy notice is compliant with current legislation. 2) Regularly engage with the host authority IT team to ensure security protocols are up to date. 3) Maintain a central registry of key partners' business continuity plans. 4) Ensure staff are aware of their roles and responsibilities under Surrey's cyber security policy. 5) Ensuring members data is remotely and securely backed up.	2	3	3	8	2	16		New risk

9

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **10 DECEMBER 2021**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

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 acts in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 11 partner funds within the Pool. 10

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Reaffirms that Environmental Social & Governance Factors are fundamental to the Fund's approach, consistent with the Mission Statement through;

a) Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and Sustainable Development Goals alignment.

b) Acknowledging the outcomes achieved for quarter ending 30 September 2021 by Robeco in their Active Ownership approach and the Local Authority Pension Fund Forum in its Engagement with multinational companies as at 30 September 2021.

REASONS 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. 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.

2. 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).

3. 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.

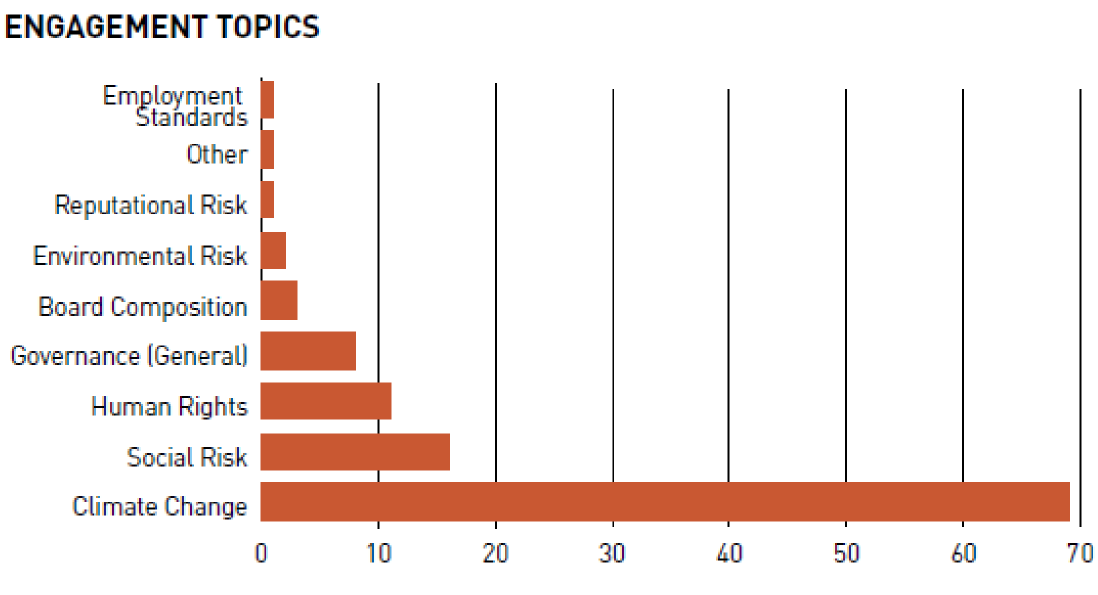
10

4. 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.

<u>Outcomes Achieved through Company Engagement</u>

LAPFF Engagement Outcomes

The LAPFF had engaged with 82 companies on issues such as Climate Change, Human Rights and the Just Transition during the quarter ending 30 September 2021. LAPFF report is included in Annexe 1 which also details progress on all engagements. Some of the engagements from Q2 are included below.



5. Rio Tinto – A meeting with Rio Tinto to encourage the company on

recognising the financial impacts of its social challenges. Also engaged with the staff to discuss the forthcoming ‘say on climate’ vote at the 2022 AGM.

6. BHP – LAPFF had meeting with company’s Indigenous Affairs representative to discuss cultural heritage law which aims to increase protections for Indigenous communities.

7. ArcelorMittal – A meeting was held with company representatives and other CA100+ investors to discuss progress. ArcelorMittal now has a groupwide emission intensity reduction target for 2030 of 25%, and 35% for Europe.

8. National Grid - LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a ‘say on climate’ resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company’s net zero strategy, 2030 action plan, and progress against emission reduction targets.

9. SSE – A meeting with SSE who have a long-standing dialogue on ESG issues to discuss company’s ‘say on climate’ resolution. SSE has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy. 10

10. HSBC – LAPFF met with HSBC to ascertain how they will assist clients to set and implement coal phase-out plan in line with the bank’s own commitment. It was noted that the International Energy Agency scenario ‘net zero by 2050’ will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact.

Robeco Engagement Outcomes

11. Robeco had voted at 127 shareholder meetings, voting against at least one agenda item in 59% of cases during the quarter ending 30 September 2021.

Addressing food insecurity at its roots

<u>Reason for Engagement</u>

12. As the world is facing ever-growing pressure on global food system, with global population set to reach 9.7 billion by 2050 and demand for food projected to grow between 20% to 70%. As a result, food security has become a priority for sustainable development.

<u>Engagement Objectives</u>

13. As a responsible investor, Robeco launched an engagement program in 2018 focused on advancing the corporate contribution to food security, targeting companies in the agrochemical, commodity trading, agricultural mechanization, and irrigation sectors. Robeco engagement was around on sustainability reporting and transparency, product portfolios and the geographic distribution of operations, innovation management and public-private partnerships.

14. The most progress was achieved in formalising companies' sustainability governance, measuring their corporate contribution to the Sustainable Development Goals (SDGs), and exploring new market opportunities in food-insecure regions through public-private partnerships.

15. Engagement results:

    a) Nearly two-thirds of the dialogues were successfully closed after three-year engagement.
    b) Agrochemical and irrigation system companies demonstrated the most progress against Robeco's engagement objectives.
    c) Food processors and commodity trading companies were not able to increase their impact on tackling food insecurity.
    d) For agricultural machinery companies, progress against Robeco's engagement objectives was more mixed, as they only managed to successfully close two-thirds of the dialogues.

Safeguarding the natural balance

10

Reason for Engagement

16. Biodiversity loss is increasingly being recognised as a global systemic risk by investors. As strong ecosystem health is indispensable for food security, disease prevention, clean water provision, and much more. Yet, biodiversity loss are accelerating faster than ever before. The habitat destruction caused by land-use change for agricultural purposes is one of the major contributors to biodiversity loss.

17. Robeco's biodiversity-focused engagement work aims to improve the sourcing and production practices of companies whose supply chains are exposed to high-risk commodities.

Engagement results

18. Many firms under engagement have set their first vision statements and targets on utilising digital innovation. Robeco's engagement with some of the main beef producers has resulted in companies beginning hold themselves more and more accountable and are committing to achieve full traceability in their supply chain by 2025.

19. Beef producers in Robeco's program have adopted blockchain technology to develop proprietary platforms for their suppliers to track all supply chain movements of their cattle.

20. In their engagement, Robeco observed an increased recognition of the importance of having sound cybersecurity, either voluntarily or through experiencing impactful cybersecurity breaches over recent years.

21. In In addition to their engagement work on halting deforestation, Robeco is actively participating in various global efforts to prevent biodiversity loss. They contributed to the informal working group to prepare the launch of the Taskforce Nature-related Financial Disclosure (TNFD), joined the Platform Biodiversity Accounting Financials (PBAF), and collaborated with the

Cambridge Institute for Sustainable Leadership's (CISL) biodiversity risk working group to advance academic research. All of these efforts contribute towards Robeco's commitment to the Finance for Biodiversity pledge which we signed in September 2020.

22. Through this pledge, Robeco has committed to align its investments with the Global Biodiversity Framework that will be negotiated by governments around the world in April 2022 in Kunming, China. This framework calls for no net loss in biodiversity by 2030 and to be nature-positive by 2050.

Surrey Share Voting

23. 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.

24. Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	5	1	20.00%
Board	49	35	71.43%
Capital	5	0	0.00%
Remuneration	3	2	66.67%
Shareholder Rights	3	1	33.33%
Sustainability	1	1	100.00%
Total	**66**	**40**	**60.61%**

Shareholder Proposed Resolutions/ Management Resolutions

25. Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change and often attract relatively high levels of votes against management.

26. All resolutions voted on during the Quarter were proposed by management and no resolutions were defeated.

Border to Coast Responsible Investment

27. Annexe 2 provides high-level overview of ESG performance for different fund managers using a variety of measurements and the overall performance is in accordance with expectations. The reports highlight specific examples which provide insight into how ESG works in practice.

CONSULTATION:

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

10

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

31. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

32. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

10

33. 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

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

WHAT HAPPENS NEXT

35. The Pension Fund will 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:
Ayaz Malik, Senior Pensions Finance Specialist

Consulted:
Pension Fund Committee Chairman

Annexes:

1. Company Engagement Annexe 1 – LAPFF
2. Company Engagement Annexe 2 – BCPP

Sources/background papers:

3. Robeco Active Ownership Report QE 30 September 2021
   https://www.bordertocoast.org.uk/?dlm_download_category=engagement

---

10

Quarterly Engagement Report

July-September 2021

Local Authority Pension Fund Forum

Shell, Rio Tinto, ArcelorMittal, National Grid, SSE, Anglo American

CLIMATE EMERGENCY

LAPFF Chair Visits Tailings Dam in Devon

Objective: Although LAPFF's plans to visit Brazilian communities affected by tailings dams have been postponed due to Covid, LAPFF's work with the communities has continued apace over the last year and a half. As part of building an understanding of how tailings dams function, LAPFF Chair, Cllr Doug McMurdo, visited a mine in Devon that has a tailings dam (pictured above and on cover).

Achieved: Cllr McMurdo visited the tungsten mine at the beginning of July. He was shown round the various mining functions by the mine's CEO and other staff, and part of this tour included the tailings dam. The Devon tailings dam was of a downstream construction. When asked about the construction type, the mine staff explained that they would not use an upstream dam because this type of construction is too dangerous. One of the big problems faced by communities affected by tailings dams globally is that they are potentially in the path of run off from upstream dams.

In Progress: LAPFF is continuing to engage with companies, communities, and other stakeholders, as well as undertaking research to prepare for its visit to Brazil, whenever that might be.

Shell

Objective: LAPFF had some serious concerns about the out-going Shell Chair's statement that oil and gas would be needed as part of the company's portfolio for the foreseeable future. Various conversations and interactions with the CEO had also raised concerns about the company's trajectory, both from a carbon perspective and from a business perspective. Consequently, LAPFF was keen to meet the new Shell Chair, Andrew Mackenzie, formerly CEO of BHP and no relation to current BHP Chair, Ken MacKenzie.

Achieved: The meeting took place in early September, with the conversation focused primarily on Shell's financial performance and how the company's approach to fossil fuels would impact on that performance. LAPFF Chair, Cllr Doug McMurdo, noted that compared to BHP's total shareholder returns over the last ten years, Shell had performed poorly and that net zero objectives would not enable the company to achieve Paris-aligned climate targets. While LAPFF was grateful to Sir Andrew for his engagement and welcomed his willingness to take suggestions, significant inconsistencies in Shell's business strategy, business model, and climate strategy appear to persist.

CLIMATE EMERGENCY

In Progress: LAPFF will continue to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.

Rio Tinto

Objective: This year, LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Therefore, Cllr McMurdo was pleased to meet Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further. Mr. Cunningham took over as interim CFO when Jakob Stausholm became CEO but has been made permanent recently.

Achieved: It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. However, everyone LAPFF has spoken to at Rio Tinto acknowledges that despite progress since Juukan Gorge, the company has some way to go to regain investor and affected community trust in its operations.

One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed. This year, LAPFF has met not only with Peter Cunningham but also with Mr. Stausholm and Chair Simon Thompson. The company continues to offer meetings with various specialist staff and affected community members with which the company engages.

LAPFF recognises that engagement is not progress. It also recognises that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

In Progress: Therefore, LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from an environmental, social, and financial perspective.

As a follow-up, the LAPFF Chair also met with Rio Tinto staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM. The challenge as ever is addressing Scope 3 emissions, which comprise 95% of total emissions. In doing so, the pace of roll-out of zero-carbon technologies by the company's steel customers was noted.

Anglo American

Objective: LAPFF has been concerned that Anglo American's board and management have not been sufficiently engaged with community members affected by the company's operations. However, LAPFF learned at the Anglo American AGM that the company's CEO, Mark Cutifani, had visited the company's controversial Colombian joint venture with Glencore and BHP, Cerrejon. Therefore, Cllr McMurdo met with Mr. Cutifani to hear about the CEO's experience of visiting the project.

Achieved: LAPFF appreciated Mr. Cutifani's openness in discussing the political, cultural, and environmental challenges surrounding Cerrejon. The project is a thermal coal mine, and just days after speaking to both Mr. Cutifani and BHP Chair, Ken MacKenzie, LAPFF received news that both Anglo American and BHP were pulling out of the joint venture to leave Glencore as the sole mining giant involved with the project. Subsequently, LAPFF representatives also met with Anglo American to discuss the company's next 'say on climate' resolution.

Anglo American has developed a detailed community engagement approach as part of its Social Way programme. However, the fact remains that all three companies have been investors in Cerrejon during a time when there have been allegations of severe human rights and environmental violations. All three companies have been named in a complaint filed with a number of OECD National Contact Points on these grounds.

In Progress: LAPFF will continue to engage with Anglo American on its community engagement approach and its climate approach.

BHP Voting Alert

LAPFF issued a voting alert to oppose BHP's climate plan. While LAPFF commended BHP for putting its plan to a vote, the plan is not aligned with the goals of the Paris Agreement. BHP has undoubtedly made progress on climate, but given the pressing nature of the climate crisis, LAPFF expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.

10

BHP

Objective: There is a debate raging in Western Australia about a proposed cultural heritage law to increase protections for Indigenous communities in the area. LAPFF had spoken to Rio Tinto about the law, and the company had not seen the final draft. However, affected communities are apparently not pleased with either the process or the content of the law. As BHP is another company affected by the law, LAPFF had a meeting with the company's Indigenous Affairs representative to find out more about the law. LAPFF is also seeking a meeting with the affected Indigenous communities.

Achieved: LAPFF was able to understand from the discussion with BHP that the main point of contention appears to be the level of say affected communities have over whether projects move forward, a so-called 'right of veto'. While there are apparently improvements from the last piece of legislation, the question is whether sufficient positive change will be made to the new legislation to protect affected communities from another Juukan Gorge.

In Progress: LAPFF will continue to engage with BHP, Rio Tinto, and affected community members to see if there is a role for LAPFF to play in promoting a positive outcome to this debate and the eventual legislation.

COMPANY ENGAGEMENT

ArcelorMittal

Objective: After the long-awaited issuing of the company's second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress.

Achieved: ArcelorMittal now has a group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The LAPFF Vice-Chair, Cllr Chapman commended the strengthening of targets and announcements of zero carbon steel plants in Spain and Canada. On request, the report also included a mapping of the company progress against the CA100+ benchmark. This mapping will be used by many investors to inform AGM voting. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform.

In Progress: Given the strengthened decarbonization targets and 'real world' impact of the new zero carbon steel plants, this engagement was considered to have shown substantial progress.

National Grid

Objective: LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a 'say on climate' resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company's net zero strategy, 2030 action plan, and progress against emission reduction targets. Cllr Rob Chapman, the LAPFF Vice-Chair, met with the new chair, Paul Rasput Reynolds, and attended the AGM to encourage robust decarbonization plans.

Achieved: A voting alert recommended that members support the board's accountability for annual approval of a transition plan as well as article amendments supporting provisions for holding 'hybrid' annual meetings. The latter provides greater opportunities for shareowners to participate and ask questions of board members. At the meeting with the chair, LAPFF questions focused on seeking more ambition due to the new International Energy Agency Net Zero pathway, on phasing out gas, on setting short term targets up to 2025, and on looking for changes in planned capex to allow for a larger take up of electrification for heating. At the AGM the following week, LAPFF posed questions; the questions and responses from the board can be viewed here. Ms. Reynolds noted there would be a board meeting following the AGM to consider how the UK and US transition plans are implemented and remain fit for purpose.

In Progress: It was considered the outcome of the meeting was 'change in progress'.

SSE

Objective: Cllr Rob Chapman also met with SSE to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition. The Forum is keen to continue this dialogue as SSE has been particularly constructive in its discussions with LAPFF over the years and has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy.

Achieved: Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets. A number of just transition challenges for the company were also discussed, along with a further discussion on the relevance of and uses for carbon capture and storage (CCS).

After the engagement meeting, Cllr Chapman also attended SSE's AGM by virtual means to ask questions around CCS and grid structure in relation to SSE's climate goals.

In Progress: LAPFF and SSE have agreed to continue dialogue and speak as necessary, but in particular prior to SSE's next 'say on climate' resolution.

HSBC

Objectives: The LAPFF chair met with HSBC representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. Clarity was also sought on how the company is progressing on pulling out of coal-intensive industries.

Achieved: Representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact. On retreating from coal-intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate-related Financial Disclosure metrics in 2020. However, it was recognised this still represents investments of £1.2 billion, but as existing, not new, commitments.

In Progress: Representatives noted that they are developing the methodology for a transition risk questionnaire for clients and that commitments would be made in 2021. A further request was made to disclose fossil fuel investments in the annual report. This disclosure is done at 'top level' but would not separate out renewables investments made by such companies. At this stage, the outcome was considered 'change in progress'.

Standard Chartered

Objectives: The LAPFF chair met with the Standard Chartered chair, José Viñals, to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.

Achieved: Of concern has been the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows to be aligned with an increase of 5-6°C in global warming. Standard Chartered will be issuing a roadmap setting out its route to net zero in October 2021, and the board is putting a 'say on climate' resolution to the 2022 AGM.

COMPANY ENGAGEMENT

In Progress: It appears that an NGO is considering filing a resolution to the Standard Chartered AGM asking for commitments not yet evident in the company's current transition plans. LAPFF met with this NGO to hear more of its concerns.

Mitsubishi Financial

Objective: Cllr Glyn Caron, of the LAPFF Executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi UFJ Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company's June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank's provision of finance to fossil fuel expansion and deforestation.

Achieved: In May, MUFJ made a net zero declaration, and as part of this commitment joined the Net Zero Banking Alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of 'total capacity'. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.

In Progress: It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a 'change in process'.

Sainsbury

Objective: LAPFF attended Sainsbury's 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.

Achieved: Sainsbury's 'Plan for Better' ESG event covered a broad range of ESG topics, noting targets and progress against them. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. It is taking a number of steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market.

A large part of Sainsbury's strategy with plastic packaging is attempting to enable a circular economy, having launched an initiative in June, offering customers the opportunity to bring back any flexible plastic packaging to front of store collection points in 520 supermarkets for recycling. LAPFF has also co-led an engagement with Sainsbury in a coalition led by First Sentier Investors, pushing for suppliers and distributors of domestic and commercial washing machines to fit, as a standard procedure, filters to their products to prevent plastic microfibres entering the world's ecosystems. Sainsbury responded that they had engaged with white goods suppliers and were looking at viable options.

In Progress: LAPFF will be meeting with Sainsbury for a more in-depth conversation on the company's approach to a zero-carbon transition and will be querying the company further on a 'say on climate' vote.

10

COMPANY ENGAGEMENT

Persimmon

Objective: LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. The Forum therefore sought to meet with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model.

Achieved: It was noted how the company had made changes to its approach to customer care following a review by Stephanie Barwise QC. The meeting covered inspections of properties following historic build quality concerns and the company's improved customer ratings. The issue of executive pay was covered, including resolving issues that led to the high pay award of the former chief executive.

On climate change, Persimmon's targets to reach net zero were discussed. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.

In progress: The company has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.

OCCUPIED PALESTINIAN TERRITORIES (OPT) ENGAGEMENTS

Objective: There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies' human rights practices meet international human rights and humanitarian law standards.

Achieved: In line with the UN Guiding Principles on Business and Human Rights, LAPFF has been working for some months with a business and human rights expert to help with this engagement. This expert has joined LAPFF engagements with Altice and Booking Holdings this quarter, providing invaluable contributions to the engagements and ideas for how to proceed with the engagement. Both companies provided insights into their human rights due diligence processes and Booking Holdings has publicly announced that it is in the process of drafting its Human Rights Statement.

In Progress: LAPFF sent a follow up meeting request to the target companies and was able to schedule a few more meetings this time round. It will continue to approach companies for engagement and to request meaningful responses to information requests. Specifically, LAPFF is not content with the explanation that companies are abiding by the relevant law in the way they conduct business in the OPT. In all of LAPFF's work globally, this response is a red flag to LAPFF that companies are treading a thin line between legality and illegality in their conduct. This margin is not acceptable to LAPFF.

COMPANY ENGAGEMENT

PHARMACEUTICAL COMPANY ENGAGEMENTS

Objective: Some of LAPFF's largest holdings are in pharmaceutical companies. Many of these companies have been contributing to the development of Covid vaccines and have faced significant challenges over the last couple of years. LAPFF is interested in finding out how the Covid pandemic has affected these companies.

Achieved: LAPFF has written to five of the companies in which members hold a large number of shares in aggregate to find out whether the Covid pandemic has had an impact on their business strategies or business models. The companies of interest are AstraZeneca, GlaxoSmithKline, Novartis, Roche Holding, and Sanofi.

In Progress: LAPFF is in the process of arranging meetings with these companies, most of whom have responded that they are willing to meet and discuss this issue.

COLLABORATIVE ENGAGEMENTS

Chair's Quote: "The speed with which the 'say on climate' initiative has taken root is indicative of its importance. I am heartened to see the number of companies putting their climate plans to a vote. However, the number of plans that fail to meet the goals of the Paris Agreement is alarming. I have always shared the view that Covid is a dress rehearsal for climate change; we must learn and take meaningful action much more quickly on both fronts."

The Institutional Investor Group on Climate Change has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations very broadly are to establish a climate governance framework, to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.

COLLABORATIVE INVESTOR MEETINGS

LAPFF continued to engage with other investors in the 30% Club, the Investors for Opioid and Pharmaceutical Accountability (IOPA) and the 'Financing a Just Transition Alliance'. It is also continuing to work with CA100+ on carbon reduction at widely held companies, and with Sarasin on Paris-aligned auditing of accounts. LAPFF continues to participate in investor collaborations to combat modern slavery too and is considering how best to expand engagement on this topic.

COLLABORATIVE COMMUNITY MEETINGS

LAPFF was pleased to learn that JGP Credito, a Brazilian investor with which LAPFF has been liaising in relation to the Samarco and Brumadinho tailings dam collapses in Brazil, visited communities affected by those disasters at the end of August. One of the main asks from the communities was that LAPFF get Brazilian investors involved to help highlight the communities' struggles in the wake of the dam collapses. JGP has been an excellent partner in this regard, but it has been a struggle for LAPFF to engage other Brazilian investors. In any case, LAPFF is planning to continue its quarterly meetings with affected community members to monitor their experiences and to see what LAPFF can do to help meet their needs.

POLICY ENGAGEMENT

Further to the setting up of the UK Accounting Standards Endorsement Board, which has taken over from the EU Commission in endorsing international accounting standards for use in the UK, the Chair of LAPFF has written to the Chair of the Board, Pauline Wallace. The letter requests production of the guidance used by the UKEB in endorsing standards in respect of 'true and fair view'. This request comes after the former CEO of the FRC told Parliament that government lawyers had "concluded that they agreed" with "legal advice from Martin Moore QC who [had] concluded almost exactly the opposite of what [George Bompas, QC for the Local Authorities Pension Fund Forum (LAPFF)] had concluded." However, a Freedom of Information request revealed the government position: "We have never said that the views [of the LAPFF] are incorrect and may be disregarded. … Ultimately, whether the views of the LAPFF are incorrect would be a matter for the courts".

In September, LAPFF – as part of a 587 investors strong group representing over USD $46 trillion in assets – participated in sending the 2021 Global Investor Statement to Governments on the Climate Crisis. Considered the 'strongest ever call by global investors for governments to raise their climate ambition and implement meaningful policies to support investment in solutions to the climate crisis' the statement calls on all governments to undertake five priority actions in 2021. For further information on this statement, please access here.

10

CONSULTATION RESPONSES

There has been a series of consultations by the government relating to the UK's commitments on carbon reductions, including the interim goal of reducing emissions by 78% by 2035 over 1990 levels.

Transport, is the sector with the fastest growing source of carbon emissions and LAPFF has provided three related responses to relevant government consultations. In its response to the Department of Transport's 'Jet Zero' consultation on the strategy for net zero aviation, LAPFF considers that the government should take the opportunity to support the development of UK leadership in electric flight. In the response to the DWP consultation on ending the sale of new non-zero emission heavy goods vehicles, LAPFF supports a clearly identified legislative framework for carbon reductions, so companies can make the necessary decisions and financial commitments to provide the crucial short and long-term solutions to decarbonising the economy. Responding to the Department for Transport Consultation on a new CO_2

ENGAGEMENT

emissions regulatory framework, LAPFF supports deploying the zero-emission vehicle mandate. To maximise zero emission capability, the government should ensure there is a focus on electric drivetrain technology for all road vehicles. For cars or vans, the Department for Business, Energy and Industrial Strategy has already recognised that this approach is the lowest cost route to zero emissions. All responses can be viewed here.

MEDIA COVERAGE

Investors with $4 trln assets aim to tackle Asian firms on climate change goals https://www.reuters.com/article/marketsNews/idUSL8N2QU68V?il=0
https://finance.yahoo.com/news/investors-4-trln-assets-aim-013000164.html
https://www.dealstreetasia.com/stories/investors-asian-firms-climate-change-262764/
https://www.straitstimes.com/business/economy/investors-handling-54-trillion-throw-weight-behind-new-platform-pushing-for-green

LGPS – Making Net Zero Add up To Something Real https://www.room151.co.uk/blogs/lgps-making-net-zero-add-up-to-something-real/

Legal Experts Warn on Issues with ICAEW Dividends guidance https://www.ipe.com/news/legal-experts-warn-on-issues-with-icaew-dividends-guidance/10055010.article

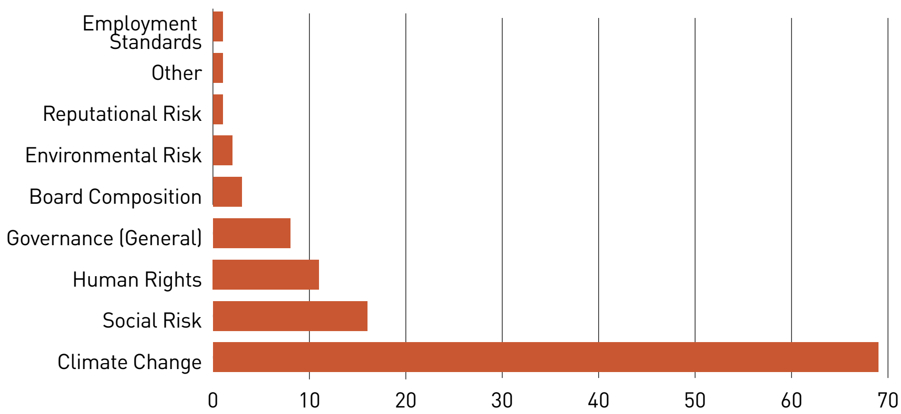
Phil Triggs: LGPS needs fine judgement on climate change and pooling https://www.lgcplus.com/investment/phil-triggs-lgps-needs-fine-judgement-on-climate-change-and-pooling-08-09-2021/

Sharp drop in LGPS fund and Pool signatories of stewardship code https://www.lgcplus.com/investment/sharp-drop-in-lgps-fund-and-pool-signatories-of-stewardship-code-06-09-2021/

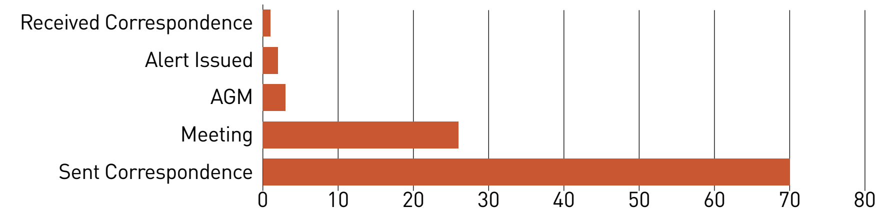
10

ENGAGEMENT DATA

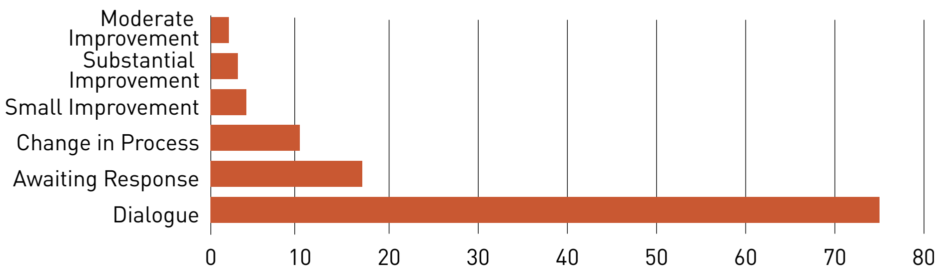
ENGAGEMENT TOPICS



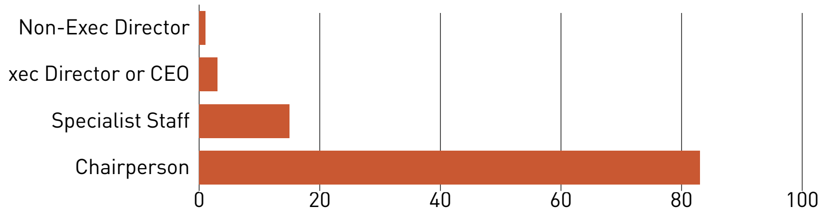
ACTIVITY



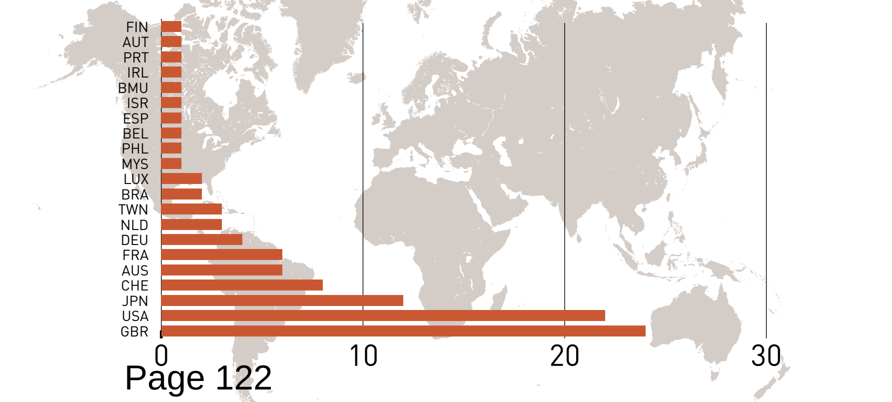
MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES



COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
A G BARR PLC	Meeting	Other	Small Improvement
ABOITIZ EQUITY VENTURES INC	Sent Correspondence	Climate Change	Dialogue
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
AJINOMOTO CO INC	Sent Correspondence	Climate Change	Dialogue
ALLERGAN PLC	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Meeting	Human Rights	Small Improvement
AMS AG	Sent Correspondence	Climate Change	Dialogue
ANGLO AMERICAN PLC	Meeting	Climate Change	Change in Process
ARCELORMITTAL SA	Meeting	Climate Change	Substantial Improvement
ARKEMA	Sent Correspondence	Climate Change	Dialogue
ASTRAZENECA PLC	Sent Correspondence	Governance (General)	Dialogue
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP LIMITED (AUS)	Alert Issued	Climate Change	Dialogue
BOOKING HOLDINGS INC.	Meeting	Human Rights	Small Improvement
CAMPBELL SOUP COMPANY	Sent Correspondence	Climate Change	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
COCA COLA BEVERAGES PLC	Sent Correspondence	Social Risk	Awaiting Response
CONAGRA BRANDS INC.	Meeting	Social Risk	Awaiting Response
COVESTRO AG	Sent Correspondence	Climate Change	Dialogue
CSX CORPORATION	Sent Correspondence	Climate Change	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DELTA AIR LINES INC	Sent Correspondence	Climate Change	Dialogue
DIALOG SEMICONDUCTOR PLC	Sent Correspondence	Climate Change	Dialogue
DOMINION ENERGY INC	Sent Correspondence	Climate Change	Dialogue
ENDO INTERNATIONAL PLC	Sent Correspondence	Climate Change	Dialogue
FIRSTGROUP PLC	Sent Correspondence	Climate Change	Dialogue
FORMOSA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
GALP ENERGIA SGPS SA	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Sent Correspondence	Social Risk	Awaiting Response
GLAXOSMITHKLINE PLC	Sent Correspondence	Governance (General)	Dialogue
GRIFOLS SA	Sent Correspondence	Climate Change	Dialogue
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process
INFINEON TECHNOLOGIES AG	Sent Correspondence	Climate Change	Dialogue
JABIL CIRCUIT INC	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Awaiting Response
KERRY GROUP PLC	Sent Correspondence	Climate Change	Dialogue
KEURIG DR PEPPER	Sent Correspondence	Social Risk	Awaiting Response
LANXESS AG	Sent Correspondence	Climate Change	Dialogue
LITEON TECHNOLOGY CORP	Sent Correspondence	Climate Change	Dialogue
LOGITECH INTERNATIONAL S.A.	Sent Correspondence	Climate Change	Dialogue
LONZA GROUP AG	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARVELL TECHNOLOGY GROUP LTD	Sent Correspondence	Climate Change	Dialogue
MEDTRONIC PLC	Sent Correspondence	Climate Change	Dialogue
MEIJI HOLDINGS CO LTD	Sent Correspondence	Social Risk	Awaiting Response
MISC BERHAD	Sent Correspondence	Climate Change	Dialogue
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Change in Process
MONDELEZ INTERNATIONAL INC	Sent Correspondence	Social Risk	Awaiting Response
NAN YA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
NATIONAL GRID PLC	AGM	Climate Change	Change in Process
NESTLE SA	Sent Correspondence	Climate Change	Dialogue
NEXTERA ENERGY INC	Received Correspondence	Climate Change	Substantial Improvement
NIPPON EXPRESS CO LTD	Sent Correspondence	Climate Change	Dialogue
NISSIN FOOD HLDGS CO LTD	Sent Correspondence	Climate Change	Dialogue
NOKIA OYJ	Sent Correspondence	Climate Change	Dialogue

10

COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

NORFOLK SOUTHERN CORPORATION	Sent Correspondence	Climate Change	Dialogue
NOVARTIS AG	Sent Correspondence	Governance (General)	Dialogue
PANALPINA WELTTRANSPORT AG	Sent Correspondence	Climate Change	Dialogue
PEPSICO INC.	Sent Correspondence	Social Risk	Awaiting Response
PERSIMMON PLC	Meeting	Climate Change	Moderate Improvement
PUBLIC SERVICE ENTERPRISE GROUP INC	Sent Correspondence	Climate Change	Dialogue
RENESAS ELECTRONICS CORP	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Meeting	Climate Change	Change in Process
ROCHE HOLDING AG	Sent Correspondence	Climate Change	Dialogue
ROHM CO LTD	Sent Correspondence	Climate Change	Dialogue
ROYAL DUTCH SHELL PLC	Meeting	Governance (General)	Dialogue
SAINSBURY (J) PLC	AGM	Environmental Risk	Dialogue
SANOFI	Sent Correspondence	Climate Change	Dialogue
SANWA HOLDINGS CORP	Sent Correspondence	Board Composition	Dialogue
SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY	Sent Correspondence	Climate Change	Dialogue
SOLVAY SA	Sent Correspondence	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Change in Process
STANDARD CHARTERED PLC	Meeting	Climate Change	Dialogue
STMICROELECTRONICS NV	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Moderate Improvement
SUNTORY BEVERAGE & FOOD LTD	Sent Correspondence	Social Risk	Awaiting Response
SWATCH GROUP AG	Sent Correspondence	Climate Change	Dialogue
THE CLOROX COMPANY	Sent Correspondence	Climate Change	Dialogue
THE KRAFT HEINZ COMPANY	Sent Correspondence	Social Risk	Awaiting Response
UNILEVER PLC	Sent Correspondence	Social Risk	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Bromley Pension Fund
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Islington Pension Fund
Kingston upon Thames Pension Fund
Kensington and Chelsea (Royal Borough of)
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
Border to Coast Pensions Partnership
Brunel Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **10 DECEMBER 2021**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**

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

SUMMARY OF ISSUE:

Strategic objectives	
Investment	Funding

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:

a) Notes the main findings of the report in relation to the Fund's valuation and funding level, performance returns, asset allocation and performance fees

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:

Freedom of Information Requests

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

Date	Organisation	Request	Response
17/07/2021	Bloomberg	Alternative asset holdings	Information provided
27/07/2021	Pitchbook	Private Equity records	Information provided

03/08/2021	Insightia	Proxy voting records	Information provided
20/09/2021	Pitchbook	PE Q1 Records	Information provided
30/09/2021	Local Government Chronicle	Value of the fund's assets transferred to Border to Coast pension pool	The value of the fund's assets provided

Stock Lending

2. In the quarter to 30 September 2021, stock lending earned a net income for the Fund of £648,935.

Internally Managed Cash

11

3. The internally managed cash balance of the Fund was £14.8m as at 30 September 2021.

Transitions

4. In October 2021, the Pension Fund transitioned assets from Franklin Templeton and Western Multi Asset Credit (MAC) to Border to Coast Multi Asset Credit Fund. The performance will be included in quarter 3 report.

5. The Fund is also in process of transiting assets from Diversified Growth Funds, which includes Aviva, Ruffer and Baillie Gifford to Border to Coast. The transition is expected to take place at the end of January 2022.

Cashflow Analysis

6. Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.

7. 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.

8. Any positive cash-flow is invested in accordance with the Fund's cash management plan.

9. The half-yearly (quarters one-two) cash-flow for the Surrey Pension Fund shows positive cash flow of £13,346,365 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
One (1 Apr 2021 – 30 Jun 2021)	£54,856,080	£46,324,612	£8,153,458
Two (1 July 2021 – 30 Sept 2021)	£50,002,306	£45,187,399	£4,814,907

10. An indication of the current membership trends is shown by movements in membership over quarters one-two, compared to the position at the 2019 valuation (as taken from statistics provided by the pension administration team):

Period	Active members	Deferred members	Pension members	Total members
Quarter One 2021/22 (1 Apr 2021 – 30 Jun 2021)	39,366	41,055	28,643	109,064
Quarter Two 2021/22 (1 Jun 2021 – 30 Sept 2021)	38,086	40,850	28,944	107,880

11

Financial and Performance Report

Funding Level

11. The funding level is derived as the ratio of the value of the Fund's assets to the value of its liabilities.

Liabilities

12. The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. Currently, the majority of benefit payments are in respect of pensioner members. However, over time, the benefit payments will transition from being mostly in respect of pensioners to deferred and active members (i.e. the pensioners of the future).

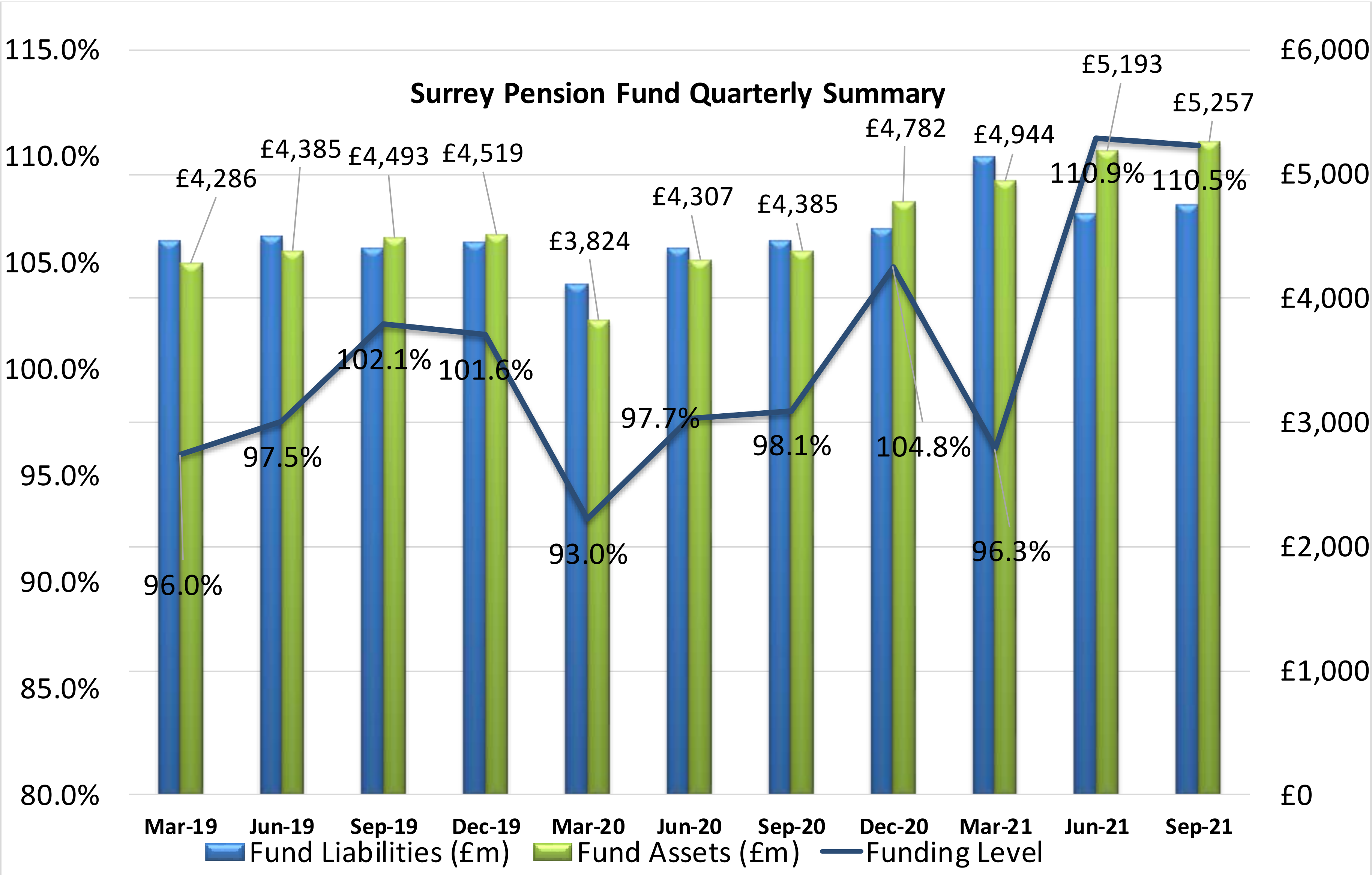
Assets

13. The Fund's assets are used to pay member benefits accrued to date. It is estimated that, based on the fund returns 4.2% p.a. the Fund's assets will be sufficient to pay all future benefit payments due.

14. The graph below summaries that funding level has reached 110% (96% as at
31 March 2019) and is based on the formal valuation results as at 31 March
2019, updated for market conditions at 30 September 2021. Based on the
11 data that has been provided, the market value of assets is approximately
£5,257bn and the value placed on the liabilities is £4,756bn.

15. The funding level has remained broadly similar to that at the previous update at 30 June 2021. The Fund has experienced an asset return of around 1% over this period which has slightly increased the value of assets held. There has also been a small increase in long term inflation expectations which has resulted in an increased value of the liabilities.

The assumptions used are as follows: A discount rate of 4.2%, Salary inflation of 2.9%, Pension increases of 2.0%


Surrey Pension Fund Quarterly Summary
115.0%
110.0%
105.0%
100.0%
95.0%
90.0%
85.0%
80.0%
£6,000
£5,000
£4,000
£3,000
£2,000
£1,000
£0
£4,286
£4,385
£4,493
£4,519
£3,824
£4,307
£4,385
£4,782
£4,944
£5,193
£5,257
96.0%
97.5%
102.1%
101.6%
93.0%
97.7%
98.1%
104.8%
96.3%
110.9%
110.5%
Mar-19
Jun-19
Sep-19
Dec-19
Mar-20
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21
Fund Liabilities (£m)
Fund Assets (£m)
Funding Level

11

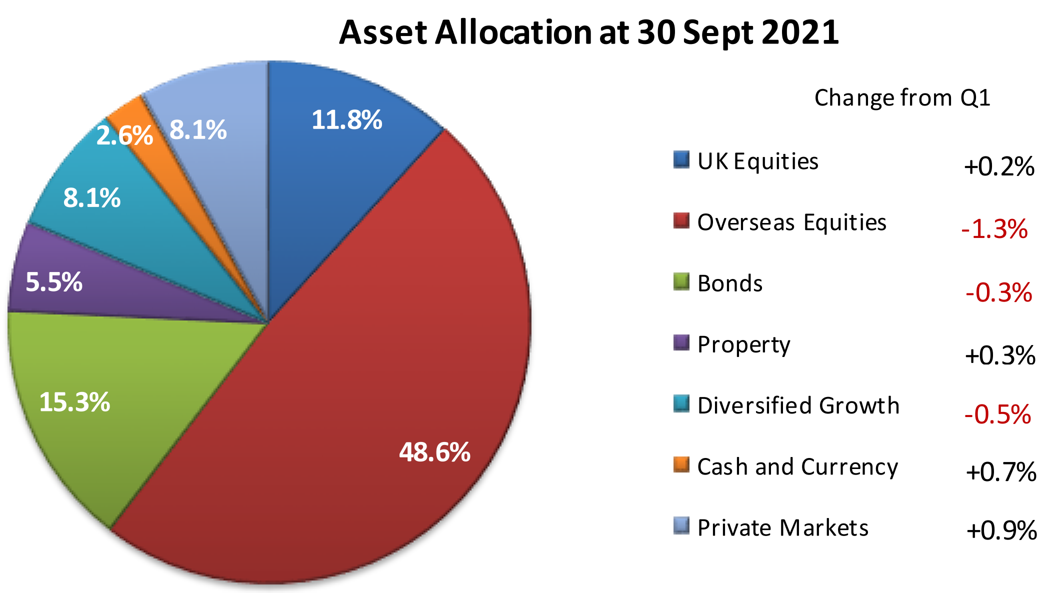
16. Asset Allocation

The table and the graph below provide an overview of the asset allocations of the fund for the quarter ending 30 September 2021.

The table below highlights the actual asset allocation against target for each class of asset.

	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	551.2	10.48%	9.7%
Conventional Gilts	192.4	3.66%	5.5%
Unconstrained	63.0	1.20%	2.4%
Equities			
UK	618.7	11.77%	17.4%
Global Equities (Overseas)	1,249.8	23.77%	19.0%
Emerging Markets (Overseas)	311.3	5.92%	3.8%
Multi Factor (Overseas)	469.0	8.92%	9.8%
Low Carbon (Overseas)	526.7	10.02%	9.8%
Property Unit Trusts	290.0	5.52%	6.2%
Diversified growth	423.5	8.06%	11.4%
Cash*	147.4	2.80%	-
Currency hedge	-12.3	-0.23%	-
Private Markets	426.8	8.12%	5.0%
TOTAL	**5,257.5**	**100.0%**	**100.0%**

**The Asset Allocation table includes The Fund's holding of cash, while 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*

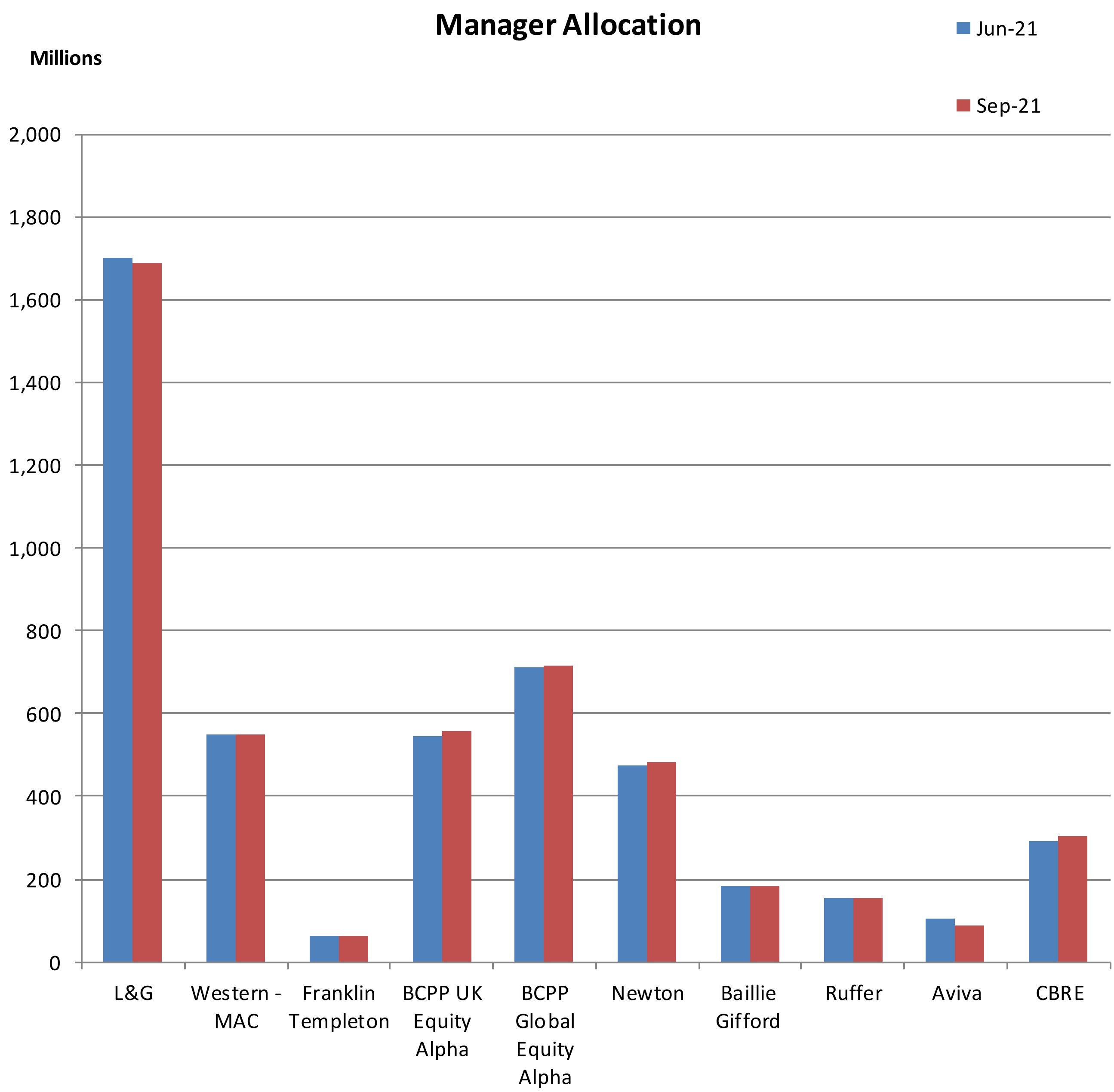


11

11

17. Manager Allocation

The graph below shows the manager allocation for the quarters ending 30 September 2021 and 30 June 2021.



Fund Manager Benchmarks

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

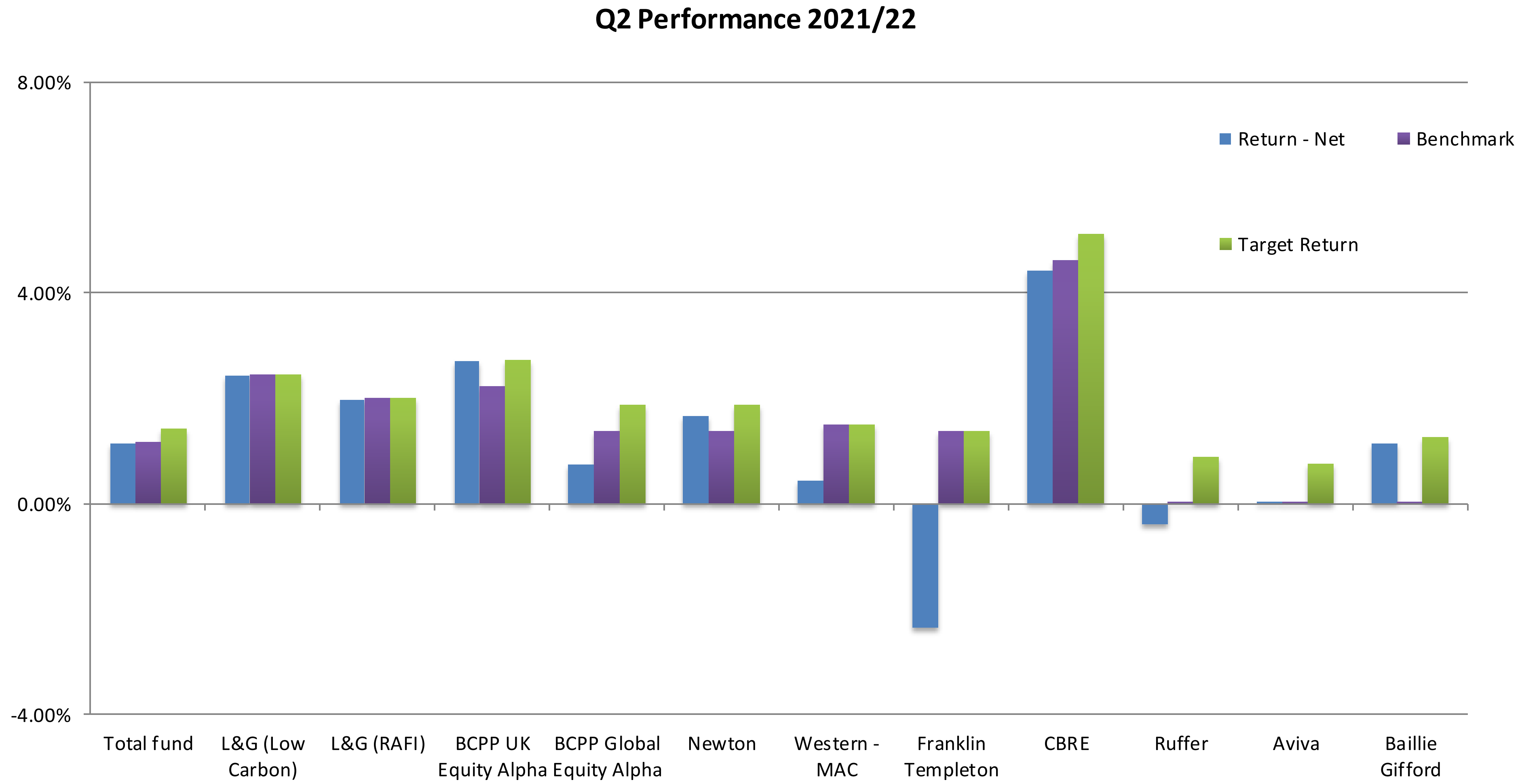
Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
Newton	Global Equities	MSCI AC World	+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

11

18. Fund Performance - Summary of Quarterly Results

Overall, the Fund returned 1.13% in Q2 2021/22, in comparison with the Fund's customised benchmark of 1.16% and the target return of 1.17%. The table below shows manager performance for Q2 2021/22 (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	1.13%	Customised	1.17%	1.42%
L&G (Low Carbon)	2.44%	MSCI World Low Carbon	2.45%	2.5%
L&G (RAFI)	1.97%	MSCI World	2.00%	2.0%
BCPP UK Equity Alpha	2.72%	FTSE All Share	2.23%	2.73%
BCPP Global Equity Alpha	0.74%	MSCI ACWI Index	1.37%	1.87%
Newton	1.66%	MSCI AC World	1.37%	1.87%
Western – MAC	0.44%	Total Return Fund (Using +1.5% target return as comparator)	1.50%	1.50%
Franklin Templeton	-2.35%	Barclays Multiverse Index	1.38%	1.38%
CBRE	4.44%	IPD UK All Balanced Funds	4.62%	5.12%
Ruffer	-0.39%	UK Base Rate	0.02%	0.88%
Aviva	0.02%	UK Base Rate	0.02%	0.76%
Baillie Gifford	1.13%	UK Base Rate	0.02%	1.26%

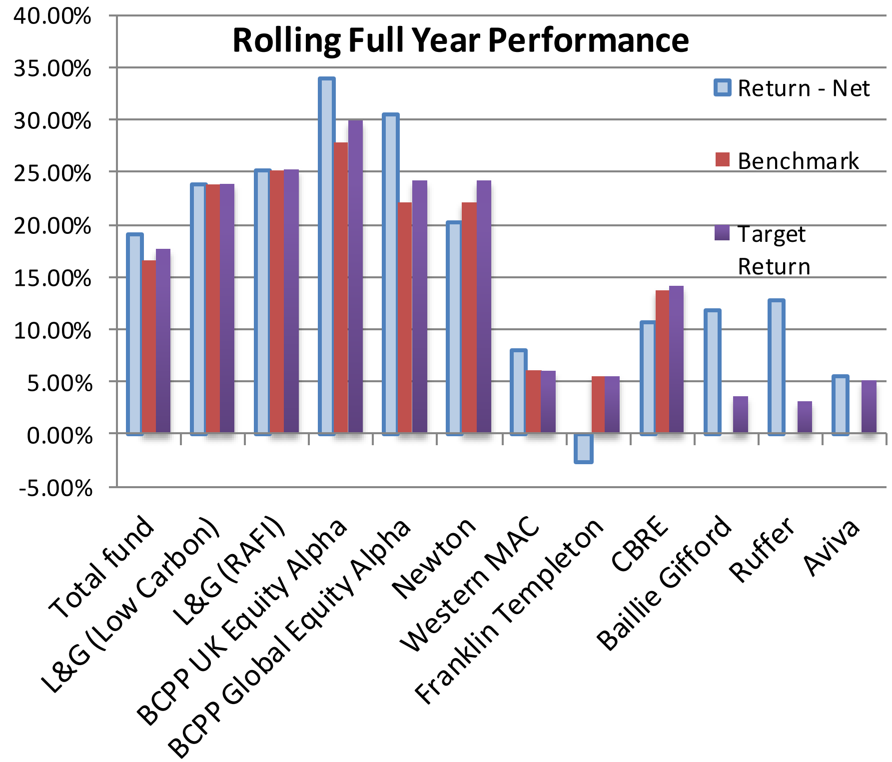

Q2 Performance 2021/22
8.00%
4.00%
0.00%
-4.00%
Return - Net
Benchmark
Target Return
Total fund
L&G (Low Carbon)
L&G (RAFI)
BCPP UK Equity Alpha
BCPP Global Equity Alpha
Newton
Western - MAC
Franklin Templeton
CBRE
Ruffer
Aviva
Baillie Gifford

19. Summary of Full Year Investment Results

During the course of the previous 12 months to 30 September 2021, the Fund returned 19.09% net of investment fees against the customised Fund benchmark of 16.66% and target return of 17.66%.

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	19.09%	16.66%	**17.66%**
L&G (Low Carbon)	23.74%	23.85%	**23.85%**
L&G (RAFI)	25.09%	25.25%	**25.25%**
BCPP UK Equity Alpha	33.88%	27.89%	**29.89%**
BCPP Global Equity Alpha*	30.49%	22.19%	**24.19%**
Newton	20.25%	22.19%	**24.19%**
Western MAC	8.08%	6.00%	**6.00%**
Franklin Templeton	-2.74%	5.50%	**5.50%**
CBRE	10.62%	13.62%	**14.12%**
Baillie Gifford	11.73%	0.10%	**3.60%**
Ruffer	12.82%	0.10%	**3.10%**
Aviva	5.58%	0.10%	**5.10%**

**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.*



20. Summary of Rolling Three-Year Performance Returns to 30 September 2021

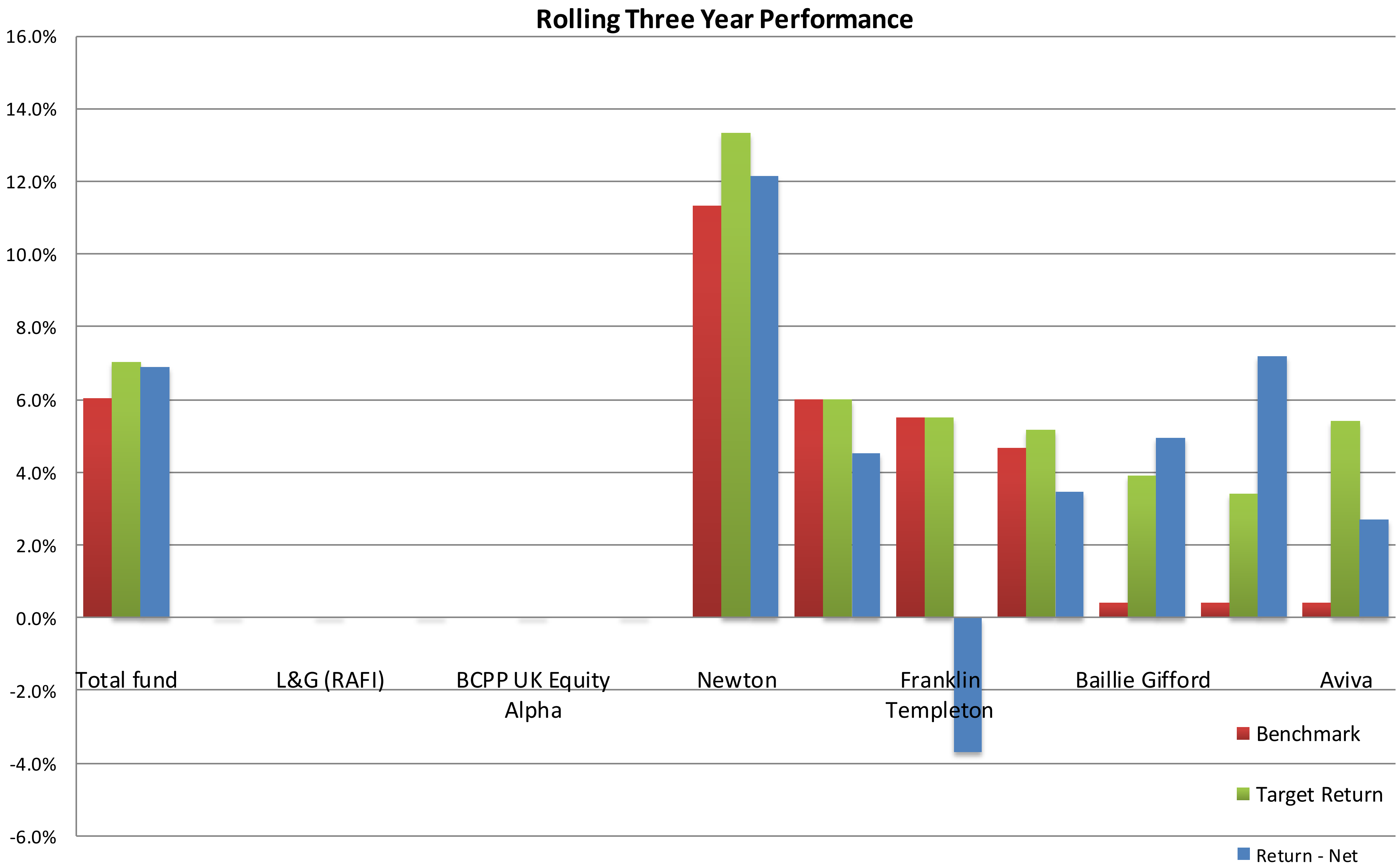
During the course of the previous 3 years to 30 September 2021, the Fund returned 6.89% net of investment fees against the customised fund benchmark of 6.03% and target return of 7.03%.

Manager	Portfolio	Net of Fees Performance	Benchmark	Target Return
Total fund**	Total Portfolio	6.89%	6.03%	7.03%
L&G	Low Carbon Index*	23.74%	23.85%	23.85%
L&G	RAFI Multi Factor*	25.09%	25.25%	25.25%
BCPP	UK Equity Alpha*	33.88%	27.89%	29.89%
BCPP	Global Equity Alpha*	30.49%	22.19%	24.19%
Newton	Global Equities	12.15%	11.33%	13.33%
Western	Multi Asset Credit	4.51%	6.00%	6.00%
Franklin Templeton	Unconstrained Global Fixed Income	-3.70%	5.50%	5.50%
CBRE	Property	3.46%	4.66%	5.16%
Baillie Gifford	Diversified Growth	4.94%	0.41%	3.91%
Ruffer	Diversified Growth	7.19%	0.41%	3.41%
Aviva	Diversified Growth	2.72%	0.41%	5.41%

**The performance of these funds is not yet known due to their new inception, so 1 year returns have been reported*

***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


Rolling Three Year Performance
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
Total fund
L&G (RAFI)
BCPP UK Equity Alpha
Newton
Franklin Templeton
Baillie Gifford
Aviva
Benchmark
Target Return
Return - Net

11

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

24. The Director Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

25. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

11

26. 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

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

WHAT HAPPENS NEXT

28. The following next steps are planned:

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

---

Contact Officer:
Ayaz Malik, Senior Pensions Finance Specialist

Consulted:
Pension Fund Committee Chairman

Annexes:
Annexe 1: Asset Allocation Policy and Actual as at 30 September 2021
Annexe 2: Manager fee Rates
Annexe 3: MJ Hudson Allenbridge – Manager Review 30 September 2021

Sources/background papers:

This page is intentionally left blank

Annex 1

Asset Allocation Update

The table shows the actual managed asset allocation as at 30 September 2021.

	Category	Advisory Ranges (%)	Allocation Policy (%)	Allocation at 30/09/2021 (%)	Variance to Allocation Policy (%)
Equities		**56.8 – 62.8**	**59.8**	**62.4**	***2.0***
UK					
Majedie	*Concentrated Active*		*5.4*	*0.0*	*-5.4*
BCPP UK Equity Alpha	*Core Active*		*12.0*	*10.7*	*-1.3*
Overseas		*RAFI*	*9.8*	*9.3*	*-0.5*
Legal and General	*Passive*	*Low Carbon*	*9.8*	*10.5*	*0.7*
		Emerging Markets	*3.8*	*6.3*	*2.5*
		Overseas Regional	*0*	*2.2*	*2.2*
*Marathon**	*Concentrated Active*		*11.4*	*0*	*-11.4*
*BCPP Global Equity Alpha**	*Active*		*0*	*13.6*	*13.6*
Newton	*Core Active*		*7.6*	*9.2*	*1.6*
Property					
CBRE	*Core Active*	**3.2 - 9.2**	***6.2***	***5.8***	***-0.4***
Alternatives		**8.4 – 14.4**	**11.4**	**8.0**	**-3.4**
Baillie Gifford	*Diversified growth*		*3.8*	*3.5*	*-0.3*
Ruffer	*Diversified growth*		*3.8*	*2.9*	*-0.9*
Aviva	*Diversified growth*		*3.8*	*1.6*	*-2.2*
Growth Fixed Income Assets		**9.1 – 15.1**	**12.1**	**11.7**	**-0.4**
Total Return					
Franklin Templeton	*Unconstrained*		*2.4*	*1.2*	*-1.2*
Multi Asset Credit					
Western	*Unconstrained*		*9.7*	*10.5*	*0.8*
UK gilts *Legal and General*	*Core Active*	***2.5 - 8.5***	***5.5***	***3.8***	**-1.7**
Private Markets	*Various*	***2.0 - 8.0***	**5.0**	***8.7***	***3.7***
Total			**100.0**	**100.0**	**0.0**

11

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

14

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank