

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 11.15 am on 8 September 2023 at Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, 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
- * Robert Hughes
- Duncan Eastoe

Ex officio Members:

Tim Oliver, Leader of the Council

Co-opted Members:

- * Robert King, Borough & Districts
- * Borough Councillor Steve Williams, Borough & Districts
- * Kelvin Menon, Employers

Substitute Members:

Duncan Eastoe

In attendance

46/22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apology was received from Duncan Eastoe.

47/22 VOTE OF THANKS [Item]

The Chairman informed the Committee that Phil Walker had stood down as the employee representative Member of the Committee and had been replaced earlier that week by Duncan Eastoe. The Committee thanked Phil Walker for his contributions to the work of the Committee over the years.

48/22 MINUTES OF THE PREVIOUS MEETING - 16 JUNE 2023 [Item 2]

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

49/22 DECLARATIONS OF INTEREST [Item 3]

There were none.

50/22 QUESTIONS AND PETITIONS [Item 4]

There were no petitions.

There were four public questions submitted. These and the responses were published as a supplement to the agenda.

There were three supplementary questions:

1. Kevin Clarke asked on behalf of Jennifer Condit: - What has been the effect, if any, of the voting against BP and Shell? The LGPS Senior Officer stated that engagement takes place over a long period of time and in line with the Responsible Investment (RI) Policy.
2. Kevin Clarke stated that the reply to his question failed to acknowledge the action by the banks which he referred to as greenwashing. What was the evidence that engagement was effective? The LGPS Senior Officer stated that the engagement process is laid out in the RI Policy and any consequences would be reviewed in due course.
3. Lucianna Cole asked in relation to the net zero target if there was any scope to change the approach or to review interim targets? The Chairman stated that the target had only just been agreed by the Committee but would review annually.

51/22 GLOSSARY, ACTION TRACKING AND WORKPLAN [Item 5]

Resolved:

That the Committee workplan and the action tracker be noted.

52/22 CHANGE PROGRAMME UPDATE - QUARTER 2 [Item 6]

Speakers:

Nicole Russell, Head of Change Management
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Head of Change Management introduced her submitted report and outlined the details of the one-team dashboard.
2. Members thought that the dashboard was a useful tool and thanked the Head of Change Management for the work and effort put into it.

Actions/ further information to be provided:

None.

Resolved:

That the report be noted.

53/22 SUMMARY OF THE LOCAL PENSION BOARD REPORT [Item 7]

Speakers:

Tim Evans, Chairman of Local Pension Board

Tom Lewis, Head of Service Delivery

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Chairman of the Local Pension Board introduced the report of the Board and focussed on the implementation of MySurrey, the dashboard and cyber security.
2. A Member asked about the new financial system and the impact it was having on the Pension Service. The Head of Service Delivery explained that the MySurrey issues had led to member data, including pay data, not having been received since June 2023, when the May data was supplied (inline with the iConnect monthly data capture process). Whilst we had received leaver information, which was combined using 2 systems to produce the final years pay, this was not always on time and there was not 100% confidence all members employed by SCC and SCC Maintained Schools was being received. The launch of MySurrey had also meant new joiner information, opt outs or personal detail changes since its launch was not received. Work was being undertaken on a final solution for data coming across and to remove the need for Surrey payroll to use two systems to combine the information. A timescale of when this would be complete was not available at this time.
3. In addition to this, SCC has made the decision to stop its provision of payroll services to external schools or academies. This has led to over 100 employers, consisting of 6000 members moving to approx. 10 different payroll providers. Work was being undertaken with these employers and pay providers to make the transition smooth and ensure where possible, those currently providing monthly iConnect data continue to do so with their new provider.
4. A Member stated that the Resources and Performance Select Committee were looking at this issue and it had not had this level of information from the Pension Team and requested that it did. The Select Committee were already working with payroll. The LGPS Senior Officer pointed out that this was identified as a key risk in the report.
5. The Chairman of the Board requested a more in-depth report to the next Board meeting on the schools' payroll issue.

Actions/ further information to be provided:

That further information regarding the financial systems transformation be provided to the Resources and Performance Committee.

Resolved:

1. That the Local Pension Board be requested to progress the next steps in the cybersecurity and business continuity review.
2. That the Committee expressed their concern regarding the financial systems transformation and further updates be provided to the Chairman of the Committee and the Local Pension Board as soon as possible.
3. That the report be noted.

54/22 APPOINTMENT OF AN INDEPENDENT CHAIR OF THE LOCAL PENSION BOARD [Item 8]

Speakers:

Nick Harrison, Chairman

Key points raised during the discussion:

1. The Chairman reported that Tim Evans had been appointed as Independent Chairman of the Local Pension Board for a period of four years.

Actions/ further information to be provided:

None.

Resolved:

That the report be noted.

55/22 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 9]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship highlighted a few areas of the submitted report:
 - That the funding ratio was 138%. Members were reminded to consider that this could change rapidly both with investment returns and also changes with the discount rate impacting liabilities.
 - The most recent activity that had taken place was nearly £270m switched from LGIM passive funds to the Border to Coast Emerging Markets Equity Alpha offering.
2. In response to a Member question the Head of Investment & Stewardship explained how private market assets were valued and the limitations of benchmarks.

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 and asset allocation be noted.

56/22 DRAFT ANNUAL REPORT 2022/23 [Item 10]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer gave a brief introduction to the draft Annual Report. He explained that CIPFA requirements made the report extensive, and officers continued to work within the guidance.
2. The Committee recognised the amount of work gone into the production of the report and thanked the staff.

Actions/ further information to be provided:

None.

Resolved:

That the content of the draft Annual Report be noted and approval of the final version of the report be delegated to the Chairman, subject to an unqualified audit.

57/22 INVESTMENT BENCHMARKING [Item 11]

Speakers:

Neil Mason, LGPS Senior Officer

Fleur Dubbelboer and Joao Barata, representatives from CEM

Rachel Elwell, Border to Coast

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. CEM representatives presented their slide pack to the Committee. CEM Benchmarking are the Fund's investment benchmarking consultant and have comparative data stretching back a number of years. The overall investment fees for the Fund were slightly higher than the peer group when adjusted for asset mix. The relatively high asset allocation to private markets within the Fund drives costs up as these products carry significantly higher fees compared to listed equities, but there is mitigation from the exposure to low fee passive products from Legal and General Investment Management (LGIM). However, the Fund pays less than peers for like for like assets.
2. There was discussion around private markets and that the Fund was paying higher fees than its peers for funds subscribed to in the past. Border to Coast explained that scaling of investments through pooling can give benefits in relation to fees.

3. CEM also reported that from March 2023 they would be looking more specifically at value generated and would be working with Border to Coast and other pools for analysis.

Actions/ further information to be provided:

None.

Resolved:

That the report by CEM Benchmarking be noted.

58/22 COMPANY ENGAGEMENT & VOTING [Item 12]

Speakers:

Neil Mason, LGPS Senior Officer

Lloyd Whitworth, Head of Investment & Stewardship

Rachel Elwell, Border to Coast

Key points raised during the discussion:

1. The Head of Investment & Stewardship gave a precis of the submitted report and highlighted the following points:
 - There is a broad spread of Local Authority Pension Fund Forum, (LAPFF) engagement across the United Nations Sustainability Development Goals SDG's.
 - MSCI ratings had recently been updated and thousands of funds had been downgraded due to reassessment. He explained the current rating process and how that had changed, meaning that MSCI considered their ratings as more stable and having further clarity.
2. A Member stated that he noted the engagement with Shell and other fossil fuel companies in the report. With regard to the recent announcement from Church of England stating that they were divesting from fossil fuel companies that were not aligned with the Paris Agreement he asked if the Surrey Fund should be looking specifically at the fossil fuel sector and reporting separately on that. Both the Head of Investment & Stewardship and Border to Coast stated that the fossil fuel sector was definitely the focus of attention, and that engagement was key. Border to Coast were confident that engagement would lead to change.
3. A Member asked what was to happen at the end of Robeco's human rights engagement programme and that it would be useful if the outcome be reported to the Pension Committee. Border to Coast explained the engagement process being conducted by Robeco and that at the end of three years if the engagement was not successful that did not automatically mean divestment.
4. A Member spoke about several companies listed in the report that appeared to be not taking steps to be Paris aligned. He questioned whether it was just tokenism to keep engaging and having no action from those companies. Border to Coast noted the comments made and would provide feedback to the LAPFF.
5. Further to this another Member spoke about obviation, delay and greenwashing, reflecting that if we were in a climate emergency then greater action should be taken. He claimed that none of the top 25 fossil fuel companies were Paris aligned. He requested that those that were greenwashing be reported on an individual basis in the portfolio so that Members could make a decision about future investment.

6. Following a detailed discussion about climate change, fossil fuel companies, processes etc a Member requested that the Committee receive a separate report on the world's largest fossil fuel companies, the Fund's involvement with them and the level of engagement. The LGPS Senior Officer stated that he would need to take that away and consider what was required.
7. In response to a Member question about what the LAPFF do, the Chairman responded that the LAPFF had been invited to attend the Annual Engagement in November to answer questions.
8. Steve Williams suggested a wording change to recommendation 1 with 'significant' replacing 'fundamental' as below:
 "That the ESG Factors were reaffirmed as ~~fundamental~~ significant to the Fund's approach, consistent with the RI Policy through:"
 The motion was seconded by George Potter and put to the vote. Three voted for the motion and six against. Therefore, the motion was lost.

Actions/ further information to be provided:

that the LGPS Senior Officer consider how best to respond to the request that the Committee receives a separate report on the world's largest fossil fuel companies, the Fund's involvement with them and the details of engagement.

Resolved:

1. That the ESG Factors were reaffirmed as fundamental to the Fund's approach, consistent with the RI Policy through:
 - a. Continuing to enhance its own RI approach and SDG alignment.
 - b. Acknowledging the outcomes achieved for quarter ended 30 June 2023 by LAPFF and Robeco through their engagement.
 - c. That the voting by the Fund in the quarter ended 30 June 2023 be noted.

59/22 ASSET CLASS FOCUS - UK REAL ESTATE & LISTED ALTERNATIVES [Item 13]

Speakers:

Neil Mason, LGPS Senior Officer
 Lloyd Whitworth, Head of Investment & Stewardship
 Anthony Fletcher, Independent Advisor, MJ Hudson

Key points raised during the discussion:

1. The Independent Advisor gave a precis of his submitted report. He was confident that CBRE were performing satisfactorily. He had also reviewed Border to Coast's global property proposition and had come to the conclusion that there was not an exceptional investment to recommend transferring CBRE to Border to Coast. However, he was happy to support the transfer, reflecting the regulatory mandate and the Committee's aim to move real estate investments into the pool.

Actions/ further information to be provided:

That the Listed Alternative part of the report be brought to the next meeting for consideration.

Resolved:

That the Fund's Real Estate holdings, respective funds' investment performance and review from the Fund's independent investment adviser be noted.

60/22 RESPONSIBLE INVESTMENT UPDATE [Item 14]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship gave a brief precis of the submitted report. He emphasised the four committee priorities 1) setting a net zero date, 2) updating the voting policy, 3) comparing the Responsible Investment (RI) policy with those of the equity managers and 4) application of the UK Stewardship Code. The first two were complete and the report focussed on comparing and contrasting the RI Policy with that of equity managers. Overall, there was alignment with most of the beliefs except in the use of SDGs to underpin. The Stewardship Code was a huge piece of work that was progressing well. The second section of the report covered the Fund's Report against the requirements of the Taskforce for Climate Related Financial Disclosures (TCFD).
2. One Member raised an issue with the introduction of the TCFD report in that it focussed on a comparison of the 2023 carbon intensity with the baseline 2018 figures. He pointed out that the 2023 figures were up on 2022. The Chairman stated that the matter is discussed in the body of the report, but he would look at the introduction to the report again with officers as part of the delegated authority to issue the final report.
3. There was some discussion about the metrics (Weighted Average Carbon Intensity WACI) used in the report Members queried if other metrics could also be used in order to have more comparators. The Head of Investment & Stewardship explained that there were issues with all metrics but felt that additional metrics would be included in the future.

Actions/ further information to be provided:

None.

Resolved:

1. That the alignment of Border to Coast Pension Partnership (BCPP), Legal & General Investment Management (LGIM) and Newton Investment Management to the Fund's RI policy be noted.
2. That the Draft TCFD 2022/3 report be noted and approve the delegation of authority to the Chair of the Pension Fund Committee to issue the final report.

61/22 LGPS UPDATE (BACKGROUND PAPER) [Item 15]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted that a response had been sent to a further McCloud consultation.

Actions/ further information to be provided:

None.

Resolved:

That the report be noted.

62/22 EXCLUSION OF THE PUBLIC [Item 16]

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

63/22 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 17]

Resolved:

That the Part 2 annex to item 9 on the agenda (Minute 55/23) be noted.

64/22 INVESTMENT BENCHMARKING [Item 18]

Resolved:

That the Part 2 annex to item 11 on the agenda (Minute 57/23) be noted.

65/22 INVESTMENT STRATEGY REVIEW - GILT INVESTMENT [Item 19]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship
Steve Turner, Mercer

Key points raised during the discussion:

1. The Committee considered a Part 2 report which presented analysis on the gilts exposure within the Fund and proposals from Mercer.

Actions/ further information to be provided:

None.

Resolved:

1. That the switch of the current gilt exposure, which is obtained through investment in individual gilts, into the Legal and General Investment Management (LGIM) Over 15 Year Gilts Index Fund, with a resultant weighting to align with the Investment Strategy Statement (ISS) be approved.

2. That the automated switch from the LGIM Over 15 Year Gilts Index Fund to the LGIM All Stocks Index-Linked Gilts Index Fund when the pre-defined conditions as laid out in the Mercer report are satisfied and therefore market pricing is more favourable be approved.
3. That the following switch criteria be approved:
 - The real redemption yield on the FTA All Stocks Index-Linked Gilts Index is in excess of 0%.
 - The FTA Over 15 Year Gilts Total Return Index has outperformed the FTA All Stocks Index-Linked Gilts Total Return Index by 15% since July 2023.

66/22 RESPONSE TO CONSULTATION ON THE FUTURE FOR INVESTING [Item 20]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Committee considered a Part 2 report which provided details of the Department for Levelling Up, Housing & Communities (DLUHC) consultation on the Next Steps for Investments for the Local Government Pension Scheme (LGPS) and the draft response from Surrey.
2. The LGPS Senior Officer referenced the training provided to committee members that morning and that he would speak with non-attendees outside of the meeting.
3. The Chairman highlighted the wording of the response to the consultation with regards to an opposition to the imposed consolidation of pools from the Government and asked the committee to approve that he work with the LGPS Senior Officer to strengthen that wording.

Actions/ further information to be provided:

That the Chairman work with the LGPS Senior Officer to further strengthen the wording of the response.

Resolved:

That the report be noted.

David Harmer left the room for two minutes at 1.56pm.

67/22 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE [Item 21]

Speakers:

Neil Mason, LGPS Senior Officer
 Rachel Elwell, Border to Coast
 Chris Hitchen, Chair, Border to Coast

Key points raised during the discussion:

1. The Committee considered a Part 2 report which gave an update of current activity being undertaken by the Border to Coast Pensions Partnership (BCPP).
2. The Chairman of Border to Coast stated that they were moving to a different stage of the pooling journey and now was the time to consider the future.

Actions/ further information to be provided:

None

Resolved:

That the Committee noted the background and progress of BCPP activity, including details of the following:

- a. Update on the Border to Coast Strategic Review 2025-2030
- b. Relevant items from the BCPP Joint Committee (JC) meeting of 13 June 2023.
- c. The schedule of activity of BCPP since the last Committee meeting of 13 June 2023 until the end of the calendar year.

68/22 PUBLICITY OF PART 2 ITEMS [Item 22]

Resolved:

That items considered under Part 2 of the agenda should not be made available to the Press and public.

69/22 DATE OF NEXT MEETING [Item 23]

The next meeting of the Surrey Pension Fund Committee will be on 15 December 2023.

Meeting ended at: Time Not Specified

Chairman