Notice of Meeting

Surrey Pension Fund Committee

Date and Time	Place	Contact	Web:
Friday, 15 December 2023 10.00 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Angela Guest angela.guest@surreycc.gov.uk	Council and democracy Surreycc.gov.uk We're on Twitter: @SCCdemocracy

Committee/Board Members:
Elected Members
Nick Harrison (Chairman), David Harmer, Trefor Hogg (Vice-Chairman), Robert Hughes, George Potter and Richard Tear

Co-opted Members:
Robert King (Borough & Districts) Steve Williams (Borough & Districts), Kelvin Menon (Employers) and Duncan Eastoe (Employees)

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 on angela.guest@surreycc.gov.uk.

This meeting will be held in public at the venue mentioned above and may be webcast live. Generally the public seating areas are not filmed. However, by entering the meeting room and using the public seating area or attending online, you are consenting to being filmed and recorded, and to the possible use of those images and sound recordings for webcasting and/or training purposes. If webcast, a recording will be available on the Council's website post-meeting. The live webcast and recording can be accessed via the Council's website:
https://surreycc.public-i.tv/core/portal/home

If you would like to attend and you have any special requirements, please email Angela Guest on angela.guest@surreycc.gov.uk. Please note that public seating is limited and will be allocated on a first come first served basis.

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [8 SEPTEMBER 2023] (Pages 1 - 12)

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 (Pages 13 - 16)

a) A Member question and response is attached.
b) Public questions and responses to follow.
c) No petitions were received.

5 GLOSSARY, ACTION TRACKING AND WORKPLAN (Pages 17 - 26)

To consider and comment on the Pensions Fund Committee's recommendations tracker and workplan.

6 CHANGE PROGRAMME UPDATE - QUARTER 2 (Pages 27 - 30)

This paper details the Change Team Quarterly Report of activity for the period July-September 2023.

7 SUMMARY OF THE LOCAL PENSION BOARD REPORT (Pages 31 - 36)

This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (10 November 2023) for noting or actioning by the Pension Fund Committee (the Committee).

8 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE (Pages 37 - 54)

This report is a summary of manager issues for the attention of the Pension Fund Committee (Committee), as well as an update on investment performance and the values of assets and liabilities.

Part 2 annex at Item 15

9 ACTUARIAL UPDATE (Pages 55 - 92)

This report provides an update from the Fund Actuary on cash flow and the new pass-through policy relating to new admission bodies (specifically contractors) participating in the Fund.

10 COMPANY ENGAGEMENT & VOTING (Pages 93 - 120)

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting issues that the Surrey Pension Fund (the 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.

11 ASSET CLASS FOCUS - PRIVATE MARKETS (Pages 121 - 146)

As part of good governance, the Committee periodically reviews the performance of the Fund’s investments. There is a further focused review of different asset classes each quarter. This quarter, the paper concentrates on private markets and the BCPP Listed Alternatives Fund.

12 RESPONSIBLE INVESTMENT UPDATE (Pages 147 - 164)

The Fund’s Responsible Investment (RI) policy takes an ‘engagement with consequences’ approach to responsible investment issues. A key element of this approach is the escalation policy if issues persist. As this engagement is delegated to the investment managers, the Committee asked Border to Coast Pensions Partnership, BCPP, to present some case studies showing this process in action. Investment managers were also asked to provide data showing the underlying exposure to the largest fossil fuel companies and engagement approaches.

13 LGPS UPDATE (BACKGROUND PAPER) (Pages 165 - 172)

This report considers recent developments in the Local Government Pension Scheme (LGPS).

14 **RESPONSE OF THE DEPARTMENT OF LEVELLING UP, HOUSING & COMMUNITIES TO ITS CONSULTATION ON NEXT STEPS FOR INVESTING FOR THE LGPS** (Pages 173 - 190)

To provide details of the response of the Department for Levelling Up, Housing & Communities (DLUHC) to its consultation on the Next Steps for Investments for the Local Government Pension Scheme (LGPS).

15 **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.

16 **INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE** (Pages 191 - 192)

Part 2 Annexe for item 8 attached.

17 **COMPETITION & MARKETS AUTHORITY (CMA) INVESTMENT CONSULTANT STRATEGIC OBJECTIVES** (Pages 193 - 204)

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

18 **BORDER TO COAST UPDATE** (Pages 205 - 260)

This paper provides the Pension Fund Committee (Committee) with an update of current activity being undertaken by BCPP.

19 **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.

20 **DATE OF NEXT MEETING**

The next meeting of the Surrey Pension Fund Committee will be on 22 March 2024.

Joanna Killian
Chief Executive
Published: Thursday, 7 December 2024

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation.

QUESTIONS AND PETITIONS

Cabinet and most committees will consider questions by elected Surrey County Council Members and questions and petitions from members of the public who are electors in the Surrey County Council area.

Please note the following regarding questions from the public:

1. Members of the public can submit one written question to a meeting by the deadline stated in the agenda. Questions should relate to general policy and not to detail. Questions are asked and answered in public and cannot relate to “confidential” or “exempt” matters (for example, personal or financial details of an individual); for further advice please contact the committee manager listed on the front page of an agenda.
2. The number of public questions which can be asked at a meeting may not exceed six. Questions which are received after the first six will be held over to the following meeting or dealt with in writing at the Chairman’s discretion.
3. Questions will be taken in the order in which they are received.
4. Questions will be asked and answered without discussion. The Chairman or Cabinet members may decline to answer a question, provide a written reply or nominate another Member to answer the question.
5. Following the initial reply, one supplementary question may be asked by the questioner. The Chairman or Cabinet members may decline to answer a supplementary question.

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:

Duncan Eastoe
* David Harmer
* Nick Harrison (Chairman)
* Trefor Hogg (Vice-Chairman)
* Robert Hughes
* George Potter
* Richard Tear

Co-opted Members:

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

In attendance

Tim Evans, Chairman of Local Pension Board

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:

2

- 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: 14.01pm

Chairman

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SURREY PENSION FUND COMMITTEE – 15 DECEMBER 2023
ITEM 4A – MEMBER QUESTION

QUESTION FROM STEVE WILLIAMS:

The Surrey Pension Fund has set a target of Net Zero by 2050 or sooner for its underlying investments and this was based on advice by commissioning Mercer, the Fund's investment consultant, as stated in a recent Press Release issued on behalf of the Fund on 26th September 2023 (in response to a press release issued on behalf of Extinction Rebellion).

Given that recent evidence from a report by Professor Steve Keen and the financial think tank Carbon Tracker, *Loading the DICE Against Pensions*, published in July 2023, https://carbontracker.org/reports/loading-the-dice-against-pensions , suggests that pension funds are risking the retirement savings of millions of people by relying on economic research, such as Mercer's, that ignores critical scientific evidence about the financial risks embedded within a warming climate,

(i) Do professional officers now consider that the Net Zero date of 2050 should be reconsidered in favour of an earlier date for decarbonizing the portfolio, and that further independent advice on this matter should be commissioned?
(ii) Do professional officers now consider that assets whose principal source of income is based on the extraction of fossil fuels carry too much risk and investment in such assets is in breach of our fiduciary duty?

RESPONSE:

Given that recent evidence from a report by Professor Steve Keen and the financial think tank Carbon Tracker, *Loading the DICE Against Pensions*, published in July 2023, https://carbontracker.org/reports/loading-the-dice-against-pensions , suggests that pension funds are risking the retirement savings of millions of people by relying on economic research, such as Mercer's, that ignores critical scientific evidence about the financial risks embedded within a warming climate,

(1) Do professional officers now consider that the Net Zero date of 2050 should be reconsidered in favour of an earlier date for decarbonizing the portfolio, and that further independent advice on this matter should be commissioned?
(2) Do professional officers now consider that assets whose principal source of income is based on the extraction of fossil fuels carry too much risk and investment in such assets is in breach of our fiduciary duty?

Mercer's general response to the Carbon Tracker report
"Mercer welcomes input on our climate change work. We also contribute to third-party reports to help increase awareness and understanding of how climate change may affect investments and in particular, pensions. We are disappointed that Carbon Tracker's report presents an incomplete, and therefore misleading, summary of Mercer's climate change analysis.
Carbon Tracker's report analysis focusses on older versions of Mercer's climate change model. Climate scenario models evolve as more information about climate change and global warming becomes available. They include an element of qualitative judgment and are just one input investors should consider to manage the risks and opportunities of climate change in their portfolios. As Carbon Tracker acknowledge, Mercer has developed a new model in collaboration with Ortec Finance. This model reflects our current point of view and produces scenarios with different impacts than those cited in the report.

It is Mercer's view that limiting global warming to 1.5°C can improve economic outcomes for long-term investors. To help investors understand areas of risk and opportunity within their own portfolios, Mercer can help them measure portfolio-level carbon emissions, set net-zero-

aligned targets to reduce those emissions and create a transition plan setting out how to achieve those reductions (see following link for more details: https://www.mercer.com/content/dam/mercer/attachments/global/investments/gl-2022-net-
4 zero-report.pdf).

Mercer has always sought and welcomed external input on our climate change work, from our first major global research report on climate change in 2011, Investing in a Time of Climate Change report in 2015 ("the 2015 report") and Investing in a Time of Climate Change – The Sequel in 2019 ("the Sequel"). Indeed, we were very grateful that Carbon Tracker joined our advisory group for the 2015 report. In respect of our latest climate scenario model released in May 2022, we have partnered with Ortec Finance (who in turn partner with Cambridge Econometrics) as well as seeking input from a wide variety of clients and external stakeholders.

Given Mercer has very much led the way in advising institutional investors on climate risk for more than a decade and has intentionally shared much of our intellectual capital publicly, it is inevitable that our work is often cited in reports and press articles on climate scenario analysis.

Much of the negative press comment is in relation to our 2015 and 2019 models and has, in our opinion, been taken out of context e.g. quoting the annualised return impacts, ignoring the parallel stress testing analysis and not referencing the modelling limitations set-out publicly in the Sequel report (on pages 28 to 31).
A key conclusion from our latest model is that; "A successful transition is an imperative". We support this by quantifying the impact of a Failed Transition (a 4°C+ scenario) on a global equity portfolio, which our scenarios show to be a reduction in value of between 35% and 40% over a 40 year period compared to a baseline scenario representing what we think the market is currently pricing-in."

Mercer's response specifically in relation to the Surrey Pension Fund
"Mercer stands by its recent advice and the processes followed to arrive at the recommendations that supported the Committee's decision to set a Net Zero target date of 'Net Zero 2050, or sooner'. We note that it was agreed to regularly review this (e.g. annually), which we fully support. Mercer dedicates significant resource to consider the potential financial implications of climate change when delivering investment advice, noting that this is an evolving area. As part of the recent net zero project for the Fund, we considered a comprehensive and wide range of issues, which was fully discussed with the Committee. This included: (1) a combination of bottom-up holdings/sector and top-down asset class analysis, (2) assessment of traditional financial metrics, (3) climate specific analysis, (4) quantitative and qualitative perspectives around real-world impact and (5) implementation feasibility of a preferred policy. Our recommendations were grounded in an overall assessment of the results of the multi-factor analysis.

Mercer understands that, on balance, a key driver of the Committee's decision making related to the size of the investment universe under the Net Zero target date portfolios analysed. This was informed by an analysis of the number of companies in the MSCI ACWI universe with projected scope 1 and 2 greenhouse gas (GHG) emissions aligned with a relevant target date (e.g. 2030, 2040, 2050). A key finding was that, as at 31 December 2022, there were only 126 companies aligned with a 2030 Net Zero target date out of a universe of 2,765. This number would fall to 35 if scope 3 emissions were incorporated into the analysis. The number of companies with a 2040 net zero target was shown to be c.200 and did not materially increase until a date of 2050 was targeted. The concentration risk associated with an equity portfolio constructed from these companies, based on a single selection criterion, was not considered to be appropriate with the Fund's wider fiduciary responsibilities and a key driver of the decision making.

Reflecting the relative importance of this analysis, Mercer proposed that this part of the analysis is updated on an annual basis with significant developments in the number of companies aligning with different target dates feeding into a review of the Fund's Net Zero target. In short, if the number of companies increases, across all sectors, with credible plans to reduce their GHG emissions over time, the more viable it becomes for the Fund to target a Net Zero date for its own portfolio over an accelerated period. 4

Climate scenario analysis, which is the focus of Carbon Tracker's paper, formed only one part of the assessment. This part of the analysis was based on Mercer's latest 2022 model, which the Carbon Tracker report acknowledges as demonstrating impacts "closer to damages of the order that the science might suggest". Limitations of the analysis, including challenges associated with modelling the physical impact of climate change, such as certain 'tipping points' and the absence of impacts such as climate-related migration were clearly disclosed to the Committee.

Acknowledging the limitations, the key finding from the scenario analysis was that a portfolio aligned with an earlier Net Zero target date would be expected to outperform under a rapid transition and underperform under a failed transition over the short term. This finding is driven by the nature of the policy environment under the scenarios considered. Over the longer term, a failed transition would be expected to lead to indiscriminate damages to investment returns. For context, a failed transition scenario is consistent with temperature warming of 2.6oC by 2062 with an associated reduction in global GDP of around -25%. This level of damage is in fact higher than under the damage functions proposed in the Carbon Tracker report (around -20% of GDP under their exponential and logistic illustrations).

Whilst it is certainly plausible that actual investment returns could be even more negative than projected under a failed transition (regardless of model used), it is not apparent to Mercer that this would have impacted the Committee's decision making in relation to the chosen Net Zero target date. As noted above, the relatively small investable universe of companies that have credible plans in place to reduce their GHG emissions before 2050 was a key driver of decision making. As mentioned above, the level of stock concentration involved was not considered to be appropriately diversified to invest in, at this time."

Fund/Officer response to questions.

1) **Do professional officers now consider that the Net Zero date of 2050 should be reconsidered in favour of an earlier date for decarbonizing the portfolio, and that further independent advice on this matter should be commissioned?**

The brief for the consultancy work on Net Zero date setting and the appointment of Mercer to carry out the work was decided by the Committee. The Responsible Investment Sub Committee, RISC, met twice to review the proposal from Mercer. The first meeting covered their whole approach. The RISC had a follow up question as a result of this meeting, reproduced below.
Please provide further information regarding the methodology and assumptions underpinning the climate scenario models (see slide 11) and why they were considered appropriate. In addition provide further insight in to the E3ME model and the rationale for why it was selected?
The second meeting focused solely on this question. After this meeting the RISC recommended to the Committee that Mercer be appointed for the project.
After a further presentation by Mercer on the output of the project, taking into account the climate modelling, risk and return assumptions, opportunity set and implementation, the Committee decided that a date of 2050 or sooner was currently appropriate. The 'or sooner' comment was considered significant.

The RISC had a meeting dedicated to reviewing the models and assumptions Mercer would use in its analysis. However, it was noted that all models and understanding of climate change, as well as the potential investment opportunity set, would change over time.
4 Therefore, it was also agreed that a summary review of the opportunity set would be carried out each year, at which point the Committee would decide if a full review was necessary. Officers do not dictate the policy approach taken by the Committee and instead seek to advise on its implementation.

2) Do professional officers now consider that assets whose principal source of income is based on the extraction of fossil fuels carry too much risk and investment in such assets is in breach of our fiduciary duty?

Fiduciary duty is best carried out when all factors that can impact the risk/return balance of an investment decision are considered by those that have the information, experience, qualification and skill to make those decisions. The RI policy requires that ESG factors, amongst others, are included in the investment decision making process by the Fund's investment managers, such that the risk/return trade-off is fully understood. The Fund's Investment Managers are best placed to make these decisions and have been charged with that responsibility accordingly.

Any decisions that reduce the investable universe potentially negatively impact the risk adjusted returns the Fund is capable of making.

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **15 DECEMBER 2023**

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

5

SUBJECT: **GLOSSARY, ACTION TRACKER & FORWARD PLAN**

SUMMARY OF ISSUE:

For Members to consider and comment on the Pensions Fund Committee's (Committee) recommendations tracker and workplan.

RECOMMENDATIONS:

It is recommended that the Committee is asked to: -:

1. Note the content of this report and make recommendations to the Local Pension Board if appropriate.

2. Monitor progress on the implementation of recommendations from previous meetings in Annexe 2.

3. Review and note any changes on the Forward Plan in Annexe 3.

REASON FOR RECOMMENDATIONS:

A glossary has been provided as Annexe 1 so the Committee is able to reference the abbreviations and acronyms throughout the reports and agenda.

A recommendations tracker recording actions and recommendations from the previous. meetings are attached as Annexe 2, and the Committee is asked to review progress on the items listed. The Committee's workplan is attached as Annexe 3 for noting.

Contact Officer: Adele Seex

Consulted: Pension Fund Committee Chair

Annexes:

1. Annexe 1 - Glossary
2. Annexe 2 - Action Tracker
3. Annexe 3 - Forward Plan

Sources/background papers:

1. None

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GLOSSARY – Pension Fund Committee 15 December 2023

AAF	- Audit and Assurance Faculty
ABS	- Annual Benefit Statement
ACGA	- Asian Corporate Governance Association
AAPAC	- Affordable & Clean Energy, Decent Work & Economic Growth, & Climate Action
ARE	-Asia Research Engagement's
AVC	-Additional Voluntary Contributions
B of E	- Bank of England
BBB	- British Business Bank
BCPP	- Border to Coast Pensions Partnership
CBRE	- Coldwell Banker Richard Ellis
CCB	- China Construction Bank
CDP	- Climate Disclosure Project's
CI	- Continuous Improvements
CMA	- Completion and Markets Authority
CPI	- Consumer Prices Index
CRC	- Compliance and Reporting Committee
DCU	- Deferred choice underpin
DLUHC	- Department for Levelling up, Housing and Communities
DWP	- Department for Work and Pensions (DWP)
ECB	- European Central Bank
ELT	- Extended Leadership Team
ESG	- Environment, Social & Governance
EU	- European Union
FAIRR	- Farm Animal Investment Risk and Return
FED	- Federal Reserve
FCA	- Financial Conduct Authority
GAD	- Government Actuaries Department
GDP	- Gross domestic product
HM Treasury	- His Majesty's Treasury
HMRC	- His Majesty's Revenue and Customs
IGCC	- Institutional Investor Group on Climate Change
IPDD	- Investor Policy Dialogue on Deforestation
ISS	- Investment Strategy Statement
ISSB	- International Sustainability Standards Board
JC	- Joint Committee
KOSPI	- Korea Composite Stock Price Index
KPI	- Key Performance Indicators
KRX	- Korea Exchange
LAPFF	- Local Authority Pension Fund Forum
LGA	- Local Government guidance
LGIM	- Legal and General Investment Management
LGPS	- Local Government Pension Scheme
LTA	- Lifetime Allowance
MAC	- Multi Asset Credit
MaPS	- Money and Pensions Service
OECD	- Organisation for Economic Co-operation and Development
OOG	- Officer Operations Group
PASA	- Pension Administration Standards Association
PDP	- Pensions Dashboard Programme
PMI	- Purchasing managers' index
PRI	- Principles for Responsible Investment
PSPS	- Public Service pension scheme

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RI	- Responsible Investment
SAB	- Scheme Advisory Board
SCAPE	- Superannuation Contributions Adjusted for Past Experience
SCC	- Surrey County Council
SEC	- Security and Exchange Commission
SLA	- Service Level Agreements
TCFD	- Task Force on Climate-related Financial Disclosures
TNFD	- Taskforce on Nature-related Financial Disclosures
TPO	- The Pension Ombudsman
tPR	- The Pensions Regulator
UN SDGs	- United Nations Sustainable Development Goals
WDI	- Workforce Disclosure Initiative

Annexe 2

Surrey Pension Fund Committee Action Tracker

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
2/23	16 June 2023	Surrey Pension Team 3 Year Strategic Plan	a) That the LGPS Senior Officer review how the scheduling of the backlog remediation programme can be advanced in the 3-year Plan.	LGPS Senior Officer September 2023	a) Work addressing the backlog has commenced and an update will be provided at the next meeting of the Local Pension Board.
4/23	16 Jun 2023	Responsible Investment Update	a) To provide information on engagement case studies.	Head of Investment and Stewardship December 2023	Border to Coast to provide a report at the Pension Fund Committee meeting in December 2023 COMPLETE
5/23	8 Sept 2023	LPB Report MySurrey (Unit 4)	a) That further information regarding the financial systems transition n be provided to Cllr Hughes, of the Resources and Performance Committee.	Head of Service Delivery & Accounting and Governance December 2023	Update on current position provided to the Board on 10 November 2023 – Annexe 2 has been shared with the Cllr Hughes. COMPLETE
6/23	8 Sept 2023	Company Engagement & Voting	a) 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.	Head of Investment & Stewardship December 2023	RI Report provided to the Pension Committee in December 2023 COMPLETE

Annexe 2

Surrey Pension Fund Committee Action Tracker

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
7/23	8 Sept 2023	Asset Class – Listed Alternative	a) That the Listed Alternative part of the report be brought to the next meeting for consideration.	Head of Investment & Stewardship December 2023	Report prepared and included in report pack for December's meeting. COMPLETE
8/23	8 Sept 2023	Response To Consultation On The Future For Investing	a) That the Chairman work with the LGPS Senior Officer to further strengthen the wording of the response.	Assistant Director – LGPS Senior Officer December 2023	Completed and submitted COMPLETE

Annexe 2

Surrey Pension Fund Committee Action Tracker

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

2/23	16 June 2023	Surrey Pension Team 3 Year Strategic Plan	a) That the LGPS Senior Officer review how members are informed of communications sent to employers and others.	LGPS Senior Officer September 2023	a) A discussion has taken place with Chair, agreed for Communications to be shared outside of these meetings. COMPLETE
3/23	16 June 2023	Asset Class Focus - Equity	a) Comparison figures from other LGIM funds be circulated against LGIMS Future World Fund over the same period	Head of Investment and Stewardship September 2023	a) Comparative performance data for the LGIM market capitalisation weighted fund and ESG-related funds was circulated to members of the Committee on 23/06/2023. COMPLETE
4/23	16 Jun 2023	Responsible Investment Update	a) To provide information on the LGIM exclusion list and whether other Surrey managers are invested in these companies, b) That the workplan be updated to include an annual review of RI progress towards Net Zero – Report from Minerva	Head of Investment and Stewardship March 2024	a) Information has been circulated by email regarding LGIM exclusion list to Members of the Committee. COMPLETE a) The annual review of the Responsible Investment Policy (RI) will be added as part of the revised Strategic Business plan and brought to the Committee in March 2024 COMPLETE

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Annexe 3: Surrey Pension Fund Committee: Forward Plan

Date	Investment &Stewardship	Accounting & Governance	Service Delivery	Change Management
15 Dec 2023	a) Border to Coast Pension Partnership update b) Investment and Funding update c) Engagement and Voting update d) Asset class focus - Private Markets and Listed Alternatives e) Responsible Investment Update f) Competition & Markets Authority (CMA) Investment Consultant Strategic Objectives g) Government Response to the consultation on future of investments in the LGPS	a) Local Pension Board update a) Glossary, Action Tracker, Forward Plan b) LGPS Update c) Actuarial update		a) Change Programme Update – Quarter 2
22 Mar 2024	a) Border to Coast Pension Partnership update b) Investment and Funding update c) Engagement and Voting update d) Asset class focus e) Responsible Investment Update	a) Local Pension Board update a) Glossary, Action Tracker, Forward Plan b) LGPS Update c) Budget 2024/25		a) Pension Team Performance Dashboard b) Training Policy c) Communication Policy
21 Jun 2024	a) Border to Coast Pension Partnership update b) Investment and Funding update c) Engagement and Voting update d) Asset class focus e) Responsible Investment Update	a) Local Pension Board update a) Glossary, Action Tracker, Forward Plan b) LGPS Update c) Budget 2024/25		a) Pension Team Performance Dashboard
13 Sep 2024	a) Border to Coast Pension Partnership update b) Investment and Funding update c) Engagement and Voting update d) Asset class focus e) Responsible Investment Update	a) Local Pension Board update a) Glossary, Action Tracker, Forward Plan b) LGPS Update c) Budget 2024/25		a) Pension Team Performance Dashboard

All items are subject to review and content.

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **15 DECEMBER 2023**

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

SUBJECT: **CHANGE PROGRAMME UPDATE – QUARTER 2**

SUMMARY OF ISSUE:

This paper details the Change Team Quarterly Report of activity for the period July-September 2023.

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Committee:

1. Notes the content of this report.

REASON FOR RECOMMENDATIONS

To provide an update to the Surrey Pension Fund Committee (Committee) and stakeholders on the Change Management team activities.

DETAILS:

1.
   a) This report details the following areas of interest.

Item	Number	Details
i)	One Pensions Team Dashboard	Following an extensive and positive session reviewing the Dashboard at the recent Board meeting we are currently working through a number of improvement suggestions as well as resolving some access issues. The revised dashboard will be presented at your next meeting.
ii)	Communications	Over the last quarter the Communications team have sent out all planned communications within the agreed timelines as set out by the Communication policy. In addition, we have begun to implement the first stages of our Amplifying our Presence plan; with a particular focus on internal and employer comms. Our content produced for Pension Awareness Week was particularly well received by members, with over 400 interactions.

Item	Number	Details
		We have recently added a new stakeholder area to our plan - the wider Council, to ensure that the transformation and great work occurring in the Pensions Team is recognised
iii	Learning & Development	Since last reported we have launched 2 new training courses, with a further 4 under development. We have also delivered in-person training to ELT (Extended Leadership Team) on Coaching Skills and have written a proposal on a next generation trainee scheme. Staff external training accreditation options have been investigated and presented to the team in a Lunch & Learn session and Board and Committee training progress has been tracked against individual plans.
iv	Project Management	The Continuous Improvement (CI) Project Managers are currently managing 16 projects. All projects are currently on track apart from Banking Controls & Unit 4. Mitigation plans are in place and the programme of CI projects is reviewed on a 6-weekly basis. As part of forward planning, we are now identifying a list of our top 10 systems and processes to undergo value stream mapping.
v	Transformation	Since the last report the Transformation Team has been predominantly designing and implementing “Talking Talent” and Succession planning sessions as part of the continued roll out of our workforce strategy. These sessions are designed to invest in our people’s learning and development and to manage continuity risks for business-critical roles. Additionally, we have launched a “Lunch & Learn” programme which has proved very successful. The topics include technical but also wellbeing topics on alternate weeks.

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CONSULTATION:

2. The Chair of the Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

3. Relevant risk related implications, including specifically those arising from inflation, have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

4. Any relevant financial and value for money implications have been considered and are contained within the report.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY

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

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LEGAL IMPLICATIONS – MONITORING OFFICER

6. . There are no legal implications.

EQUALITIES AND DIVERSITY

7. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

9. In the next quarter will across Change Management we will be working on a number of areas including the following highlights:

   a) Devising in depth the plans to achieve Year 2 of our strategic plan and resulting workforce strategy.

   b) Investigating how we can further improve our governance structure.

   c) Launching a new Surrey Pension Fund member website.

   d) Creating cyber security training as a result of a recent audit finding

   e) Commencing the discovery phase of our Digital Transformation project.

   f) Launching the second of our staff surveys (known as a Pulse Survey). This will give us the first measure of whether the interventions we have implemented as part of our strategic plan activities have delivered against ambition.

Contact Officer:
Nicole Russell, Head of Change Management
Consulted: Chair of the Committee

Annexes: None

Sources/background papers: None

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **15 DECEMBER 2023**

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

SUBJECT: **SUMMARY OF THE LOCAL PENSION BOARD REPORT**

SUMMARY OF ISSUE:

This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (10 November 2023) for noting or actioning by the Pension Fund Committee (the Committee).

RECOMMENDATIONS

This report recommends that the Committee:

1. Notes the content of this report.
2. Make any recommendations to the Board if required.

REASONS FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme (LGPS) Regulations and requirements imposed by the Pensions Regulator. This report provides the Committee with insight into the activities of the Board and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

DETAILS:

Vote of Thanks

1. The Board thanked Fiona Skene, who has retired and thanked her for the work undertaken during her time on the Board. The Assistant Director – LGPS Senior Officer, updated the Board on the recruitment process to on board a new scheme member. The Board also noted the vacancy for the Union representative from GMB that has been vacant for a while.

Change Programme Update – Quarter 3

2. The Board received an update from Head of Change Management, highlighting the One Pension Team Dashboard. It was noted that some of the members had access issues, and this was being addressed.

3. The Board was provided with a demonstration of the live version of the, One Pensions Team Dashboard from the Senior Project Specialist. This delivers high level visibility of key performance indicators for Service Delivery, Accounting & Governance, Investment & Stewardship and Change Management.

4. A member of Board asked for a trend analysis, along with a suggestion of just using the colours of the upward and downward arrows only. Officers explained that this was done to meet the accessibility requirements.

5. The Chair of the Board requested information in advance for better preparation to review the dashboard before each Local Pension Board Meetings.

Risk Register Update 2023/24 Quarter 2

6. The Head of Accounting and Governance. provided the Board with an update on quarter 2, focusing on risk 16 the implementation of the new financial system MySurrey (Unit 4) for Surrey County Council. The Board was made aware of various issues detailed in Annexe 2 that could lead to delayed processing, data integrity and financial loss.

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7. Several Members of the Board expressed their concern and would like to escalate that this is an aspect of concern. The Assistant Director – LGPS Senior Officer is happy to facilitate a meeting between the chairs of both the Board and Committee to agree an approach.

8. The Chair of the Committee also advised the Board that the Committee had also raised concern and that one of the Committee Members is the chair of the Resources and Performance Committee.

Top risk areas commentary

9. The Commentary below provided the Board with the top risk areas in the risk register with the highest combined likelihood and impact scores.

Risk	**Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss**	**Skills / knowledge gaps lead to inefficiency and poor performance**	**Work volume mismatch with operational capacity leading to backlogs**
Risk ID	16	9	11
Score	20	16	16
Comment	The change from SAP to Unit 4 is programmed for June 2023	This risk remains with some single points of failure within the organisational structure.	Legacy issues have been highlighted as a result of recent improvement focus.
Action	The Change team is coordinating efforts to understand the transition. Ongoing monitoring of implementation timescales are underway.	Organisational structure remains under review for resilience and succession planning. This will be formalised in a workforce plan in summer 2023.	Backlogs across the whole service are receiving priority attention and identified for action in the Business Plan for 2023/24. Assessment of resource requirements for dealing with backlogs commenced – next steps underway.

Residual risk	Remains a significant risk pending experience of implementation.	Remains a risk – recommendations may arise from workforce plan.	Remains a risk pending progress on resolution of legacy issues.

The following minor changes were made to the risk register:

10. The following changes were made to Risk ID 8 and 10C.

Risk ID	Area	Changes
8	Investment	The likelihood increased to 2 for an overall score of 4.
10C	Service Delivery	The need to develop an interface between Altair and MySurrey for daily Immediate Payments. Risk score remains unchanged.

Administration Performance Report and Update

11. The Head of Service Delivery provided the Board with an update on performance for quarter,1 July to 30 September 2023. For this period the overall score achieved was 80%

12. The Board received three annexes, Annexe 1 provides an update on performance for this quarter, along with commentary explaining performance and any challenges faced in meeting the Service Level Agreements (SLAs). In addition, a comparative quarterly performance trend analysis was provided in Annexe 2.

13. Additional information was also supplied in Annexe 3 which showed a summary of the most common categories of cases being terminated.

Customer Relationship Team

14. The Board was advised that using the trend analysis in Annexe 5 our Customer Relationship Team Manager is working to create a series of member support documents, to help manage expectation in the process especially for members of the scheme wishing to retire.

Guaranteed Minimum Pension (GMP)

15. The Board was advised that work continues to resolve any discrepancies supplied in a recent report provided by Mercer.

16. The Chair of the Committee asked if the Committee members could be informed of the approach of repaying historic underpayments and how the fund is dealing with the overpayments. The Assistant Director, LGPS Senior Officer agreed to keep the Committee updated on progress as this task had been delegated to officers.

17. The Head of Service Delivery, drew the attention of the Board Members to the following points: -

    a) Any member who has had their pension benefit underpaid will have this corrected and backdated. This will also include the payment of any interest due.
    b) Any member who has been overpaid will have their benefit amended from, agreed date (TBC) and will not be back dated.

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18. A Member of the Board asked how overpayments would be communicated. What would be our approach to recover overpayments if we receive a challenge from the member, when we asked for the money to be returned. Tom Lewis agreed to look at the communication and factor this into the project plan.

Annual Benefit Statements & Annual Allowance

19. The Board was advised that 99.9% annual benefit statements (ABS) and 95% of annual allowance statement have been issued in line with the scheme deadlines.

McCloud

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20. The Board was advised that the regulations for McCloud have now come into effect on the 1st October 2023. In line with Local Government guidance (LGA) it has been necessary to place both Club and Interfund cases on hold where a member qualifies for underpin.

21. The Chair of the Board asked how many interfund do we deal with? The Technical Manager advised one hundred and sixty per month. Interfund out i.e. making payments to other funds is fifty-five a month. Transfers in & transfer out is ten per month (not a public sector scheme).

Legacy Rectification Report

22. The Board was informed that the Legacy Team have recruited a full Team, who have gone on the necessary training and began processing casework. At the end of quarter two a target of reducing the backlog was set at 10%. Tom Lewis was pleased to advise that the Team had achieved 18% within quarter 2.

23. The Board was also informed that a procurement process was underway to secure the services of a third-party supplier to support the reduction of transfer, aggregation, and concurrent cases.

Business Continuity Plan Update

24. The Board was advised that we continue to be reliant on third party Business Continuity Plans. Work continues to establish and develop an overarching pension fund specific Business Continuity Plan. A full report of our findings will be brought to the Committee in May 2024.

25. A member of the Board asked within the proposal do we have scope to test the Business continuity Plan? The Head of Accounting and Governance advised this will form part of the report of our findings and will be presented at the May Board meeting in 2024.

26. Another member asked if we would receive a separate report on cyber security. Officers advised that it was our intent to provide a separate report.

Internal Audit update

27. The Principal Auditor provided the Board with an update on the work completed by Internal Audit in quarter two, see Annexe A.

28. A member of the Board asked about the scope for the investment audit, which is yet to begin. The Principal Auditor advised that the full scope will be agreed at the start of the audit. The intention is to review the controls around the investment arrangement, rather than the actual investments themselves.

External Audit Update

29. The Board received an update from the Head of Accounting and Governance. The audit opinions on the 2021/22 have been issued by the auditors on 23 October. The 2022/23 audit is progressing well, query responses from our side substantially complete.

30. The Board was advised that the auditors Grant Thornton are reviewing the resource they require to progress the audit for both the Council and the Pension Fund, it was also noted that this would be the last year for Grant Thornton to Audit the accounts. We are still on track to publish our annual report by 1st December with either audited or unaudited accounts. 7

LGPS Update (Background Paper)

31. The Board received information on issues impacting the LGPS. Highlighting three key points

    a) McCloud regulations;

    b) Investments and Climate Related Financial Disclosures highlighted; and

    c) All factors received following SCAPE discount rate change.

CONSULTATION:

32. The Chairs of the Committee and the Board have been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

33. Risk related issues have been discussed and are included within the report where relevant.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

34. The performance of administration and governance presents potential financial and value for money implications to the Pension Fund.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

36. 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

37. N/A

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

39. The following next steps are planned:

7

a) The Committee will receive further reports and continue to work with the Board where necessary and appropriate.

Contact Officer:

Adele Seex, Governance Manager

Annexes: None

Sources/background papers:

1. Risk Register June 2023 – Board Mtg 10 November 2023
2. Update Financial System Annexe 2 – Board Mtg 10 November 2023
3. Service Delivery Performance Report – Board Mtg 10 November 2023
4. Service Delivery quarterly performance trend analysis 10 November 2023
5. Internal Audit Progress Report –Board Mtg 10 November 2023

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE:	**15 DECEMBER 2023**
LEAD OFFICER:	**ANNA D'ALESSANDRO, DIRECTOR OF FINANCE – CORPORATE AND COMMERCIAL**
SUBJECT:	**INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE**

SUMMARY OF ISSUE:

This report is a summary of manager issues for the attention of the Pension Fund Committee, (Committee) as well as an update on investment performance and the values of assets and liabilities.

RECOMMENDATIONS:

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It is recommended that the Committee:

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

REASON FOR RECOMMENDATIONS:

To assess and acknowledge performance of the Fund's investment managers against the Fund's target returns, and whether it is meeting its Strategic Investment objective.

DETAILS:

Funding Level

1. The funding level is derived as the ratio of the value of the Fund's assets to the value of its liabilities. The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. The Fund's assets are used to pay member benefits accrued to date.

2. For the purpose of providing the quarterly funding updates following the 2022 valuation, it is appropriate (and the Fund Actuary's recommendation) that the 70% level of prudence remains fixed in the determination of the discount rate. This dynamic discount rate each quarter-end would therefore reflect the change in investment return expectations since the 2022 valuation date.

3. Assessing the liabilities using the dynamic discount rate also ensures that the factors leading to a change in asset values are being reflected in liability values. There is not a direct relationship (ie assets and liabilities do not react in the exact same way to changes in market conditions) but measuring the liabilities using the dynamic discount rate means that the assets and liabilities are being measured on a consistent market basis over time.

4. Results and assumptions

	31 March 2022	30 June 2023	30 September 2023
Assets (£bn)	5.36	5.33	5.29
Past service liabilities (£bn)	5.26	3.86	3.79
Surplus (£bn)	**0.1**	**1.47**	**1.51**
Funding level	102%	138%	140%
Discount Rate	4.4%	6.5%	6.8%
Salary Increases	3.7%	3.3%	3.3%
Pension Increases	2.7%	2.3%	2.3%
Likelihood of success	70%	70%	70%

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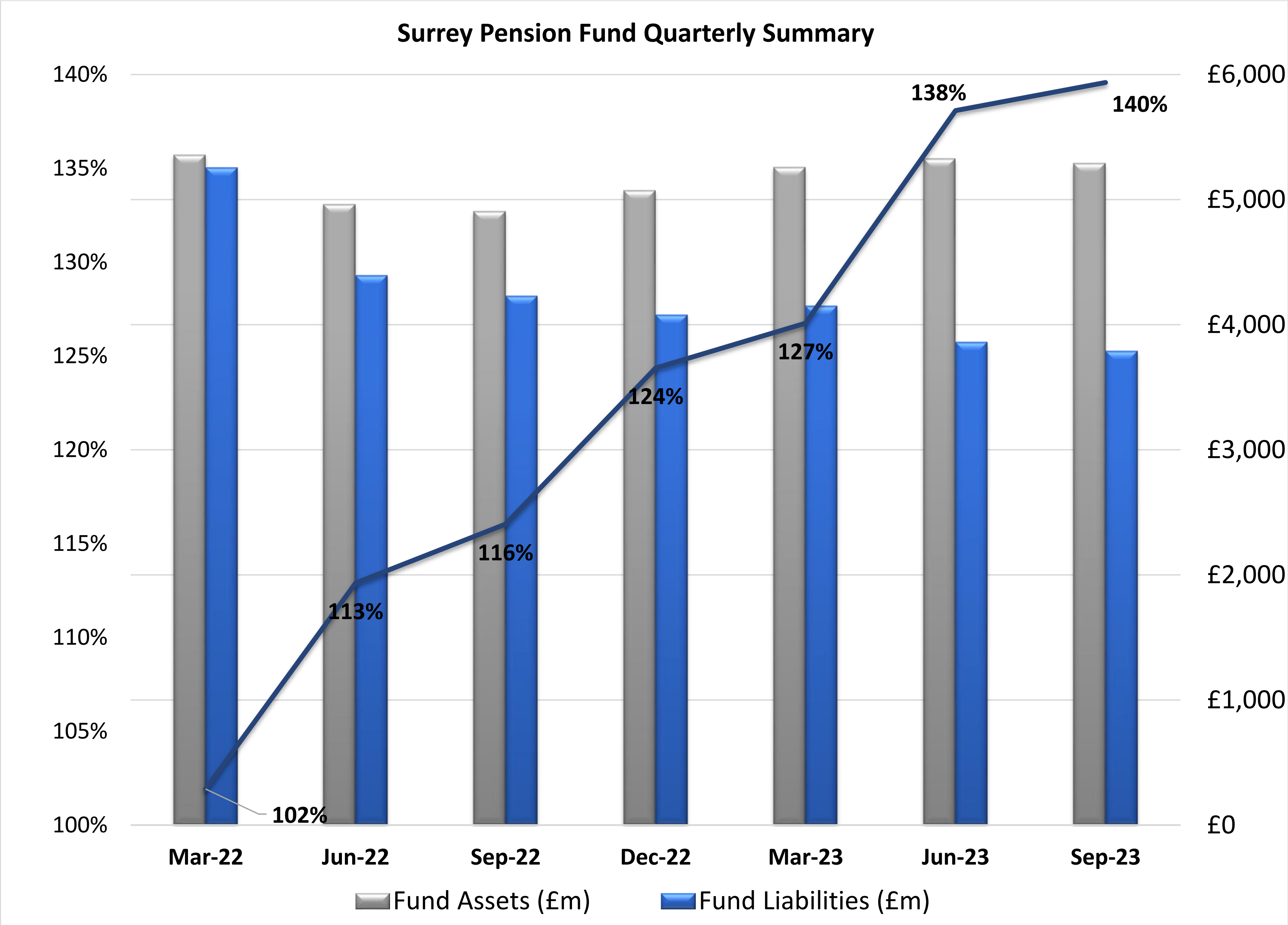
5. The discount rate assumptions at each date are based on the return expected from the Fund's assets with a 70% likelihood, ie based on the actuary's asset return expectations as at 30 September 2023, there is an 70% likelihood that the Fund's assets will generate returns over the next 20 years at the level of at least 6.8% per annum.

6. The liability values in the above table as at 30 June 2023 and 30 September 2023 make allowance for the April 2023 Pension Increase Order of 10.1%. but do not make allowance for the expected April 2024 Pension Increase Order of 6.7%. The Actuary will allow for the expected 2024 Pension Increase Order when they provide their update as at 31 December 2023. In the meantime, the Actuary can confirm that (all else being equal) a 2024 Pension Increase order of 6.7% will reduce the funding level by c. 6%.

7. The funding level has increased slightly over the quarter from 30 June 2023. Liability values have fallen due to a further increase in the assumed level of future investment returns (the discount rate). The value of the assets at 30 September 2023 is slightly lower than that reported as at 30 June 2023, due to negative asset returns over the quarter. The net position has remained broadly unchanged with a surplus of approximately £1.5bn at both the 30 June 2023 and 30 September 2023.

8. The Actuary would express caution in the interpretation of these results. The improvement in the funding level since the 2022 valuation, whilst welcome, is primarily due to an increase in the expected rate of future investment returns, i.e. the discount rate. In the absence of these higher return expectations, it is likely that the funding level would have fallen since the 2022 valuation due to higher than expected inflation experience and lower than expected asset returns. To illustrate this, the required return (the level of returns required to ensure the Fund remains 100% funded) is higher as at 30 September 2023 (4.7%) than it was as at 31 March 2022 (4.3%) i.e. higher asset returns are now required to maintain a funding level of 100%.

9. The graph below shows the development of the funding ratio since the last valuation.



Surrey Pension Fund Quarterly Summary
140%
135%
130%
125%
120%
115%
110%
105%
100%
£6,000
£5,000
£4,000
£3,000
£2,000
£1,000
£0
102%
113%
116%
124%
127%
138%
140%
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Fund Assets (£m)
Fund Liabilities (£m)

8

10. Global equities retreated over the quarter ended 30 September 2023 as market expectations shifted to ‘higher-for-longer’ regarding interest rates around the world, signalling potentially slower growth and tighter credit conditions. US equities declined following a strong run that continued into the end of July. The quarter began with US inflation falling to 3% and an expectation that any further increase in interest rates would be the last. However, higher inflation in July and August, and robust economic data, such as 2.1% GDP growth in the second quarter, suggested that a sustained period of higher rates may be necessary to calm inflation. European equities fell and underperformed global equities. The European Central Bank (ECB) hiked interest rates twice over the quarter, taking the main refinancing rate to a 22-year high of 4.5%. Economic data continued to disappoint, with the manufacturing purchasing managers’ index (PMI) at 43.4 in September, signalling the fifteenth successive month of contraction. UK equities rose over the period. UK inflation continued to fall, down to 6.7% in August, although wage growth advanced to 8.5% in July, stoking concerns that higher inflation may be entrenched. The Bank of England (BoE) raised interest rates by 25 basis points in August, to 5.25%. Rising energy prices, with oil rising from $70 per barrel to over $90, were helpful for UK-listed energy companies, and a weaker pound supported the exporters. However, domestically focused areas of the market were weak. The composite PMI dropped to 46.8 in September, marking the fastest reduction in private sector output since the lockdown period of January 2021, driven by cost-of-living pressures and higher borrowing costs. Emerging markets underperformed global equities, reflecting the sentiment around US interest rates mentioned above and slowing growth and issues in the property sector in China.

11. Global government bond yields rose, and prices fell, over the third quarter of 2023. Benchmark 10-year yields in the US, Germany, UK and Japan all ended the quarter higher. Yields on the 10-year US Treasury rose significantly, from 3.81% to 4.57%, as the higher-for-longer narrative filtered into the market. At the same time, US supply of bonds increased by US$1 trillion in the third quarter to help finance the budget deficit, whilst the Federal Reserve (Fed) continued to let maturing bonds run off its balance sheet, meaning more public buyers are required. In Japan, the 10-year yield rose from 0.39% to 0.76% after the Bank of Japan increased its cap on the 10-year yield from 0.5% to 1.0%. Ten-year gilt yields, after surging in the second quarter, were more settled, rising from 4.38% to 4.44%. The third quarter of 2023 saw yields on global corporate bonds rise in the US and eurozone and decline in the UK. Credit spreads tightened.

12. The US dollar rose against the euro, sterling and yen in the third quarter. Markets priced in the divergence in both the economic outlooks and interest rate expectations between the US and elsewhere. As the ECB and BoE indicated that interest rates may be nearing a peak, US Fed. Chair, Jerome Powell, was more hawkish. Powell stated that the Fed intends to hold policy rates at a restrictive level until inflation is sustainably down. Sterling fell against the US dollar, euro and yen, reflecting a weaker domestic growth outlook.

13. Overall, the Fund returned –0.61% in Q2 2023/24 (July-September 2023), in comparison with the benchmark of 0.51%.

14. Generally during the period, companies with growth and/or quality characteristics underperformed their respective benchmarks. This negatively impacted all the actively managed equity portfolios, particularly Border to Coast Pensions Partnership (BCPP) UK Equity Alpha and Newton. BCPP UK Equity Alpha was also impacted by the exposure to UK smaller companies, which disappointed given economic concerns in the domestic market. However, the outperformance of the value elements within BCPP Global Equity Alpha were enough to generate an overall positive absolute return and relative outperformance for this fund.

15. The other areas of underperformance this quarter were BCPP Multi-Asset Credit (MAC) and BCPP Listed Alternatives. MAC is benchmarked against cash +3.5% p.a., so if market yields rise, and prices fall, over a short period, keeping up with the benchmark can be difficult. Therefore, whilst in absolute terms the fund was slightly up, it underperformed the benchmark. Listed Alternatives continues to be disappointing. Over the period, the fund was impacted by currency shifts as it is underweight dollar exposure and the dollar strengthened. The infrastructure element of the fund was also negatively impacted by its exposure to renewable energy. Valuations within the renewable energy sector have come under intense pressure as debt fuelled capital expansion plans have become less tenable in the current interest rate environment.

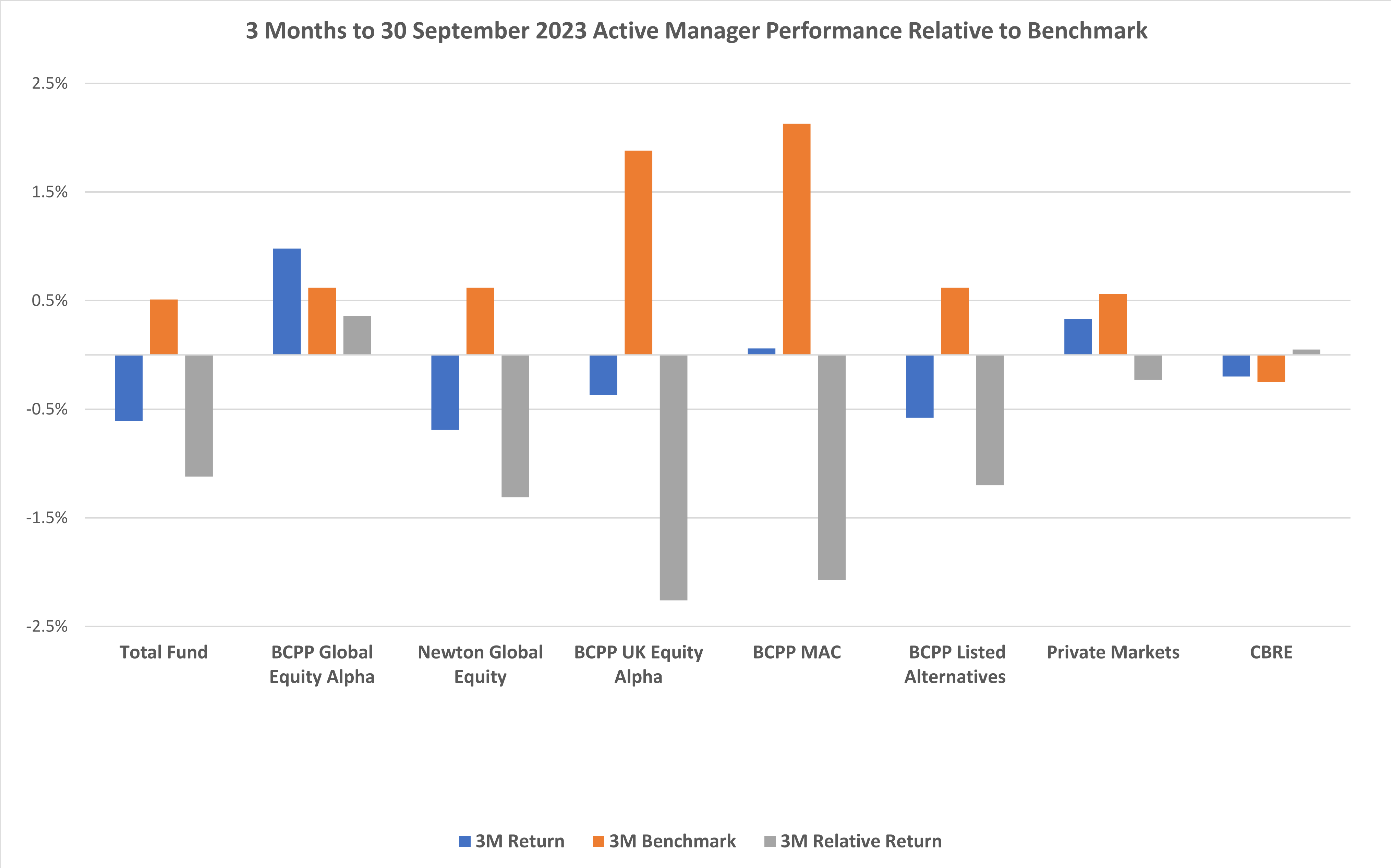
16. There was relative stability in terms of performance for both private markets and real estate. This is particularly welcome for real estate after the falls of the last 12 months in the face of rising interest rates.

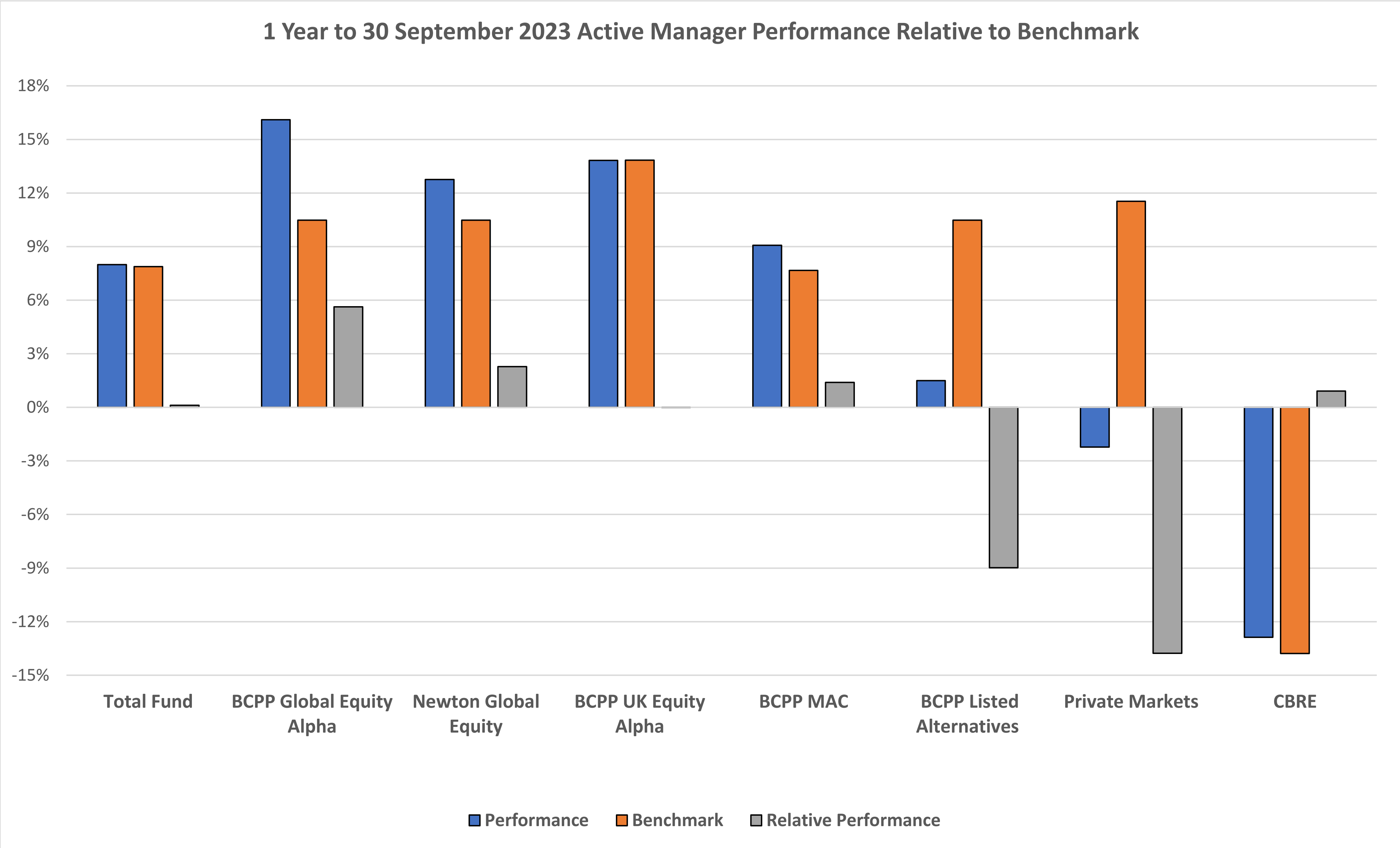
Fund Performance - Summary of Quarterly Results

The table below shows manager performance for Q2 2023-24 (June-September 2023), net of investment manager fees, against manager specific benchmarks using Northern Trust data.

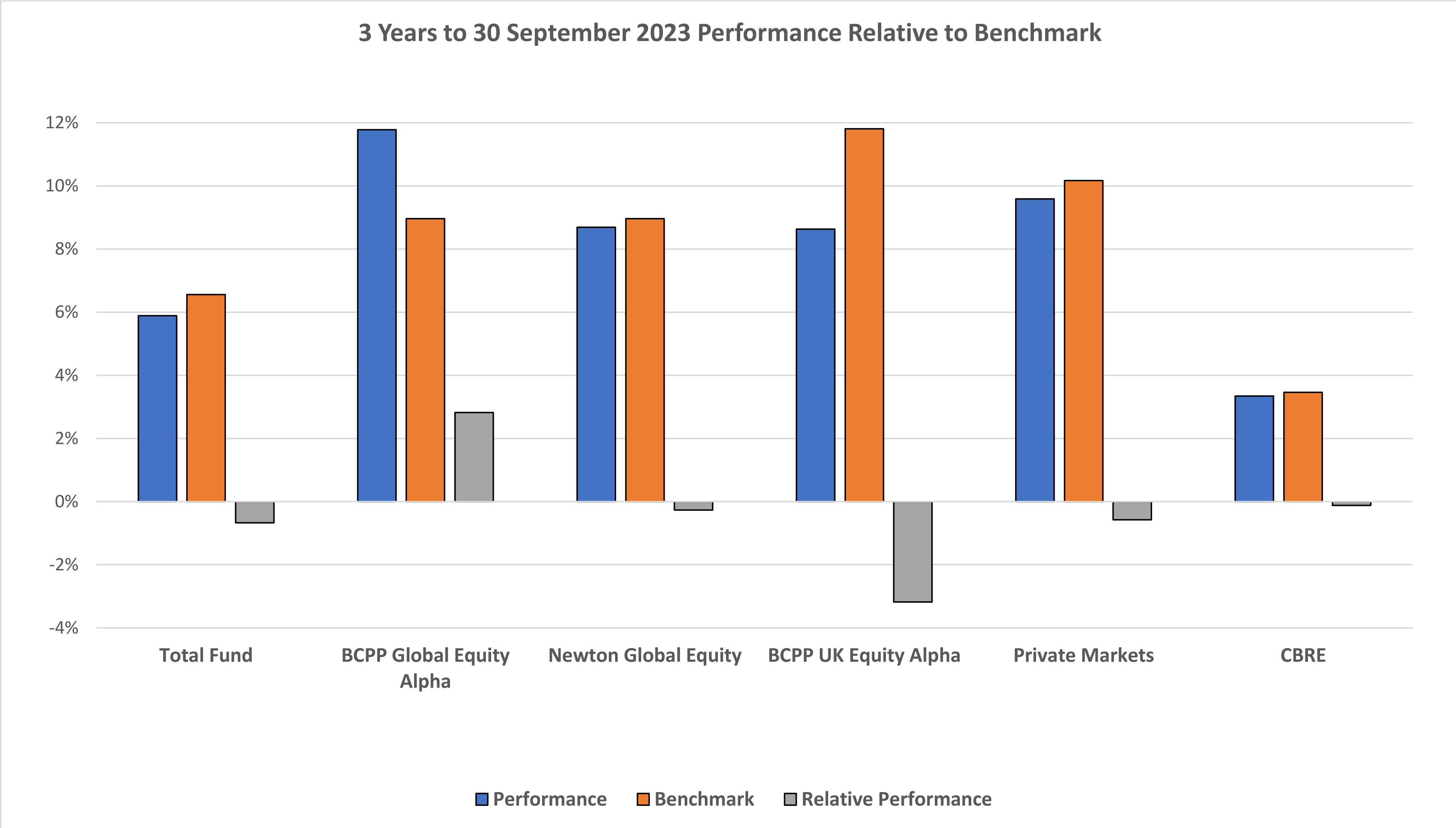
As at 30 September 2023	£m	3M Return	3M Benchmark	3M Relative Return	1Y Return	1Y Benchmark	1Y Relative Return	3Y Return	3Y Benchmark	3Y Relative Return
Total Fund	**5,315.33**	-0.61%	0.51%	-1.12%	7.99%	7.88%	0.11%	5.89%	6.56%	-0.67%
Active Global Equity	**1,280.9**	-	-	-	-	-	-	-	-	-
BCPP Global Equity Alpha	765.2	0.98%	0.62%	0.36%	16.10%	10.48%	5.62%	11.78%	8.96%	2.81%
Newton Global Equity	515.8	-0.69%	0.62%	-1.31%	12.76%	10.48%	2.27%	8.69%	8.96%	-0.28%
Active Regional Equity	**614.2**	-	-	-	-	-	-	-	-	-
BCPP UK Equity Alpha	347.0	-0.37%	1.88%	-2.26%	13.83%	13.84%	-0.02%	8.63%	11.81%	-3.18%
BCPP Emerging Markets Alpha	267.3	-	-	-	-	-	-	-	-	-
Passive Global Equity	**1,116.7**	-	-	-	-	-	-	-	-	-
LGIM - Future World Global	1,116.7	0.07%	-0.01%	0.08%	10.82%	10.50%	0.32%	-	-	-
Passive Regional Equity	**113.2**	-	-	-	-	-	-	-	-	-
LGIM - Europe Ex-UK	53.3	-2.02%	-1.94%	-0.08%	19.36%	19.94%*	-0.58%	-	-	-
LGIM - Japan	17.2	3.06%	3.07%	-0.01%	14.93%	14.96%	-0.03%	-	-	-
LGIM - Asia Pacific ex-Japan	42.7	-0.80%	-0.76%	-0.04%	5.15%	5.36%*	-0.21%	-	-	-
Fixed Income	**732.5**	-	-	-	-	-	-	-	-	-
BCPP MAC	622.9	0.06%	2.13%	-2.07%	9.07%	7.67%	1.40%	-	-	-
LGIM Gilts **	109.6	-4.00%	-	-	-9.37%	-	-	-10.99%	-	-
Private Markets Proxy	**121.5**	-	-	-	-	-	-	-	-	-
BCPP Listed Alternatives	121.5	-0.58%	0.62%	-1.20%	1.50%	10.48%	-8.99%	-	-	-
Private Markets	**847.1**	-	-	-	-	-	-	-	-	-
Private Markets	847.1	0.33%	0.56%	-0.23%	-2.23%	11.54%	-13.76%	9.59%	10.17%	-0.58%
Real Estate	**305.4**	-	-	-	-	-	-	-	-	-
CBRE	305.4	-0.20%	-0.25%	0.05%	-12.87%	-13.78%	0.92%	3.34%	3.46%	-0.12%
LGIM Currency Overlay	- 34.6	-	-	-	-	-	-	-	-	-
LGIM Sterling Liquidity Fund	61.3	1.30%	1.31%	-0.01%	-	-	-	-	-	-
Liquidity* **	157.1	-	-	-	-	-	-	-	-	-

* Data under review
** Performance figures represent total Bespoke Fund (3M Gilt Return -4.09%, Liquidity Return 1.26%)
*** Includes £34m of money market funds


3 Months to 30 September 2023 Active Manager Performance Relative to Benchmark
2.5%
1.5%
0.5%
-0.5%
-1.5%
-2.5%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
BCPP MAC
BCPP Listed Alternatives
Private Markets
CBRE
3M Return
3M Benchmark
3M Relative Return



1 Year to 30 September 2023 Active Manager Performance Relative to Benchmark
18%
15%
12%
9%
6%
3%
0%
-3%
-6%
-9%
-12%
-15%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
BCPP MAC
BCPP Listed Alternatives
Private Markets
CBRE
Performance
Benchmark
Relative Performance


3 Years to 30 September 2023 Performance Relative to Benchmark
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
Private Markets
CBRE
Performance
Benchmark
Relative Performance

Recent Transactions

17. In October 2021 the Fund purchased units in the BCPP MAC Fund to a value of £613.5m. This was funded from the disposal of units in the Western Multi-Asset Credit Fund and units in the Templeton Global Total Return Fund.

18. In October 2021 the Fund purchased units in the Legal and General Investment Management (LGIM) Future World Global Equity Index Fund to a value of £996m. This was funded from the disposal of units in the LGIM RAFI Multi-Factor Developed Index Fund and units in the LGIM MSCI World Low Carbon Target Index Fund.

19. In February 2022 the Fund purchased units in the BCPP Listed Alternatives Fund to a value of £386.5m. This was funded from the disposal of units in the Baillie Gifford Diversified Growth Fund, units in the Aviva Investors Multi-Strategy Target Return Fund, and units in the Ruffer Absolute Return Fund.

20. From the second half of 2022 the Fund has used BCPP Listed Alternatives, BCPP UK Equity Alpha and LGIM Liquidity Fund as a source of funds for private market capital calls.

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21. As part of the new asset allocation agreed in the December 2022 Committee meeting, a series of transactions has taken place during 2023.

22. In April 2023, the Fund invested another £100m into the LGIM Future World Global Equity Index Fund. This was funded by the redemption of £89m from the BCPP UK Equity Alpha Fund and an £11m in specie transfer out of LGIM Future World Emerging Markets Fund, which itself was an in specie transfer from the LGIM Emerging Markets Fund in March 2023. Also in April 2023, £60m was switched from LGIM Bespoke to the LGIM Sterling Liquidity Fund to reduce fees.

23. In July 2023, the Fund invested £267m into the BCPP Emerging Markets Equity Alpha Fund. This was funded by the complete redemption of the Fund's remaining holding in the LGIM Emerging Markets Fund.

24. Since December 2022, £240m has been redeemed from BCPP Listed Alternatives Fund to fund capital calls in private markets.

25. Following the Committee's approval of the Investment Strategy Statement in June 2023, the MAC fund exposure was increased. As at 30 September 2023, £60m of BCPP UK Equity Alpha had been sold and £60m of MAC purchased. In October 2023, £60m of Newton Global Equity was sold and £60m of MAC purchased. In November 2023, a further £60m of MAC was purchased.

26. The re-structure of the legacy LGIM Bespoke fund was approved by the Committee in September 2023. In November 2023, in line with that decision, the LGIM Bespoke Fund was liquidated, and a corresponding amount was purchased in the LGIM Over 15Y Gilt fund. The amount of the transaction was £111.4m.

Stock Lending

27. In the quarter to 30 September 2023, stock lending earned a net income for the Fund of £9,152 compared with £10,190 for the quarter ended 30 June 2023.

Mandate Change

28. As agreed at the Committee meeting in September 2023, an active market mechanism was put in place for the allocation to Gilts. If both criteria listed are met, the LGIM Over 15 Year Gilts Index Fund will be switched in its entirety into the All Stocks Index-Linked Gilt Index Fund (OFC). The criteria are 1) The FTA Over 15-year Gilts total return index has outperformed the FTA All Stocks Index-Linked Gilts total return index by 15% since 31 July 2023; plus 2) The Gross Redemption yield on the FTA All Stocks Index-Linked Gilts is in excess of 0%. This will

be monitored by LGIM at no cost to the Fund and will be automatically executed if the above criteria are met.

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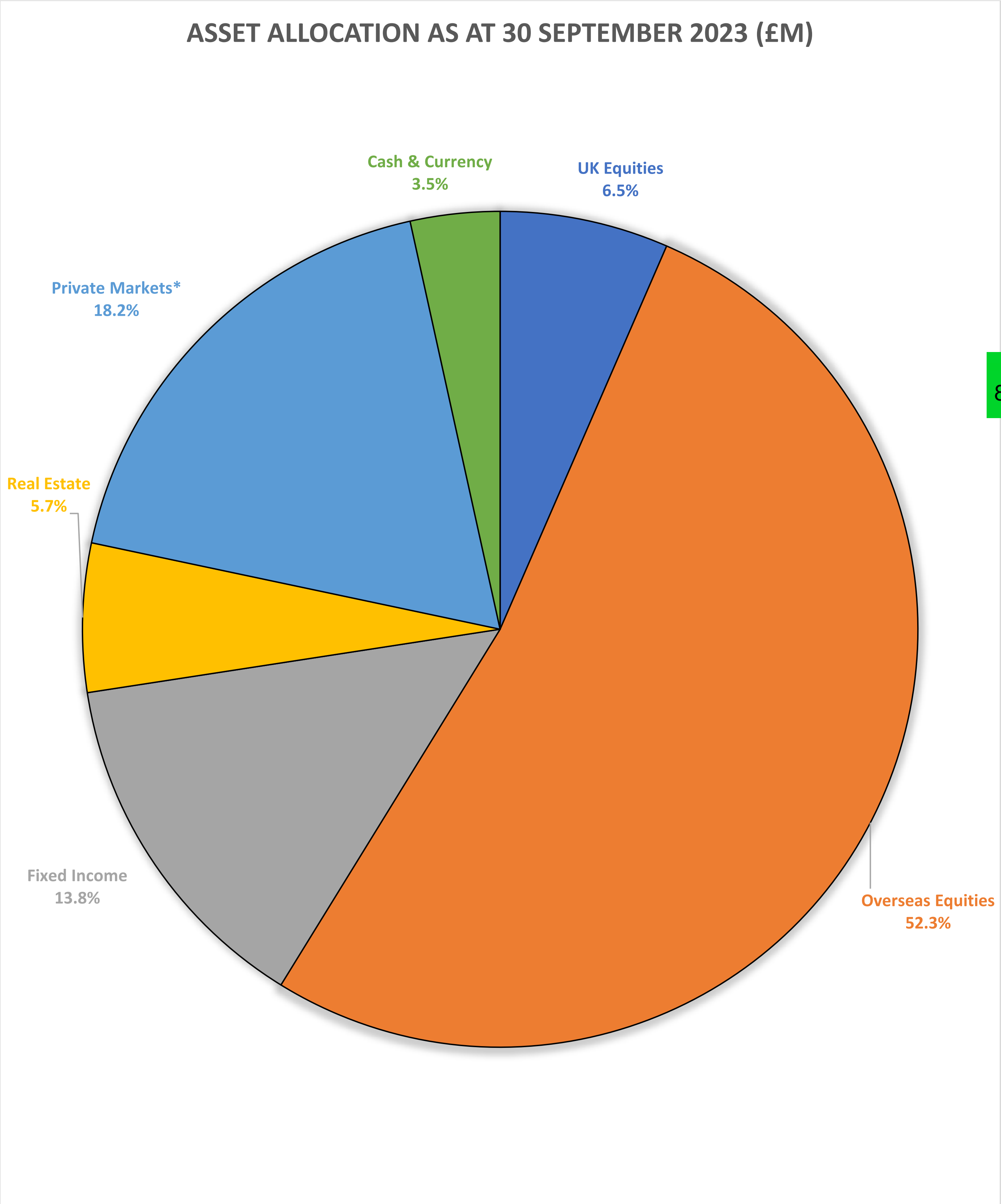
Asset allocation

29. The table and the graph below show the target and actual asset allocations for the quarter ending 30 September 2023. These allocations were agreed by the Pension Fund Committee in the June 2023 meeting.

As at 30 Sep 2023	Total Fund (£M)	Actual (%)	Target (%)	Advisory ranges %	Role(s) within the strategy
Listed Equities	**-**	**58.8%**	**55.8**	**52.8 – 58.8**	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	347.0	6.5%	6.7	-	-
Global Market Cap	1,280.9	24.1%	21.8	-	-
Global Regional	113.2	2.1%	2.2	-	-
Emerging Markets	267.3	5.0%	5.6	-	-
Global Sustainable	1,116.7	21.0%	19.5	-	-
Alternatives	**-**	**24.0%**	**27.3**	**22.3-32.3**	Generate returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Private Equity	271.4	5.1%	5	2.0-8.0	-
Infrastructure	399.0	7.5%	6	3.0-9.0	-
Private Debt	144.5	2.7%	6	2.0-8.0	-
Climate Opportunities	32.2	0.6%	3	0.0-6.0	-
Listed Alternatives	121.5	2.3%			-
Real Estate	305.4	5.7%	7.3	4.3–10.3	-
Credit	**-**	**13.8%**	**16.9**	**12.1-21.7**	Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Multi Asset Credit	622.9	11.7%	15.1	12.1-18.1	-
Fixed Interest Gilts	109.6	2.1%	1.8	0.0-3.6	-
Cash & Currency Overlay	183.9	**3.5%**	-	-	-
Total	**5,315.3**	-	**100**	-	-

The graph below shows the asset allocation for the quarter ending 30 September 2023.



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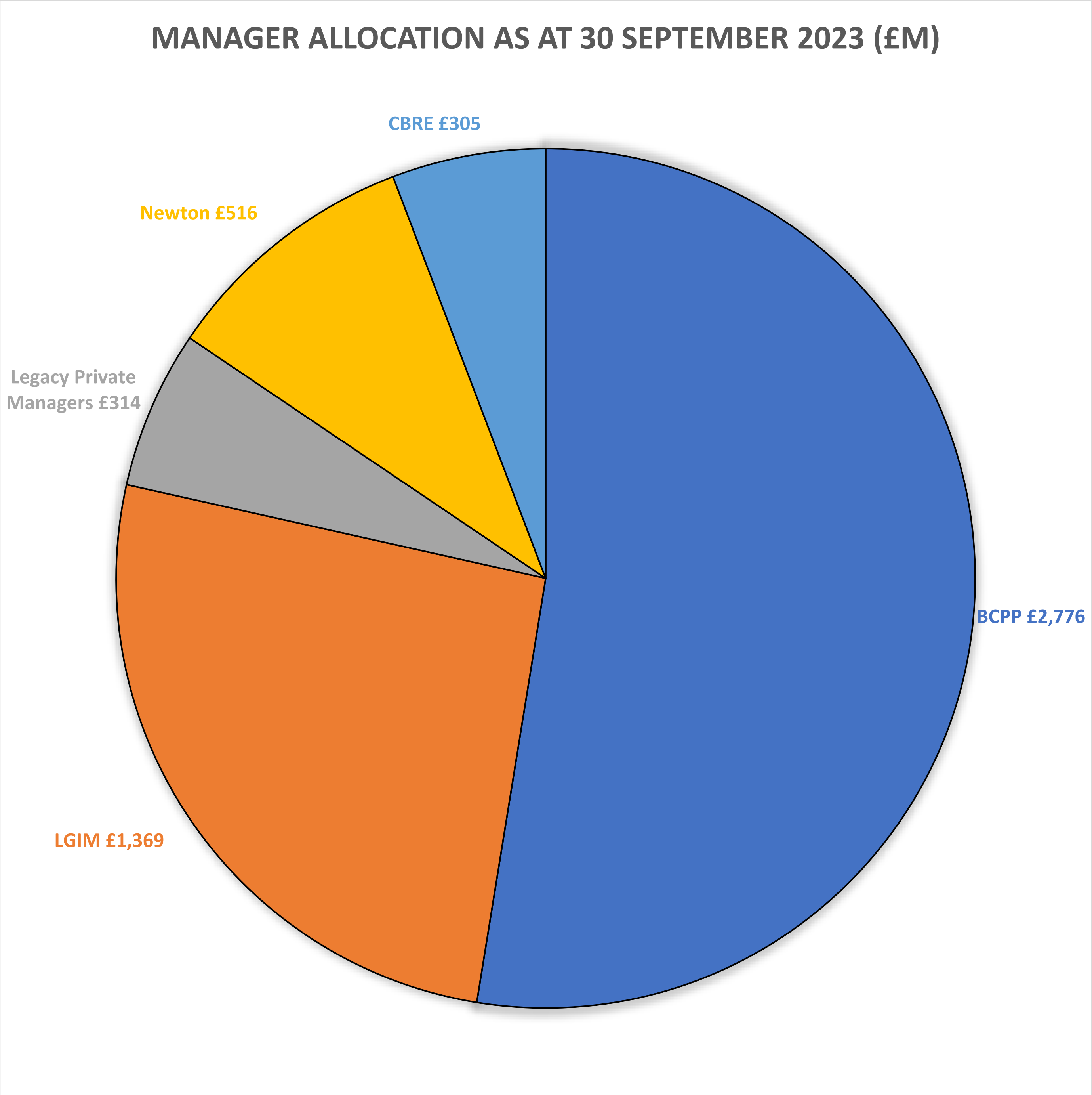
*Includes Listed Alternatives

Manager Allocation

The graph below shows the manager allocation for the quarter ending 30 September 2023.



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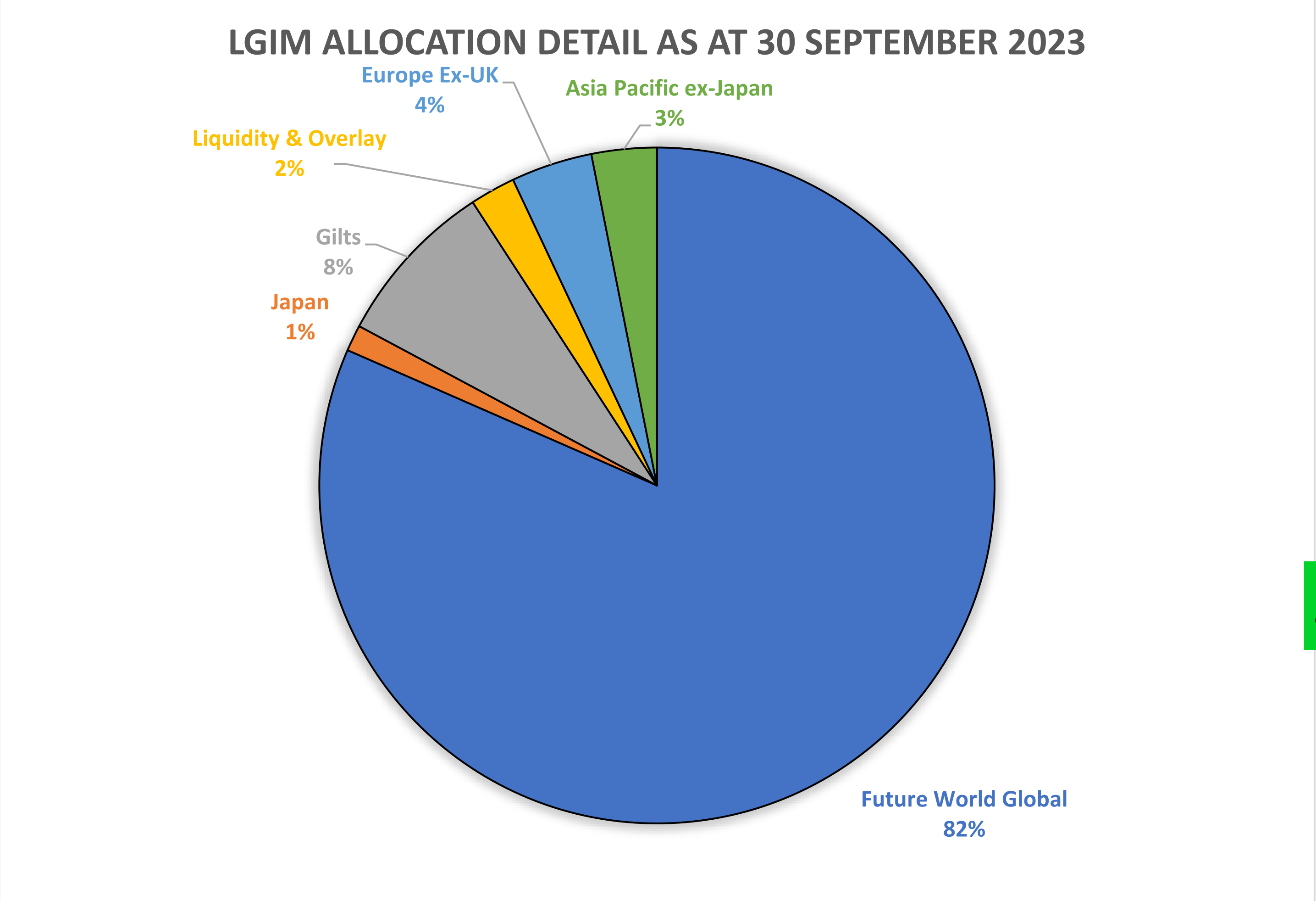
LGIM ALLOCATION DETAIL AS AT 30 SEPTEMBER 2023
Europe Ex-UK
4%
Asia Pacific ex-Japan
3%
Liquidity & Overlay
2%
Gilts
8%
Japan
1%
Future World Global
82%

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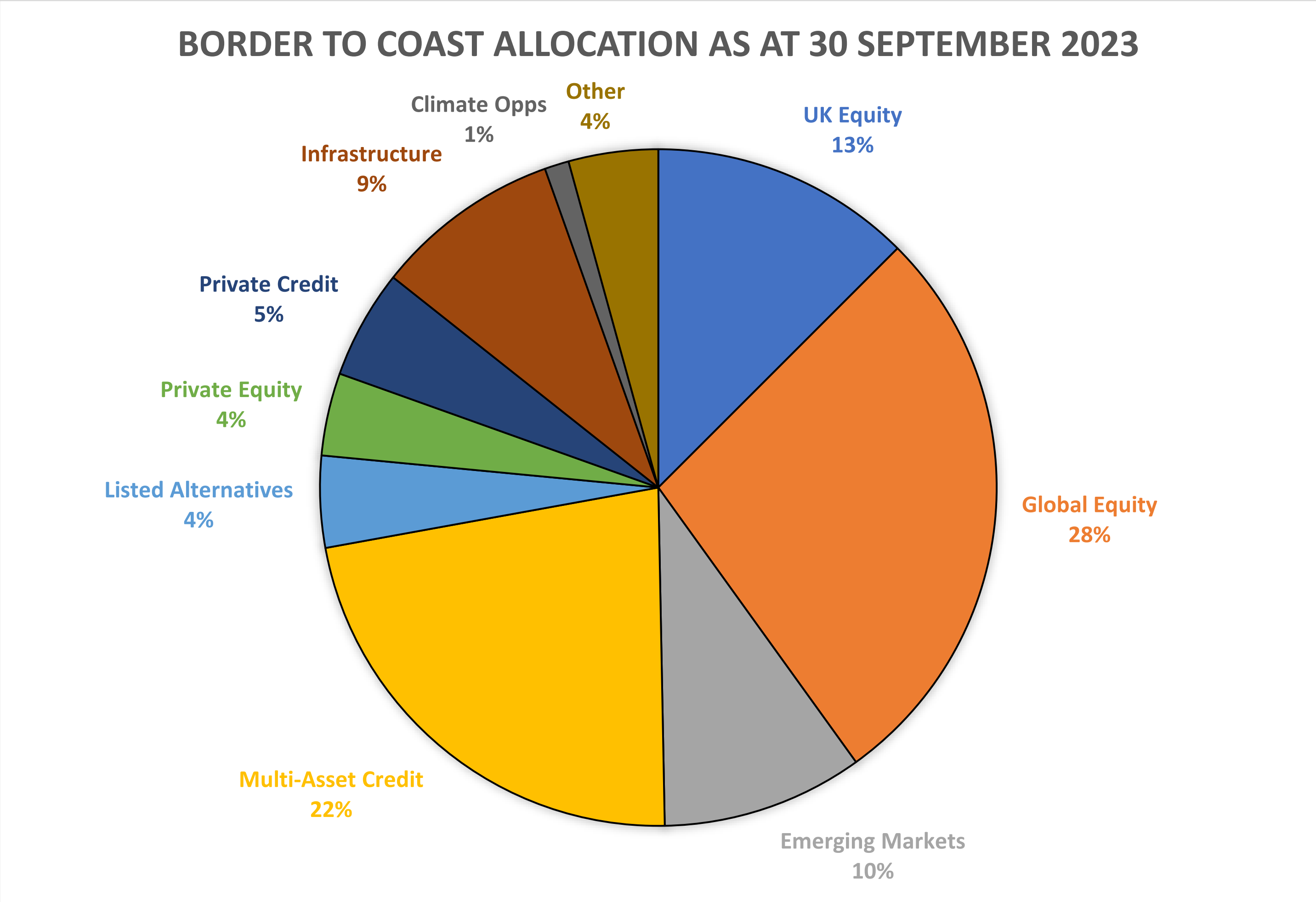
BORDER TO COAST ALLOCATION AS AT 30 SEPTEMBER 2023
Climate Opps
1%
Other
4%
UK Equity
13%
Infrastructure
9%
Private Credit
5%
Private Equity
4%
Listed Alternatives
4%
Global Equity
28%
Multi-Asset Credit
22%
Emerging Markets
10%

Cashflow

30. 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.

Period	Total contributions received £m	Total pension benefits paid £m	Net cash-flow £m
Quarter One 2023/24 (1 Apr 2023 – 30 Jun 2023)	51.7	37.7	14
Quarter Two 2023/24 (1 Jul 2023 – 30 Sep 2023)	57.5	66.5	-9

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Quarterly cashflow information has been derived from the new finance system Unit 4/ MySurrey so for the periods shown there may be timing differences due to issues with reporting.

31. An indication of the current membership trends is shown by movements in membership over quarters one and two. Member data listed below.

Period	Active members	Deferred members	Pension members	Total members
Quarter One 2023/24 (1 Apr 2023 – 30 Jun 2023)	35,585	44,465	30,760	110,810
Quarter Two 2023/24 (1 Jun 2023 – 30 Sep 2023)	34,553*	44,761	30,855	110,169

*The active numbers have slightly decreased since the last quarter. This is most likely due to the fact that no new starters for Surrey County Council (SCC) have been received since June as the Unit 4/ MySurrey i-Connect file is being resolved.

Fund Manager Benchmarks

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

Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
BCPP	MAC	SONIA	+3.5%
BCPP	Listed Alternatives	MSCI ACWI	
BCPP	Emerging Markets Equity Alpha	MSCI EM Index	+2.0%
Newton	Global Equities	MSCI ACWI	+2.0%
Various	Private Markets	MSCI World Index	+5.0%
CBRE	Real Estate	MSCI/AREF UK QPFI All Balanced Property Fund Index (for UK Assets) Global Alpha Fund Absolute Return 9-11%	+0.5%
LGIM	Europe ex-UK Equities Future World Global Equity Index Japan Equity Asia Pacific ex-Japan Development Equity Sterling Liquidity Fund LGIM Bespoke	FTSE Developed Europe ex-UK Net Tax (UKPN) Solactive L&G ESG Global Markets Net FTSE Japan NetTax (UKPN) FTSE Developed Asia Pacific ex-Japan NetTax (UKPN) SONIA Fund return	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

8

CONSULTATION:

32. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

8

35. 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

36. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

37. 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

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

WHAT HAPPENS NEXT

39. The following next steps are planned:

- Continue to implement asset allocation shifts as agreed by the Committee.
- Continue to monitor performance and asset allocation.

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:
Annexe 1 - Manager Fee Rates (Part 2)

Sources/background papers:

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE:	**15 DECEMBER 2023**
LEAD OFFICER:	**ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL**
SUBJECT:	**ACTUARIAL UPDATE**

SUMMARY OF ISSUE:

This report provides an update from the Fund Actuary on cash flow and the new pass-through policy relating to new admission bodies (specifically contractors) participating in the Fund.

RECOMMENDATIONS:

9

It is recommended that the Pension Fund Committee:

1. note the Fund's cashflow position, and
2. approve the pass-through policy which includes the detail around the specific Surrey fund's policy.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee needs to be aware that the Fund has created a Pass-Through policy document setting out the general approach they will take when admitting new contractors into the Fund.

DETAILS:

Cash flow

1. The cashflow position of the Fund is sensitive to future levels of inflation. It is important to monitor the cashflow position regularly to identify if cash from assets are required to meet benefit payments. The actuary has updated the cashflow projections to allow for emerging market experience.

Pass through

2. The new policy relates to allowing new admission bodies (specifically contractors) to participate in the Fund on a 'pass-through' basis. Pass-through is a way of participating in the Fund where certain risks are shared between the letting authority and the new contractor. The policy document sets out the general approach that will be taken when admitting new contractors into the Fund.

CONSULTATION:

3. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

4. Relevant risk related implications, including specifically those arising from inflation, have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

5. Any relevant financial and value for money implications have been considered and are contained within the report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

7. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

8. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

10. There are no further steps required.

Contact Officer: Sara Undre, Employer Manager
Paul Titcomb – Head of Accounting and Governance

Consulted: Pension Fund Committee Chair

Annexes:
1. Actuary's report on emerging cashflow position
2. Pass Through Policy Information
3. Pass Through Policy

Sources/background papers:
1. None

Surrey Pension Fund

Cashflow projections

Steven Scott FFA
23 November 2023
For and on behalf of Hymans Robertson LLP

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Contents

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Executive summary

This paper is addressed to Surrey County Council as the Administering Authority to the Surrey Pension Fund ("the Fund"). The paper considers future projections of the Fund's cashflows under a range of different scenarios. The analysis and projections will help the Fund better understand its current and potential future cashflow position and is part of its management of risk in this area.

From the analysis and projections set out in this paper, the following conclusions can be drawn:

In the absence of investment income, the Fund may become broadly cashflow neutral in the current financial year (2023/2024) after recognising the pension increase of 10.1% in April 2023. This is earlier than previously anticipated (2029) as part of the analysis carried out in December 2022. Allowance for the expected pension increase of 6.7% in April 2024, and inflation thereafter in line with consensus forecasts, leads to an expectation that cashflow neutrality will continue for several years.

The cashflow position of the Fund is sensitive to future levels of inflation. The recessionary scenario represents a "hard landing" and associated new period of low inflation. Under this scenario, the Fund is still expected to reach cashflow neutral position in the short term, however a return to a cashflow positive position is possible over the medium to long term. This highlights the importance of reviewing the cashflow position on a regular basis in an uncertain inflationary environment.

In the longer-term, the most significant risk to the Fund (in respect of its cashflow position) is a high inflation scenario, where inflation remains elevated for a longer period. Under this scenario, the Fund becomes cashflow negative in the coming years, with the gap increasing to a material level in the longer-term.

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Background and inputs

What is cashflow negativity and does it matter?

Every month, the Fund receives income via contributions and pays out benefits to members. Historically, the benefits have been paid out of the contribution income with any excess being invested. This is how the Fund's asset value has built up over time (along with investment returns).

Over time a pension fund will mature, and the level of benefit payments will start to exceed contribution income. At this point, a pension fund is considered "cashflow negative".

Being cashflow negative itself is not unexpected for a pension fund; the assets that have been accrued are for the purpose of paying benefits. However, if the transition to being cashflow negative is not monitored and managed effectively, it can pose a liquidity risk and the Fund may become a forced seller of assets.

Following the 2022 valuation, the focus on cashflow is greater given the significant increases in benefits (10.1% at April 2023 and 6.7% at April 2024) due to rising inflation.

Knowing when the Fund is likely to be cash flow negative is helpful as it can have implications for both the funding and investment strategy:

1. Having cash available to meet the Fund's primary objective of paying member benefits
2. The ability to maintain stable contributions over time and withstand volatility from investment markets
3. Understanding the level of cash balance that needs to be retained while avoiding a drag on investment returns
4. Avoiding the risk of being a forced seller of assets at inopportune times
5. Making the most efficient use of income generated by Fund assets
6. Implementing optimum rebalancing and cash management policies

This paper explores the Fund's cashflow position under a variety of different scenarios to inform its approach to cashflow management

Recent cashflow position

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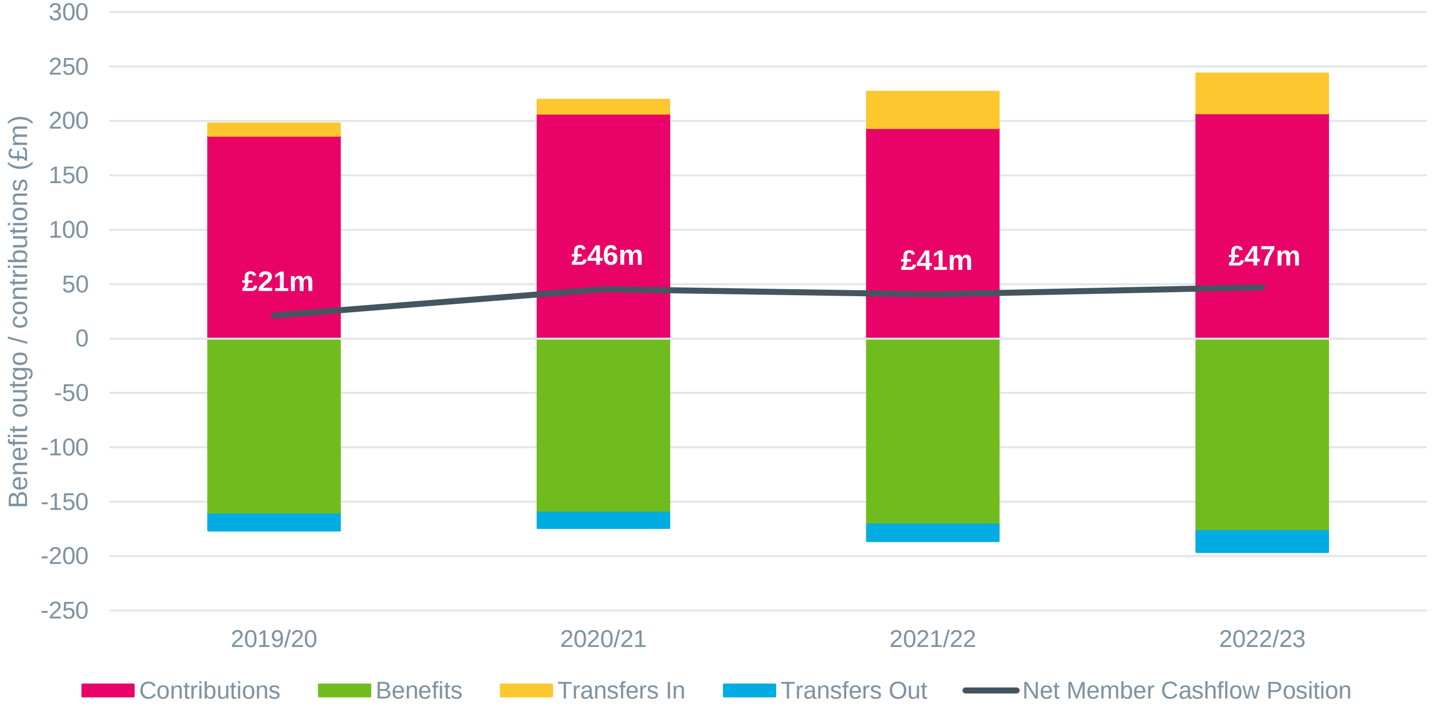
Using the annual report and accounts for years ending 2020, 2021, 2022 and 2023 (draft), we have analysed the recent cashflow position for the Fund.

The chart shows the absolute value of contribution income and benefit outgo (bars) and the net cashflow position (line and figures), excluding expenses.

During this period, the Fund remained cashflow positive, i.e. contribution income exceeded benefit outgo.

Transfers in and out of the Fund can significantly affect the cashflow position. In 2022/23, there were c.£36m of transfers into the Fund which helped increase the net cashflow position.



The cashflow position has remained positive in recent years. Excluding the impact of transfers, the current net cashflow position is around £47m (contributions exceeding benefits)

What are the cashflows of the Fund

In this paper we consider the main cashflows in and out of the Fund over the next 20 years.

The Fund's primary sources of income are:

- Contributions from employers in the Fund
- Contributions from employee members in the Fund
- Income streams generated from the Fund's investments (NB these are not included in the cashflow projections we have provided).

Contributions paid are estimated based on:

- The 2022 valuation payroll
- The aggregate of all certified employer contribution rates payable from 1 April 2023 to 31 March 2026. Thereafter the contribution rate has been assumed to remain stable up to year 20.

The Fund's outflows are the benefits payable to the members and their dependants. These include:

- Retirement lump sums paid to active and deferred members on retirement
- Retirement pensions paid to pensioners and their dependants
- Death in service benefits and ill health benefits.

Transfers in and out of the Fund by individual members are not usually a significant source of income or outflow and typically balance out over time.

The projected cashflows are sensitive to several assumptions. The most significant are:

- Level of future benefit increases (LGPS benefits are generally index-linked and increase in line with Consumer Price Index (CPI) inflation)
- Level of current and future payroll (determines the amount of contributions received)

We have prepared future cashflow projections under a range of different inflation and payroll scenarios to inform decision making.
This helps the Fund understand the sensitivity of its cashflow position to these sources of uncertainty and make appropriate management plans.

Data, assumptions and methodology

Membership data

We have used the membership data provided for the 2022 valuation of the Fund.

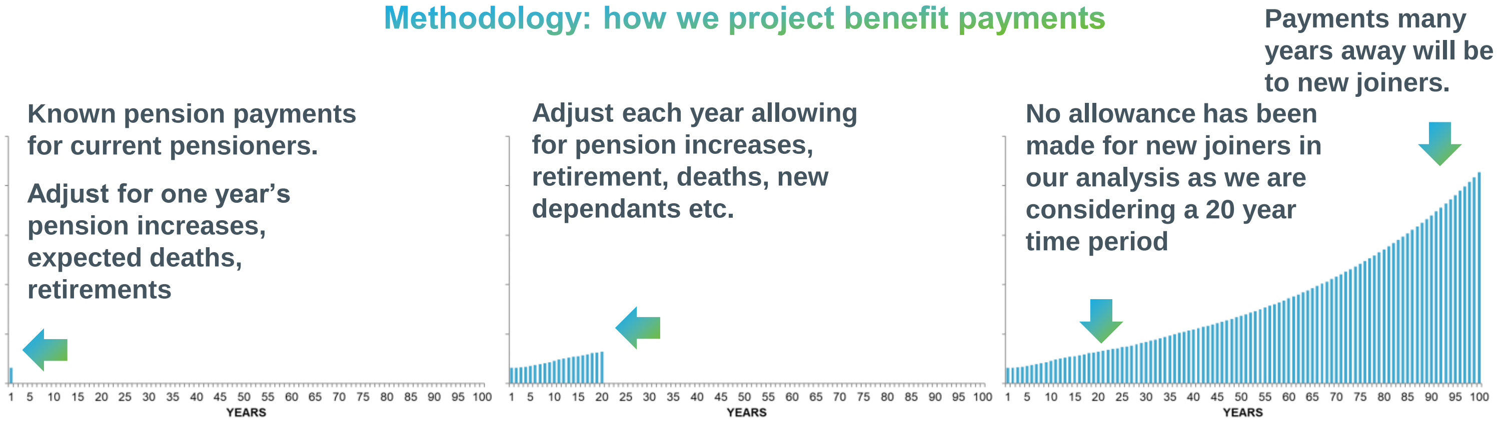
Assumptions

The demographic and financial assumptions are in line with those adopted for the 2022 valuation of the Fund unless stated otherwise.

Further information on the membership data and assumptions is detailed in the final valuation report dated March 2023.

Allowance for benefit outgo in respect of benefits yet to be accrued by current active members is included in the projection; however, given the relative short timeframe considered, no allowance has been made for benefit outgo in respect of accrual by members yet to join the scheme.

Methodology: how we project benefit payments



Methodology: projecting contribution income

- Payroll is assumed to stay constant in real terms, i.e. it increases in line with the valuation assumption of 3.7% pa
- Employer contributions are assumed to be in line with the pattern as set out on page 7
- Employee contributions are based on the weighted average for the Fund at the 2022 valuation (6.6% of pay).

Scenarios explored

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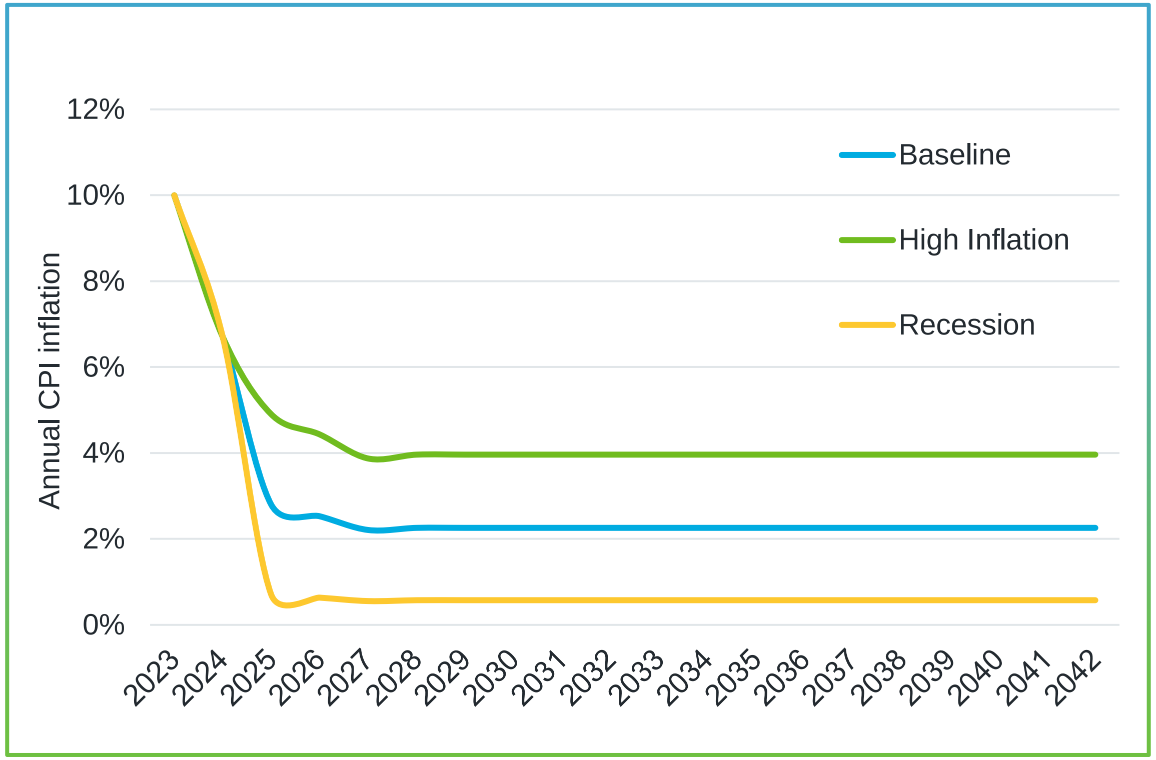
Future CPI inflation

Given the sensitivity of future benefit payments to inflation, we have considered three potential scenarios for future inflation. All scenarios recognise a 10.1% increase in benefits in April 2023 and an expected 6.7% increase to benefits in April 2024:

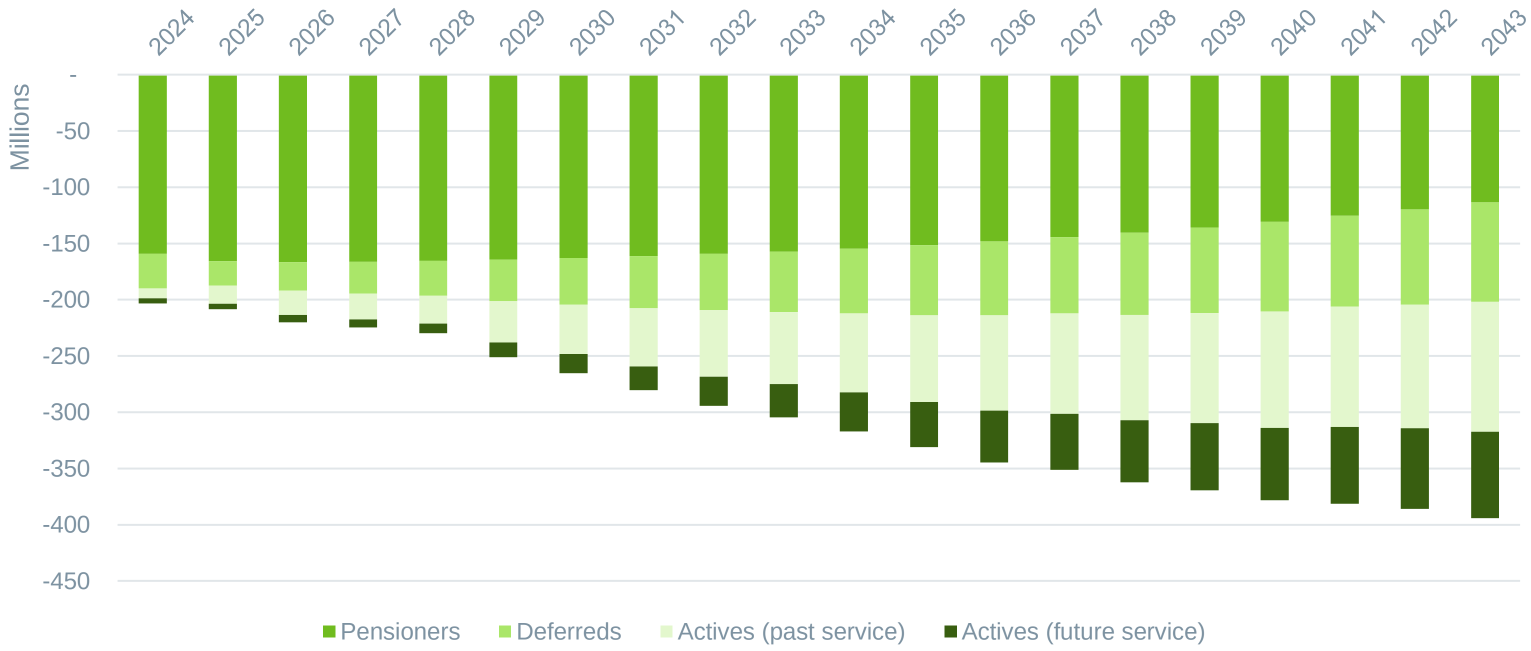
- Scenario 1: this **baseline** scenario represents consensus forecasts for future inflation based on current market data. This is a combination of short-term market expectations and longer-term expectation that the rate will tend towards the Bank of England's 2% target.
- Scenario 2: this represents a plausible **recession** scenario, occurring largely due to excess supply over demand because of higher energy and food prices. This results in a "hard landing" and associated new period of low inflation remaining below the Bank of England target.
- Scenario 3: this represents a plausible **high inflation** scenario where inflation remains high due to higher energy and food prices.

In all scenarios we have kept the payroll growth assumption constant at 3.7% pa.



Inflation scenarios

Projected benefit outflows (baseline scenario, consensus inflation)



Notes

The years along the x-axis (horizontal) refer to the year-end i.e. 2024 means the 2023/24 financial year (from 1 April 2023 to 31 March 2024).

The Fund currently pays around £200m in benefit payments. This is expected to double by 2043.

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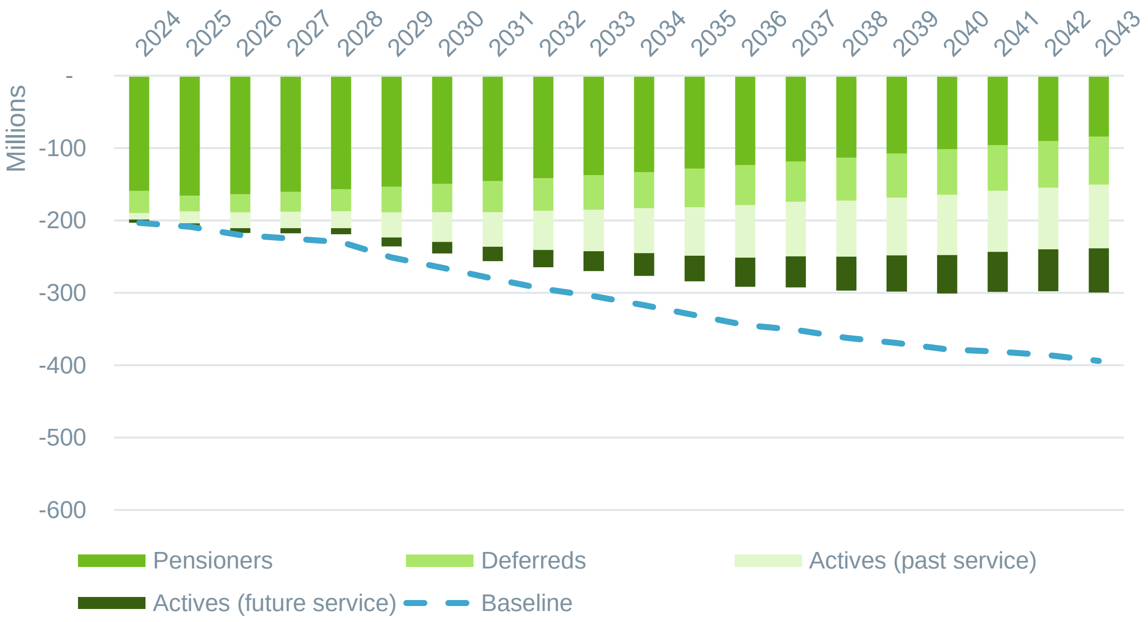
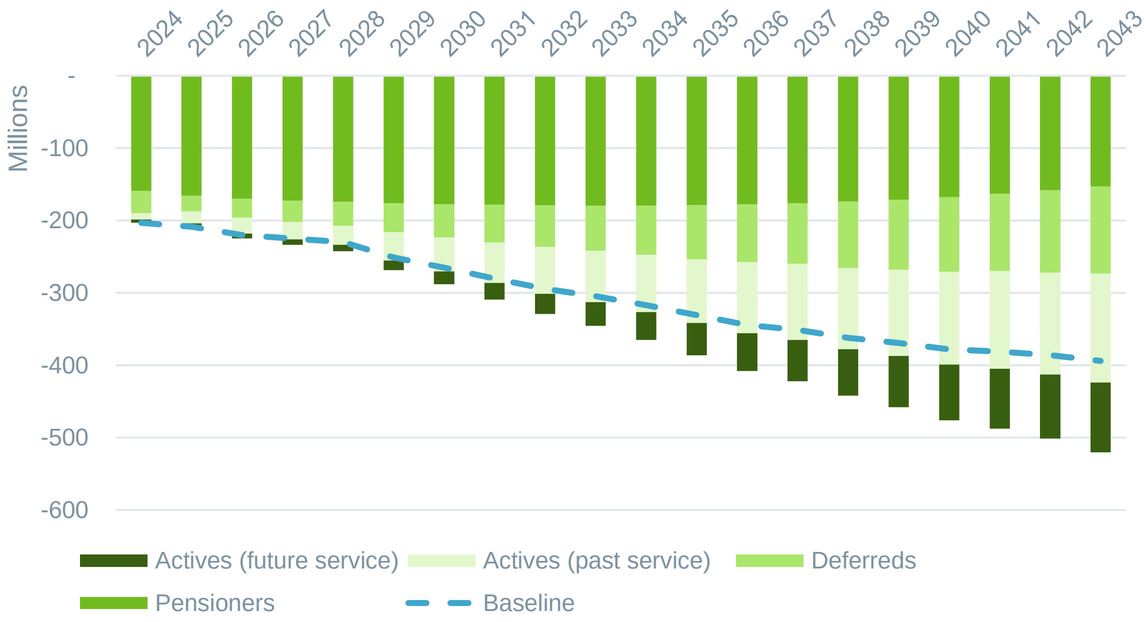
Projected benefit outflows (alternative inflation scenarios)

Recession



High Inflation



Scenario analysis helps understand the impact inflation may have on future benefit payments – difference of c.£220m in annual benefit payments by 2043

Projected contribution income (all inflation scenarios)

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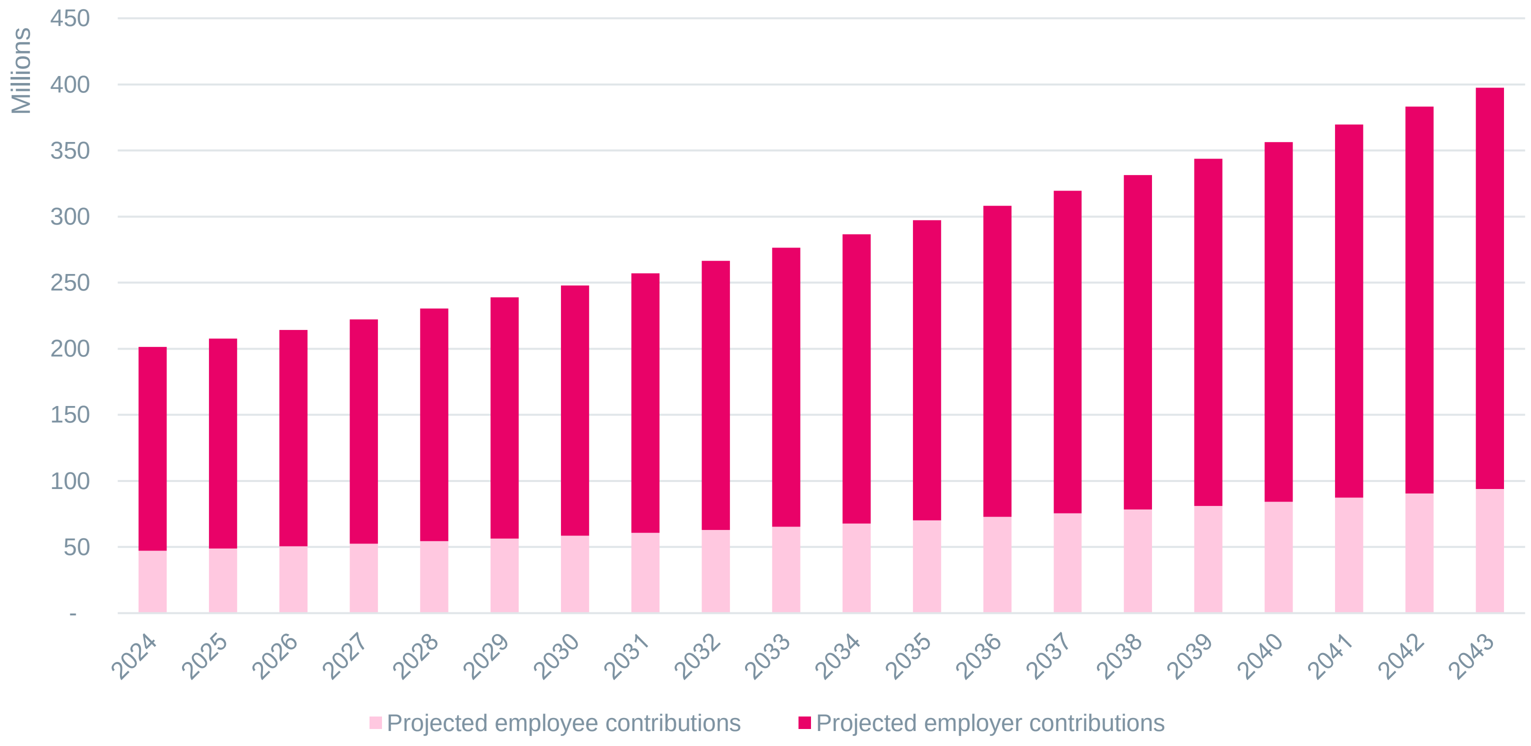

Notes

New entrants are assumed to replace leavers, and are implicitly allowed for in the income cashflow by assuming the payroll grows with inflation.

The years along the x-axis refer to the year-end i.e. 2024 means the 2023/24 financial year (from 1 April 2023 to 31 March 2024).

Payroll is assumed to grow at 3.7% pa (in line with the formal valuation)

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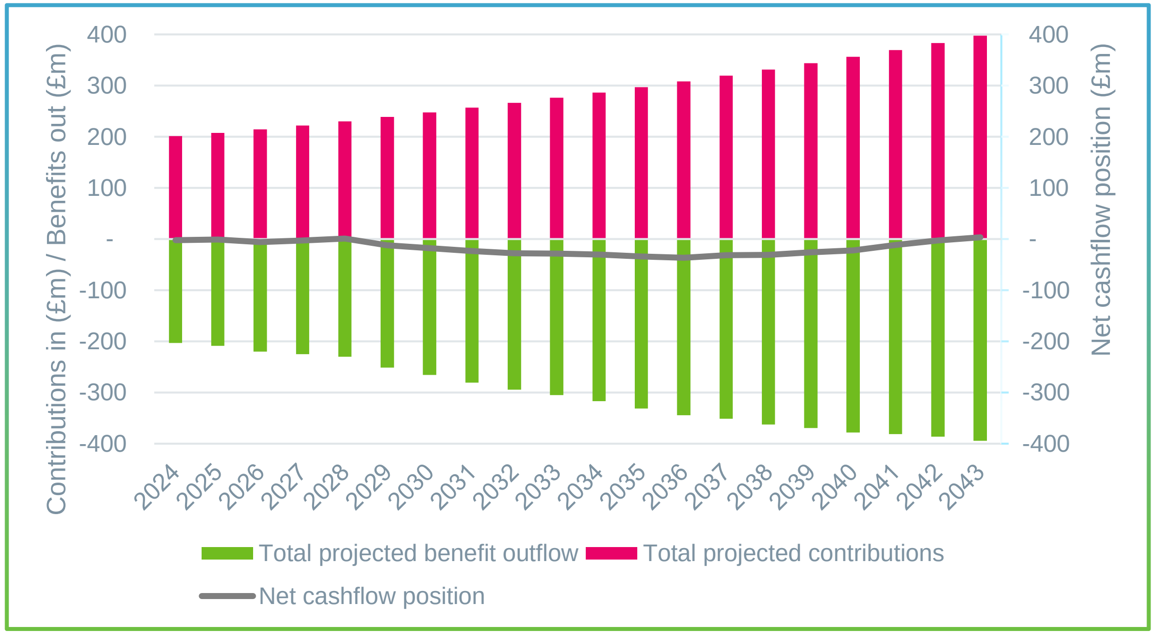
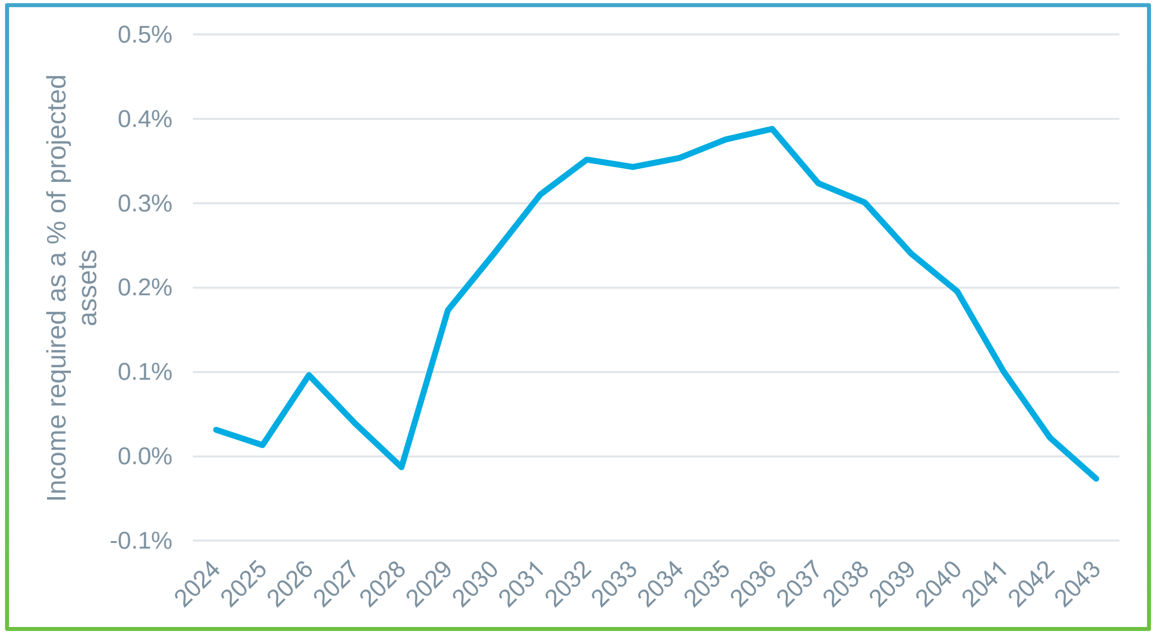
Whole fund net cashflow (baseline scenario)





Benefit outflow is estimated to exceed contribution income in 2023/2024. The Fund’s current income yield from assets (c.0.6% pa) would be sufficient to meet the shortfall from contributions over the next 20 years (requiring no more than c.0.4% pa).

Asset values are assumed to increase at 4.4% pa

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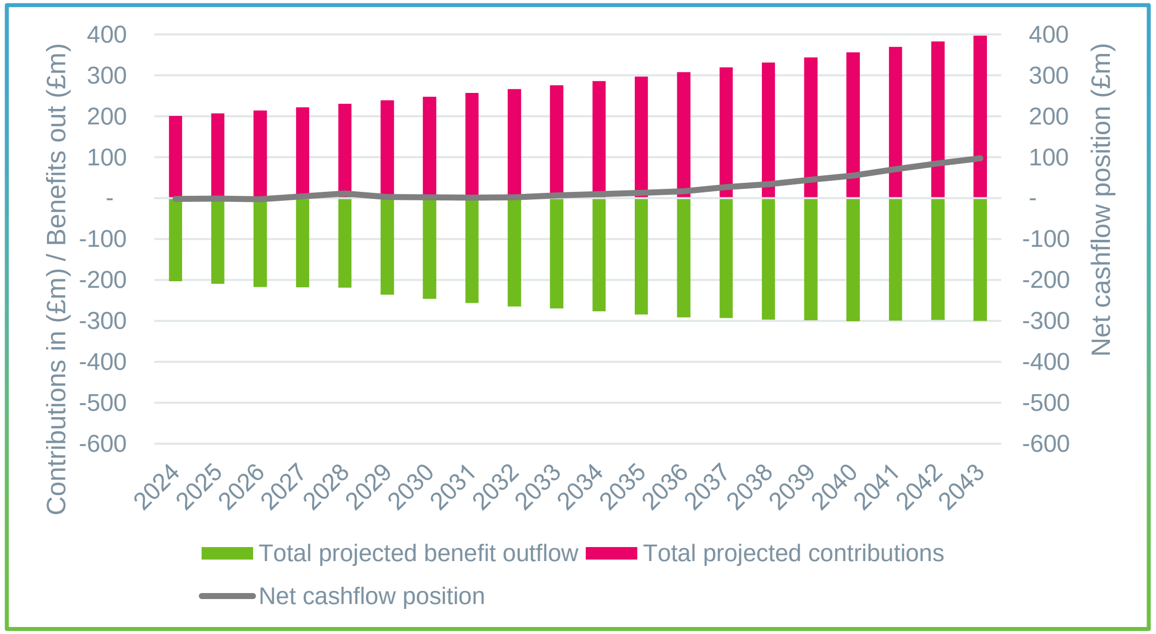
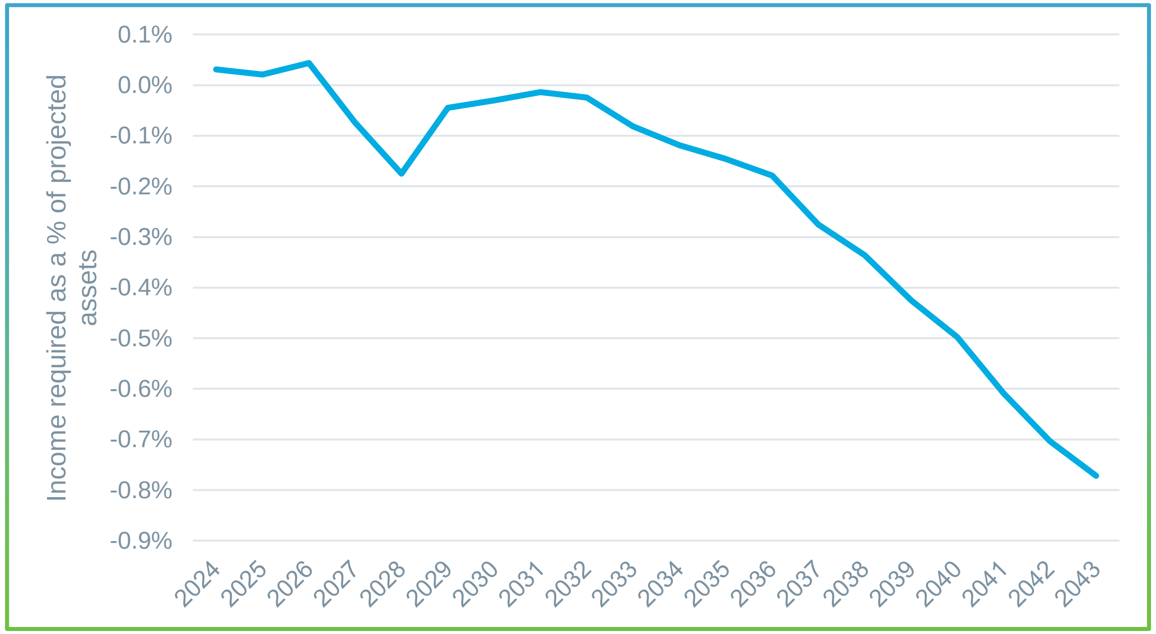
Whole fund net cashflow (recession scenario)





Relative to baseline, a “hard landing”, ie lower inflation, would improve the Fund’s cashflow position in future years.

Asset values are assumed to increase at 4.4% pa

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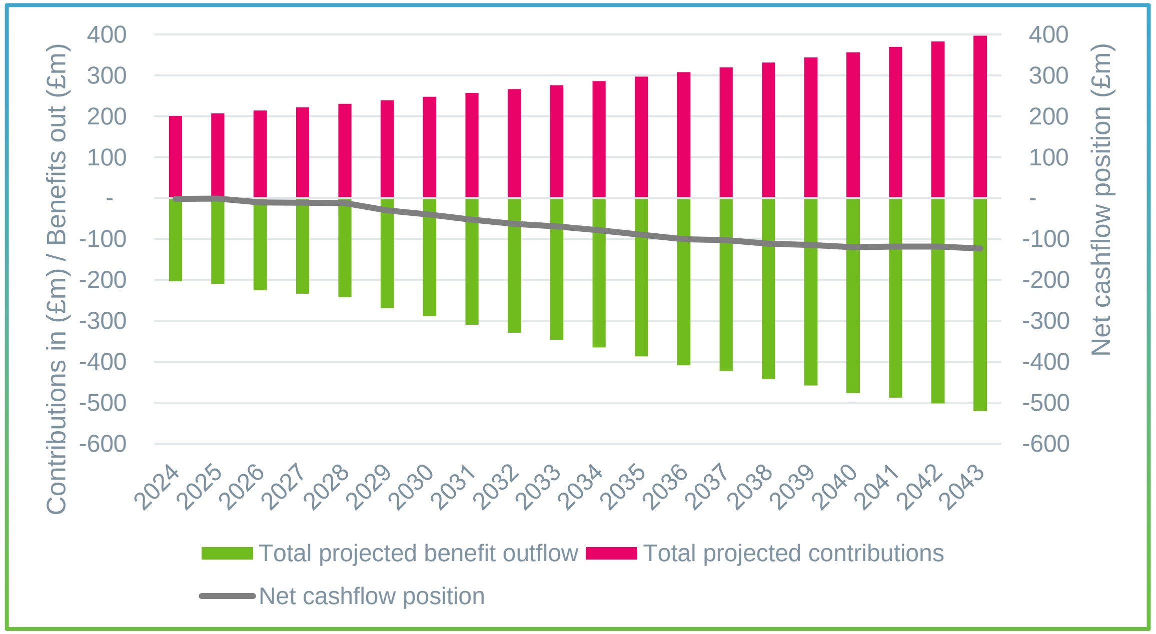
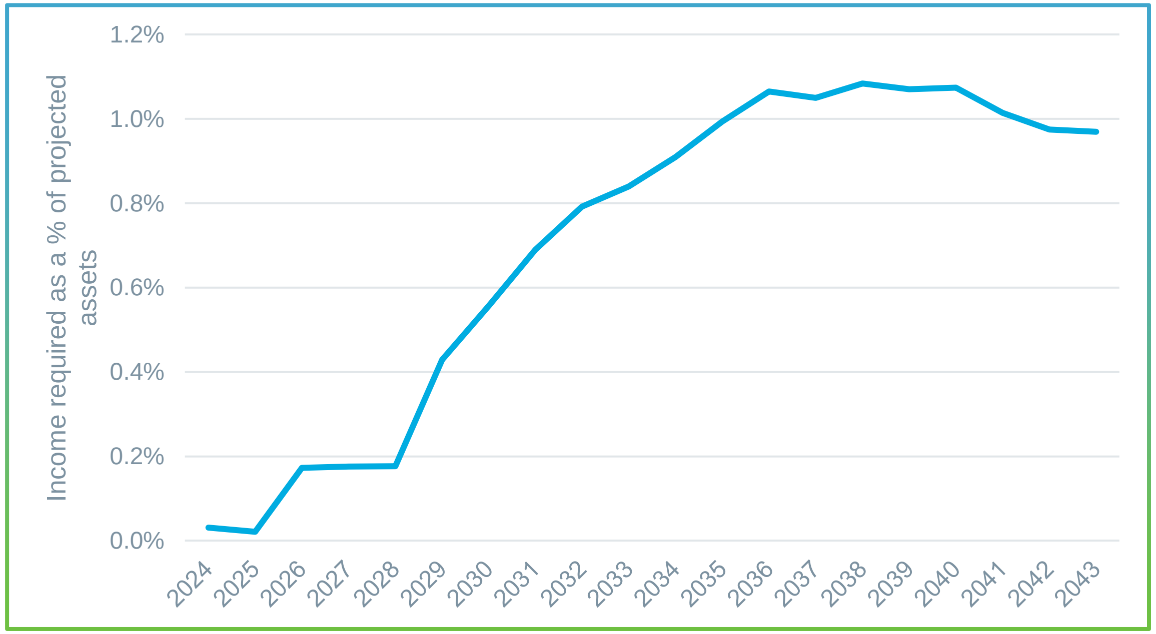
Whole fund net cashflow (high inflation scenario)





A high inflation scenario would worsen the Fund's cashflow position in future years, with a substantial gap opening up (assuming pay increases remain at 3.7% pa) in the longer term. This would need to be managed by a higher level of income from the Fund's assets (in excess of 1% pa).

Asset values are assumed to increase at 4.4% pa

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Next steps

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Next steps

1. Monitor membership changes and their impact on the cashflow position

2. Consider any other factors (e.g. reducing employer contributions) that may affect the projected cashflow position

3. Consider the investment strategy in light of any future possible negative cashflow position

4. Consider evolving or developing new cashflow management and/or rebalancing policies with your investment advisor

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Reliances and limitations

APPENDIX 1

Reliances and limitations

This paper is addressed to Surrey County Council as Administering Authority to the Surrey Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of projecting the expected cashflows of the Fund over a 20-year time horizon. It has not been prepared for any other purpose and should not be used for any other purpose.

The cashflow projections are based on a specific set of deterministic assumptions, which are highly unlikely to be borne out exactly. We therefore do not claim that the future will exactly match the figures in this paper. The results should be used to give an indicative idea of the Fund's medium term cashflow requirements only.

Any party must accept full responsibility for establishing that the cashflows are appropriate for the purpose to which they want to put them and any decisions that are taken based on their analysis. We cannot be held responsible for any losses sustained as a result of third parties relying on the cashflows provided, or if the cashflows are used for any inappropriate purpose

The extent of the deviations from the assumptions underpinning the cashflow projections depends on uncertain economic events as well as other factors that are not known in advance such as members' decisions, variations in mortality rates, retirement rates and withdrawal rates, fluctuations and rates of salary increase, and the numbers and ages of future new entrants which cannot be accurately predicted. In addition, there could be changes in the regulatory environment and possible changes in retirement benefits. These other uncertainties are often not related to any particular investment and economic eventualities.

Three of the important uncertainties are the:
(a) Rate of pension increases, the vast majority of which increase at the annual increase in CPI inflation
(b) Extent to which members elect to exchange pension for cash at retirement
(c) Level of future payroll and contribution rates which will determine the amount of contributions paid into the Fund

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing.

This report may be shared with the Fund's independent advisor for information purposes only but may not be passed onto any other third party (such as including in the public part of the Pension Committee & Board's meeting papers) except as required by law or regulatory obligation, without prior written consent of Hymans Robertson LLP.

In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100
- TAS300.

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Thank you

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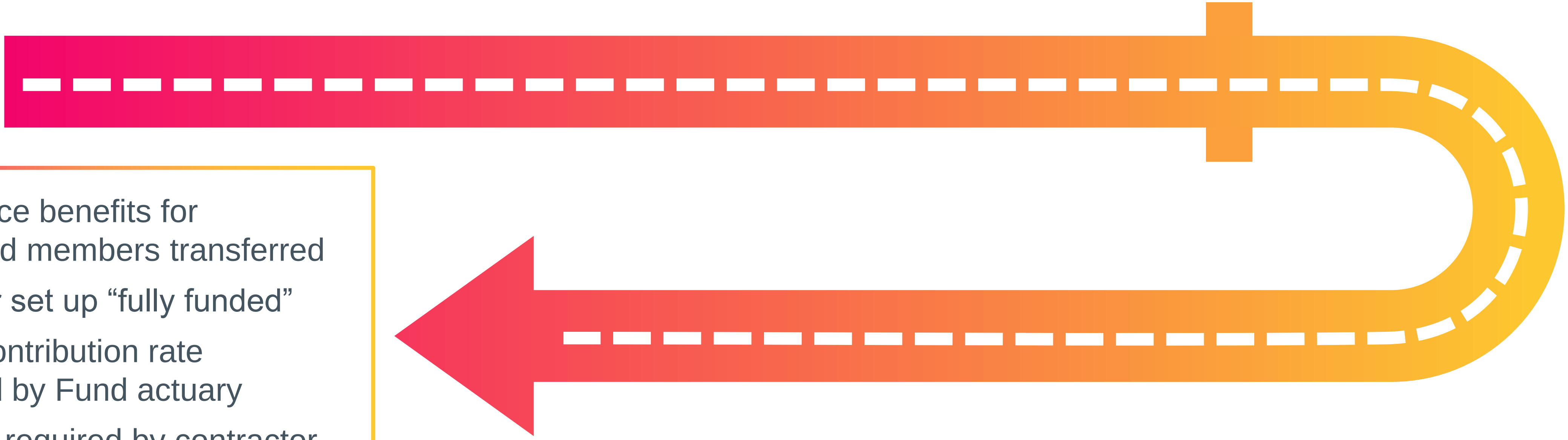
Surrey Pension Fund

Pass through

Steven Scott FFA – Fund Actuary

Current admissions approach



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- past service benefits for outsourced members transferred
- contractor set up “fully funded”
- starting contribution rate calculated by Fund actuary
- indemnity required by contractor

Pension risk passed to contractor during the period of admission

Current admissions approach

Joining the Fund

Periodic review

- contribution rate reviewed and adjusted at every formal valuation
- strain costs met by contractor
- indemnity renewals advised annually
- may have requirement to process accounts annually

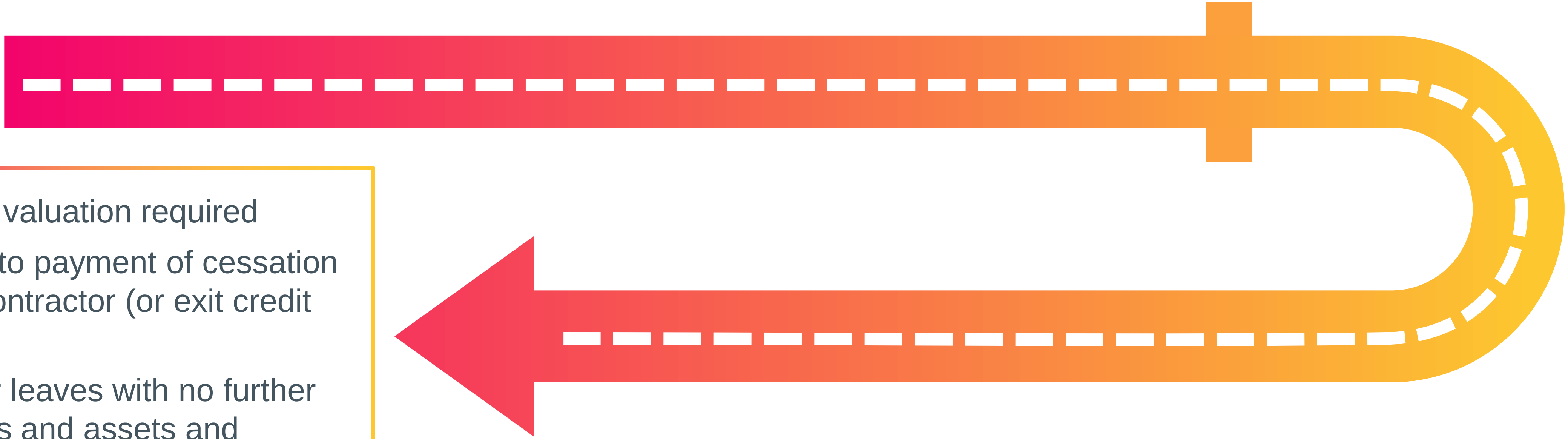
Exiting the Fund

Pension risk passed to contractor during the period of admission

Current admissions approach

Joining the Fund

Periodic review



- cessation valuation required
- may lead to payment of cessation debt by contractor (or exit credit by Fund)
- contractor leaves with no further obligations and assets and liabilities revert to letting authority

Exiting the Fund

Pension risk passed to contractor during the period of admission

Pass-through approach

Joining the Fund

Exiting the Fund

- assets and liabilities retained by letting authority during participation period
- contribution rate equal to primary rate of letting authority
- no indemnity required

- employer meets cost of augmentations, including unreduced ill health retirement (non-ill health)

- no cessation valuation required

Most pension risk retained by letting authority during the period of admission

Benefits of pass-through

Letting authority

- easier to understand pension responsibilities
- avoids exit credits
- negotiate better contract terms
- clearer and more consistent tendering

Contractor

- bears less pension risk
- certainty of contributions
- no potential cessation debt to pay at contract end
- no bond requirement

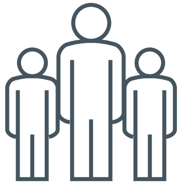
Administering authority

- easier administration
- reduced administrative costs
- reduced time costs

Risks of pass-through

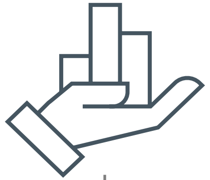
Letting authority

- assets and liabilities remain on accounting balance sheet
- loss of potential cessation debt at contract end



Contractor

- loss of potential exit credit at contract end
- potential for overpaying pension costs during contract



Administering authority

- introduction and maintenance of clear policy
- not mandatory, so benefits may not be realised if traditional admission process followed

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Thank you

Surrey Pension Fund

Policy on pass-through (DRAFT)

Effective date of policy	
Date approved	
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

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1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors into the fund.

1.2 Background

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education (DfE)) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- In the absence of a preferred approach from the letting authority, pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, police & fire authorities, and academy trusts ("the letting authority").
- The contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's primary contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no "exit credit" payment will be made from the Fund to the contractor (or letting authority).
- The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority from time to time. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority future service primary rate, and not affected by the (generally more volatile) changes in past service funding level.

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *		✓
Price inflation/ pension increases that affect past service liabilities	✓	
Price inflation / pension increases that affect future accrual *		✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health) (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund	✓	
Award of additional pension or augmentation		✓

** These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time, and would feed through into the letting authority's primary contribution rate and hence the contractor's contribution rate.*

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

9

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the fund.

- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to the employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Signed admission agreement -** Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the fund. It is the letting authority's responsibility to ensure that the commercial contract reflects the pension arrangements in the admission agreement.

3.7 Cost

The letting authority will be liable to meet any additional costs incurred by the administering authority as a result of any deviation from the fund's standard processes and agreements for pass-through arrangements, which includes (but is not limited to) the actuarial fees. 9

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the fund?"

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **15 DECEMBER 2023**

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

SUBJECT: **COMPANY ENGAGEMENT & VOTING**

SUMMARY OF ISSUE:

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting issues that the Surrey Pension Fund (the 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 (Committee). Also included in this paper are links to the Quarterly Engagement Report from LAPFF and the Active Ownership Reports from Robeco. 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 voting and engagement services to BCPP, so acts in accordance with BCPP's Responsible Investment (RI) Policy, which is reviewed and approved every year by all 11 partner funds within the Pool. 10

RECOMMENDATIONS:

It is recommended that the Committee:

1) Reaffirms that ESG Factors are 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 September 2023 by LAPFF and Robeco through their engagement.

    c) Note the voting by the Fund in the quarter ended 30 September 2023.

REASONS FOR RECOMMENDATIONS

The Fund is required to fulfil its fiduciary duty to protect the value of the Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities in RI 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 field.

2. The Fund has commissioned 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 the Fund's RI and voting policies reflect the most up-to-date standards and that officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS). Minerva operates a customised voting policy template on behalf of the Fund and provides bespoke voting guidance in accordance with the Fund's policies.

3. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) Funds and UK Pension Pools, including BCPP. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies

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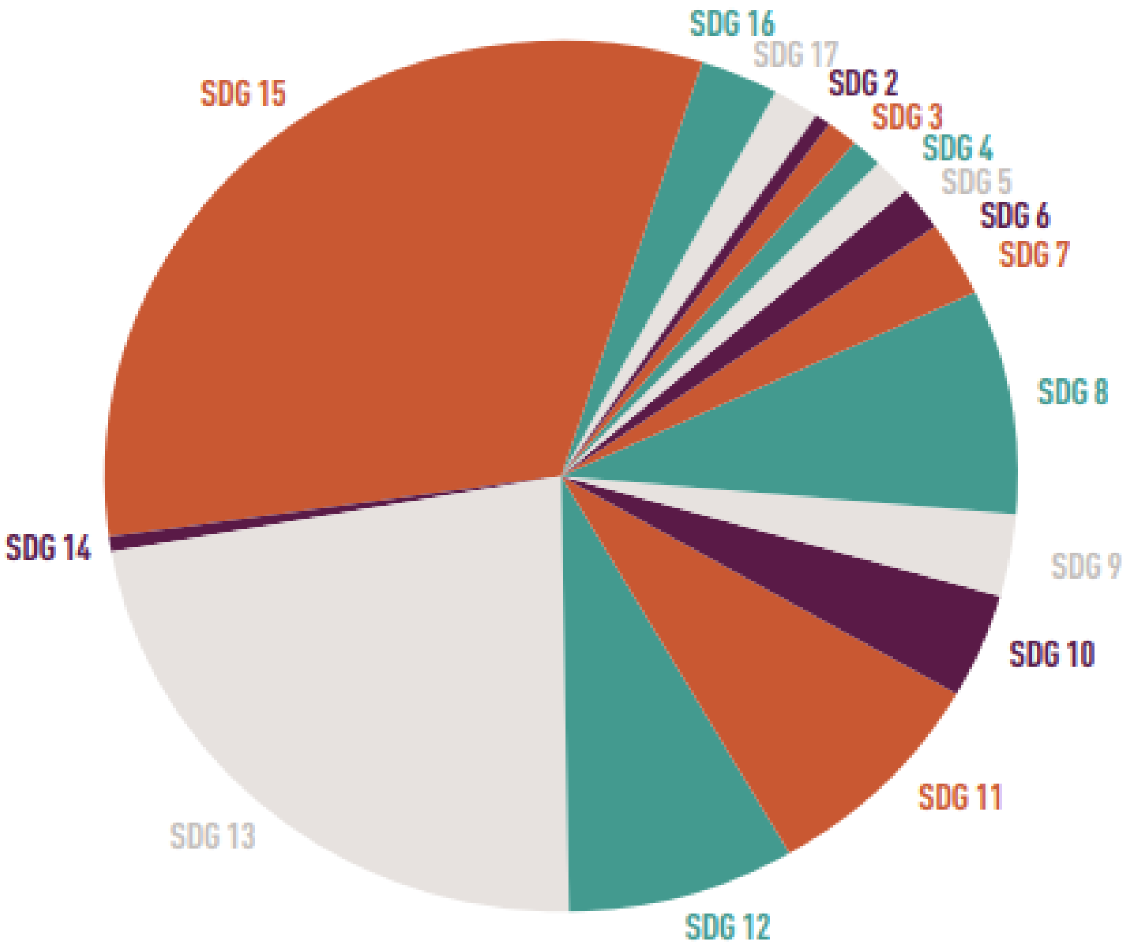
4. BCPP appointed Robeco as its Voting & Engagement provider to implement a set of detailed voting guidelines and ensure votes are executed in accordance with BCPP's Corporate Governance & Voting Guidelines. A proxy voting platform is used with proxy voting recommendations produced for all meetings, managed by Robeco.

LAPFF Engagement

5. The LAPFF Quarterly Engagement Report can be found at the link below. This report details progress on all engagements. Some of the highlights from the quarter ended 30 September 2023 are summarised below.

   LAPFF-QR2.pdf (lapfforum.org)

6. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). The largest category this quarter was SDG 15, Life on Land, which is mainly down to LAPFF signing onto Nature Action 100's letters. More information on this initiative can be found via this link https://www.natureaction100.org/nature-action-100-announces-companies-start-of-investor-engagement-process-to-catalyze-greater-action-on-nature-loss/.



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LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	4
SDG 6: Clean Water and Sanitation	6
SDG 7: Affordable and Clean Energy	9
SDG 8: Decent Work and Economic Growth	27
SDG 9: Industry, Innovation, and Infrastructure	10
SDG 10: Reduced Inequalities	13
SDG 11: Sustainable Cities and Communities	27
SDG12: Responsible Production and Consumption	27
SDG 13: Climate Action	73
SDG 14: Life Below Water	2
SDG 15: Life on Land	106
SDG 16: Peace, Justice, and Strong Institutions	9
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	5

Company Engagements

7. **Climate and Finance:** LAPFF have been engaging with financial institutions for a number of years. This scope widened in 2020 to include 11 insurance companies and their approach to climate change from a strategic perspective. LAPFF's approach is to ask first what companies' impacts are on climate, which aligns with the UN Guiding Principles on Business and Human Rights, calling for companies to assess their impacts on human rights and rights holders before assessing the impact of human rights on their businesses. LAPFF expanded the coverage to include additional insurers of global impact in which LAPFF holds a significant number of shares. It wrote to large global banks and will explore these companies' strategies in relation to natural resources and in line with a growing interest in biodiversity. Achieved: LAPFF has written to 13 global insurers about decarbonisation and natural resources. Four companies have responded so far.

8. **Say on Climate:** UK's Transition Plan Taskforce is developing a 'gold standard' for climate transition plans. Over the past two years, LAPFF has sent letters to the FTSE All-Share companies requesting a vote on climate transition plans. LAPFF has further organised a letter to 35 companies in high-emitting sectors and gained the support of a wider group of investors with 18 signatories representing £1.8 trillion in assets under management. The letter requested a response, which will be tracked. LAPFF will continue to engage with companies about holding a climate transition plan vote.

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9. **Mining and Human Rights:** LAPFF has added Grupo Mexico to the list of mining companies it engages with and met with a representative for the first time this quarter. As with many mining companies, LAPFF's view is there are several processes in place, which appear sound on paper however there is significant work to be done in practice One of the main milestones for LAPFF is how well companies acknowledge and engage with affected workers and communities. Both Anglo American and Vale groups are now in the Principles of Responsible Investment (PRI) Advance initiative, recognising the importance of stakeholder engagement.

10. **Water Companies and Sewage Pollution** Water companies are facing reputational risks and regulatory scrutiny around their environmental performance. There are considerable regulatory risks, not least perceptions and public concern. Further public scrutiny includes financial concerns about Thames Water. Besides the focus of reducing the amount of sewage released into waterways, the other main objective is to ensure risks are addressed and environmental performance improves. LAPFF also sought to ensure companies had credible climate transition plans and progress was being made against them.

11. LAPFF met with Severn Trent, against the backdrop of the problems facing Thames Water. It is ahead of its targets on reducing overflows. Longer-term plans, including capturing emissions from the sewage treatment process. LAPFF also met with the chair of United Utilities who outlined its reduction in the number of overflows and future plans to reduce further, as well as its plans regarding climate adaptation and mitigation. Another meeting was with Northumbrian Water which covered targets to reduce storm overflows, wider environmental performance and climate change ambitions.

12. **Electric Vehicles and Human Rights** LAPFF continues engagement with electric vehicle manufacturers addressing the risks associated with minerals for batteries for

their vehicles. LAPFF met with Volkswagen (VW) and Volvo Group this quarter, both for the first time. Talks with Volkswagen covered the company's overall human rights programme and individual minerals, as well as one of its joint ventures allegedly associated with Uyghur forced labour in Xinjiang. Volvo's high-level human rights programme is lacking compared to its peers, particularly in critical mineral and material supply chains. Despite this lack of transparency, Volvo demonstrated aspirations to improve. New legislation is being enacted worldwide, including European Union (EU) regulations to impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU, extending to supply chains for materials like cobalt, lithium and nickel. Other legislation will require companies to take responsibility for human rights abuses and environmental harm throughout their global value chains.

13. **Biodiversity.** LAPFF has written to financial institutions regarding their role in biodiversity and climate change and are broadening scope t other industries as well. For example, Procter & Gamble and it's supply chain responsibility for forest degradation and Nestlé with a request to discuss plans for regenerative agriculture.

14. Deforestation is becoming an increasingly important topic, particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. LAPFF will monitor how relevant companies incorporate TNFD recommendations and engage those lagging behind on biodiversity and deforestation.

15. **Other company engagements**. LAPFF had various other company engagements through the quarter with Shell, Centrica, National Grid, SSE, Taylor Wimpey and Unilever. The topics included cost of living crisis assistance, connecting clean energy projects to the grid, energy and just transitions. Since LAPFF engagement, Taylor Wimpey has produced a transition plan, which has emission targets covering scopes 1-3 emissions and with a net zero by 2045 commitment.

Collaborative engagements

16. LAPFF works collaboratively with a number of organisations, some of which are listed below. The Farm Animal Investment Risk and Return (FAIRR) initiative is an engagement focusing on working conditions at food producers, mainly in North and South America. The Asia Research Engagement's (ARE) Energy Transition Platform seeks to engage both financial companies and coal-exposed power companies, and LAPFF participated in calls with Mizuho Financial Group, China Construction Bank (CCB), and Huaneng Power during the quarter.

17. Nature Action 100 is a global investor-led engagement initiative led by Ceres and the Institutional Investor Group on Climate Change (IIGCC) which seeks to reverse biodiversity loss and drive nature action. The 30% Club Investor Group expanded its scope to cover racial equity in UK boardrooms and promote gender diversity in global boardrooms. Valuing Water Finance Initiative engages companies with a significant water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.

18. During the quarter LAPFF signed onto the Climate Disclosure Project's (CDP) science-based targets campaign for the third straight year. LAPFF signed onto a letter to the International Sustainability Standards Board (ISSB) requesting that the body 'prioritise researching' human capital and human rights indicators in its work plan.

19. Bank Track has finalised its investor statement and is encouraging signatories to use it as a basis of engagement with banks on human rights. LAPFF is a signatory. LAPFF also met with Ofwat to discuss various issues around capital expenditure, affordability, delivery, resilience and the impact of climate change.

20. LAPFF continues to focus on reliable accounts, given problems with accounting and auditing standards, and extends to climate reporting and decarbonisation. Focus on the Freedom of Information Act requests also continues.

21. LAPFF made a strong response to the Financial Conduct Authority's (FCA) consultation on relaxing the Listing Regime, which was met by equally strong condemnation of the FCA proposals by other large asset owners, including RailPEN. The LAPFF has set up a Capital Markets Working Group.

22. LAPFF hosts fringe events at the political conferences. The focus of this year's meetings was greenwashing. Achieved: Within the quarter, LAPFF held a meeting at the Lib Dem party conference. Meetings at the Conservative and Labour party conferences were planned for the following quarter.

23. LAPFF responded to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights.

Robeco Engagement

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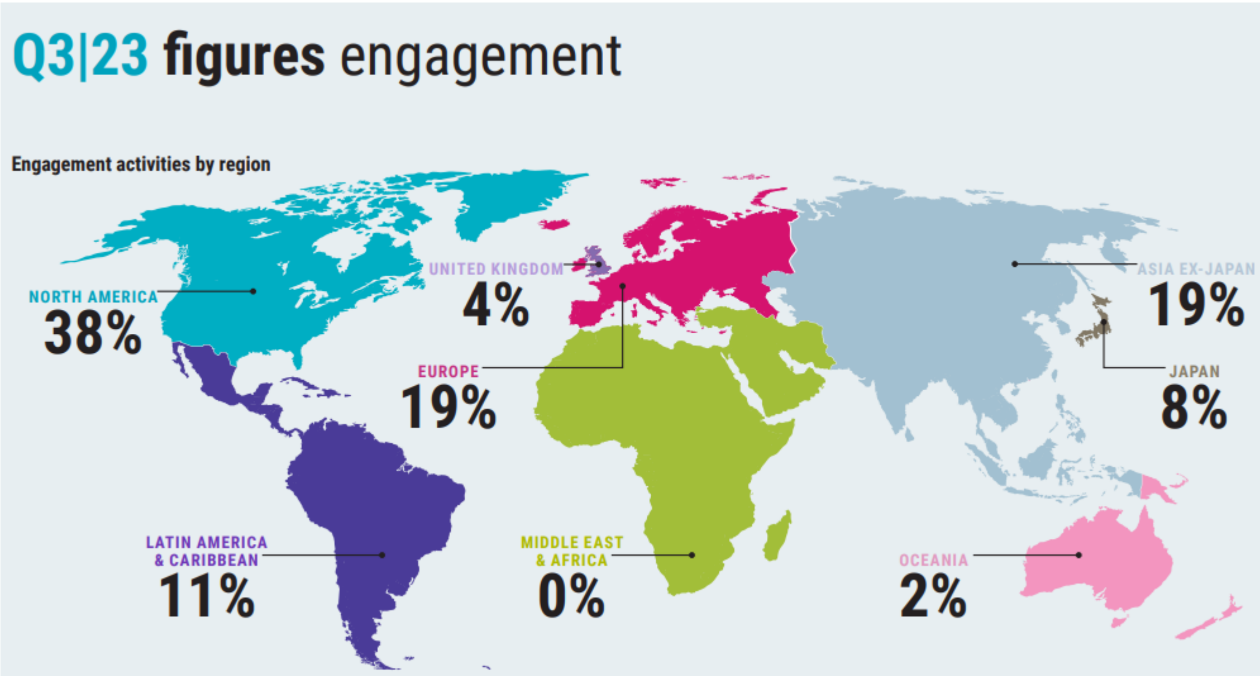
24. In the quarter ended 30 September 2023, Robeco voted at 909 shareholder meetings, voting against at least one agenda item in 68% of cases. The Robeco report can found by following the link below, which also highlights all companies under engagement. Some of the engagements from the quarter are shown in the graphic and described below.

[Border-to-Coast-Public-Engagement-Report-2023-Q3.pdf (bordertocoast.org.uk)]



Just Transition in Emerging Markets

25. This quarter, the theme of Just Transition in Emerging Markets is explored. Climate action should not come at the cost of workers, local communities or other vulnerable stakeholders. This theme will engage companies to define just transition ambitions and strategies, emphasising the need for a fair and inclusive approach to the decarbonization process. Beyond workers, it considers the impacts on all affected stakeholders along the value chain.

26. While the Just Transition is a global challenge, it is especially relevant for emerging markets. Given their strong dependence on high-emitting sectors, they face a significant risk of unsustainable, inequitable development. A Just Transition can reshape economic landscapes, create jobs and advance the SDGs by showcasing a proactive response to climate change and social equity.

27. Various frameworks and initiatives have been established, including the International Labour Organization's Just Transition Guidelines, the UN Guiding Principles for Business and Human Rights, Climate Action 100+ initiative, and the World Benchmark Alliance's Just Transition Methodology. The frameworks helped develop the five engagement objectives.

28. By reallocating capital towards companies with net-zero strategies, investors actively drive the transition to a low-carbon future. Investors can effectively address Just Transition issues through five main avenues: their investment strategies, corporate engagement, capital allocation, advocating for supportive policies, and forming partnerships. Robeco's programme focuses on corporate engagement, acknowledging that all five areas are interlinked and imperative to the Just Transition. 10

29. The rigorous selection process identified targeted companies in the APAC region and South Africa. Once alignment with SDGs 7, 8 and 13 (Affordable & Clean Energy, Decent Work & Economic Growth, and Climate Action respectively) was evaluated and proprietary climate scores were assigned. Six companies were ultimately selected for engagement under the Just Transition theme. The engagement activities are initially focused on the energy and mining sectors due to their stronger decarbonization progress and social relevance for emerging markets.

Corporate Governance in Emerging Markets

30. Robeco's engagement in emerging markets focuses on companies and is bottom-up in nature. There are five broad engagement objectives the most positive progress so far is on the objective of improving disclosures for the capital markets, with the main sub-objective to ask companies to provide or improve 'non-financial' reporting on material issues to improve accountability for results. Another engagement objective is to improve how companies allocate capital by doing it more transparently and effectively.

31. Robeco are active members of the Asian Corporate Governance Association (ACGA) working toward the implementation of effective corporate governance practices AND are particularly active with ACGA in Japan, Hong Kong and South Korea. In a more recent result, the Korea Exchange (KRX) and the Financial Services Commission (FSC) revised the guidelines on mandatory corporate governance, which has expanded to firms listed on the Korea Composite Stock Price Index (KOSPI). Notably, companies must explain to shareholders details on internal transactions with affiliated firms and self-dealings involving management and controlling shareholders..

Sovereign Engagement

32. While in Brazil this year, Robeco met with 5 governmental bodies, the Brazilian Central Bank, and 4 companies. Countries worldwide repeatedly pledge collective action, but progress is often too slow. For the first time in decades, progress made in meeting the UN SDGs, has reversed. Investors in sovereign debt can encourage issuers to safeguard and invest in the environmental services their economies depend on. Partnering with investors may give governments a better understanding of the sustainability-related needs arising from financial markets and how to leverage these to increase access to capital.

33. Robeco's engagement with Brazil aims to support the government on ending deforestation in the Amazon as part of the Investor Policy Dialogue on Deforestation (IPDD) collaboration. Sovereign engagement has since been extended to Indonesia and Australia. The engagements focus on key nature-related SDGs. Talks regarding SDG 15 (Life on land), focused on ending deforestation, are being conducted with Brazil and Indonesia, while the talks with Australia focus on SDG 13 (Climate action).

34. Brazil is home to 60% of the Amazon basin, the world's largest rainforest and land carbon sink, and plays a key role in combating climate change. Traditionally, safeguarding the rainforest has stood in contrast to the Brazil's agricultural sector, representing up to 29% of the country's gross domestic product (GDP). The lack of incentives and financial streams directed towards greater efficiency in agriculture is
10 oftentimes hindering the sector's transition. Deforestation is only now starting to decrease as Brazil works toward eliminating deforestation by 2030. The engagement takes place at many different levels; consulting, local civil society organizations, governmental agencies and even corporates, who can all become important allies in the country's environmental transition.

35. The Brazilian business sector led the initial transition, and pressures to act were only met by the government end of 2021, when the country signed the Glasgow Leaders Declaration on Forests and Land Use at COP26, pledging to halt and reverse forest loss and land degradation by 2030. Yet, progress remained stagnant until the new administration came into force. In April 2023, Robeco and other IPDD members travelled to Brazil to discuss deforestation actions under the new government. The dialogue focuses on finding systematic and socially beneficial solutions to the deforestation challenge. Solutions such as establishing an accessible and reliable national cattle traceability and deforestation monitoring systems would increase efficiency and accountability in the private sector and would ensure compliance with current requirements set forth by the EU Deforestation Directive. Lastly, a centralized traceability system could help the country fight broader criminal activities and tax avoidance, which are often linked to illegal deforestation.

36. Robeco engaged with the Brazilian Central Bank and the Bank of Brazil to explore how to strengthen local sustainable credit markets, pushing the development of clearer taxonomies and verification systems, reflecting the growing demand for green investment vehicles into the real economy. The new elected administration seems to be standing behind its 2022 campaign promises, fostering cross-ministerial collaboration, and increasing budgets for environmental protection and enforcement, however, the anti-environmental lobby remains strong in the Brazilian Congress and parts of the agribusiness sector, leaving budgeting and progress plans open to question. Yet, opposition also creates an opportunity for engagement as it reflects a need for dialogue and the importance of finding mutually beneficial solutions. Overall, a first fall of 34% in deforestation rates having been witnessed during the first half of 2023, and a fresh wind seems to be blowing through the Brazilian rainforest.

Surrey Share Voting

37. The full voting report produced by Minerva is included in Annexe 1. The table below shows the total number of resolutions which the Fund was entitled to vote, along with the number of contentious resolutions voted during the quarter as produced by Minerva.

Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management
Audit & Reporting	7	2	28.6%
Board	24	2	8.3%
Capital	9	0	0%
Political Activity	1	1	100%
Remuneration	4	2	50%
Shareholder Rights	3	2	66.7%
Sustainability	1	0	0%
Other	0	0	0%
Total	49	9	18.4%

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38. The Surrey Pension Fund voted against management on 18.4% of the resolutions for which votes were cast during the quarter ended 30 September 2023. General shareholder dissent stood at 1.9% in the same period.

Shareholder Proposed Resolutions/ Management Resolutions

39. The period under review had a low level of activity regarding resolutions the Surrey Pension Fund was able to vote on. No management-proposed resolutions were voted down by shareholders and there were no resolutions proposed by shareholders.

40. **BCPP Responsible Investment -** Annexes 2, 3 & 4 provide a high-level overview of ESG performance for UK Equity Alpha, Global Equity Alpha and Listed Alternatives using a variety of measurements. The reports highlight specific examples which provide insight into how ESG integration works in practice.

CONSULTATION:

41. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

42. There are risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

43. There are financial and value for money implications.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

44. 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

45. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

46. 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

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

WHAT HAPPENS NEXT

48. The Pension Fund will continue to monitor the progress of the voting and engagement work carried out by BCPP, LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

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Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:

1. Engagement & Voting – Surrey Voting Report (Minerva) Q3 2023
2. Engagement & Voting – BCPP ESG Global Equity Alpha Q3 2023
3. Engagement & Voting – BCPP ESG UK Equity Alpha Q3 2023
4. Engagement & Voting – BCPP ESG Listed Alternatives Q3 2023

MINERVA
ANALYTICS

The Surrey Pension Fund

Voting Report: Q3 2023

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1. VOTING VOLUMES

This section shows the number of Meetings, Meeting Types & Resolutions voted by the Surrey pension fund.

1.1 MEETINGS

Table 1 below shows that Surrey voted at three shareholder meetings during the Quarter under review.

Table 1: Meetings Voted

Region	Meeting Type						
	AGM	Class	Court	EGM	GM	SGM	Total
North America	1	0	0	0	0	0	1
UK & Ireland	2	0	0	0	0	0	2
Total	**3**	**0**	**0**	**0**	**0**	**0**	**3**

In all tables:

10

AGM	The Annual General Meeting of shareholders, normally required by law.
Class	A Class Meeting is held where approval from a specific class of shareholders is required regarding a business item.
Court	A Court Meeting, where shareholders can order an annual meeting or a special meeting from a court or where a meeting is called by a Court of Law to approve a Scheme of Arrangement.
EGM	An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extra-ordinary nature. Such business may require a special quorum or approval level.
GM	A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the company in question.
SGM	A Special General Meeting of shareholders, where a meeting is required to conduct special business. Often business which requires a special quorum or approval level.

1.2 RESOLUTIONS

Table 2 shows the total number of resolutions voted by region, broken down by meeting type.

In the Quarter under review, the fund was eligible to vote on 49 resolutions, with the majority of these in North the UK & Ireland (91.84%).

Table 2: Resolutions Voted

Region	Meeting Type						
	AGM	Class	Court	EGM	GM	SGM	Total
North America	4	0	0	0	0	0	4
UK & Ireland	45	0	0	0	0	0	45
Total	**49**	**0**	**0**	**0**	**0**	**0**	**49**

1.3 MEETINGS BY MONTH

The table below shows Surrey voted at one meeting in July and at two meetings in September during the Quarter.

Table 3: Meetings Voted Per Month

Event	July	August	September	Total
AGM	1	0	2	3
Class	0	0	0	0
Court	0	0	0	0
EGM	0	0	0	0
GM	0	0	0	0
SGM	0	0	0	0
Total	**1**	**0**	**2**	**3**

2. VOTING PATTERNS

This section analyses some patterns of voting by resolution category and voting policy.

2.1 VOTES AGAINST MANAGEMENT

Table 4 shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the Quarter. Surrey voted against management on 18.37% of the resolutions for which votes were cast during 2023 Q3, which is a lower dissent rate than the proportion of resolutions opposed in the previous quarter (2023 Q2: 28,98%, Q1: 23.71%, 2022: Q4: 23.73%, 2022 Q3: 42.86%). Surrey voted on a lower number of resolutions during 2023 Q3 when compared to previous quarters.

Board resolutions accounted for 48.98% of all resolutions voted during the Quarter and 22.22% of the total resolutions voted against management. Surrey voted against two management-proposed director candidates in the Board category.

50% of Remuneration resolutions were voted against management. Surrey voted against all two remuneration report approvals voted on during the Quarter.

One of Surrey's oppositional votes in the Audit & Reporting category was a vote cast against the appointment of an external auditor due to concerns with audit tenure and independence. The remaining oppositional vote concerned the approval of report & accounts due to disclosure concerns.

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Surrey voted against two resolutions in the Shareholder Rights category. The resolutions opposed related to a request from a board for an authority to convene ordinary general meetings (other than AGMs) with a 14-day notice period.

Surrey voted against a resolution seeking authority to make political donations to political parties and incur political expenditure.

Surrey voted in line with management recommendation on all resolutions in the Capital and Sustainability categories.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% Against Management	% All Votes Against Management
Audit & Reporting	7	2	28.57%	22.22%
Board	24	2	8.33%	22.22%
Capital	9	0	0.00%	0.00%
Political Activity	1	1	100.00%	11.11%
Remuneration	4	2	50.00%	22.22%
Shareholder Rights	3	2	66.67%	22.22%
Sustainability	1	0	0.00%	0.00%
Total	**49**	**9**	**18.37%**	**100.00%**

2.2 DISSENT BY RESOLUTION CATEGORY

Table 5 shows the number of resolutions voted by Surrey, broken down by resolution category, along with Surrey's level of dissent and average general shareholder dissent in each category.

Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 1.93%, Surrey opposed management on 18.37% of resolutions.

Resolutions opposed by Surrey received average general shareholder dissent of 3.55%, more than double the level of dissent received on resolutions that Surrey supported (1.56%). This highlights that Surrey has a robust policy which is consistent and aligned with other investors' governance concerns.

Table 5: Dissent by Resolution Category

Resolution Category	Total Resolutions	% Surrey Against Management	Average Shareholder Dissent %
Audit & Reporting	7	28.57%	1.03%
Board	24	8.33%	1.51%
Capital	9	0.00%	1.68%
Political Activity	1	100.00%	1.88%
Remuneration	4	50.00%	4.53%
Shareholder Rights	3	66.67%	2.96%
Sustainability	1	0.00%	7.01%
Total	**49**	**18.37%**	**1.93%**

Poll data was collected for 86.90% of resolutions voted by Surrey during the Quarter.

2.2.1 VOTE OUTCOMES

The UK Corporate Governance Code recommends boards to take action where 20% or more of votes are cast against the board recommendation on a resolution. As such, a shareholder dissent level of 20% is generally considered to be significant. During the Quarter, no resolution received shareholder dissent of 20% or more. This compares to 45 resolutions opposed with high dissent in the previous quarter.

During 2023 Q3, no management-proposed resolution was voted down by shareholders. This compares to one resolution proposed by management that was defeated in 2023 Q2. There were no resolutions proposed by shareholders during 2023 Q3.

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2.3 RESOLUTION TYPES AND SUB-CATEGORIES

2.3.1 SHAREHOLDER PROPOSED RESOLUTIONS

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.

Surrey did not vote on any resolutions proposed by shareholders during the Quarter. This compares to 75 shareholder proposals voted during the previous quarter.

2.3.2 REMUNERATION

Votes against remuneration resolutions in 2023 Q3 reflected the principles advocated in Surrey's voting policy. One distinct concern informed Surrey's remuneration voting during the Quarter:

- **Bonus Cap**: The upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in the two resolutions opposed by the fund.

All remaining concerns featured in only one of the resolutions opposed during the Quarter. These concerns included concerns regarding the independence of the remuneration committee, executive directors' level of share ownership, and the alignment of bonus awards and financial performance.

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Table 6: Remuneration Votes Against Management

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration - Report	2	2	100.00%
Remuneration - Policy (Overall)	1	0	0.00%
Remuneration - Policy (Long-term Incentives)	1	0	0.00%
Total	**4**	**2**	**50.00%**

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

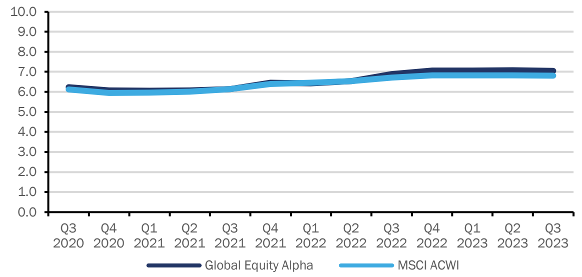
Q3 2023

MSCI ESG RATING

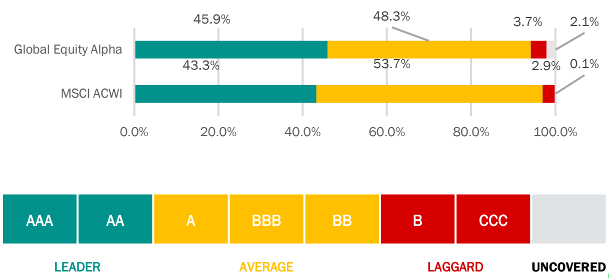
A

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Global Equity Alpha	A [1]	7.1 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.8 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



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Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	**% Relative Weight**	**MSCI Rating**		**% Portfolio Weight**	**% Relative Weight**	**MSCI Rating**
ASML	2.2%	+1.8%	AAA [1]	Meta Platforms	0.5%	-0.6%	CCC [1]
Intuit	1.9%	+1.7%	AAA [1]	Jiangsu Hengli Hydraulic	0.2%	+0.2%	CCC [1]
Microsoft	1.4%	-2.3%	AAA [1]	Shanghai Friendess Electronic Technology	0.1%	+0.1%	CCC [1]
Taiwan Semiconductor	0.6%	+0.6%	AAA [1]	Jollibee Foods	0.1%	+0.1%	CCC [1]
CNH Industrial	0.8%	+0.7%	AAA [1]	Stericycle	0.2%	+0.2%	B [1]

Quarterly ESG Commentary

- The Fund's weighted ESG score was stable over the period and remains above the benchmark.
- There were a large number of upgrades in the quarter including Capital One, Reliance Industries, British American Tobacco and Hargreaves Lansdown. Nanofilm Technologies was upgraded in the quarter from 'CCC', however, over the same period the Fund acquired a position in Shanghai Friendess Electronic Technology ('CCC').

Feature Stock: Meta Platforms

Meta Platforms (Meta), formerly known as Facebook, is a social technology company. It builds applications and technology that help people share with friends and family through mobile devices, personal computers, virtual reality headsets, and wearables worldwide.

Facebook, from its launch in 2004 has had the vision to connect people, and now with apps like Messenger, Instagram and WhatsApp, the Company enables billions to do so. Meta is now moving beyond 2D screens to build more immersive social experiences with augmented and virtual reality. In 2022, Meta had to reduce its workforce, having previously misread the covid-driven surge in online commerce and therefore having invested heavily in talent. The employee layoffs drove the downgrade by MSCI to CCC in December 2022.

The Company is considered to have the most comprehensive understanding of responsible business practices amongst its competitors, recognising the most critical areas for both the Company and all stakeholders. On issues like content, human rights, trust and integrity, and corporate governance, expectations are for Meta to gradually improve on these fronts both organically and due to pressure from regulators. Meta published its first responsible business practices report in July which highlights progress on a number of different fronts.

The Company has been net zero for some years now, and the commitment is to maintain net zero emissions and 100% renewable energy across operations. Progress is also being made towards making further improvements on energy efficiency and positive impact.

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

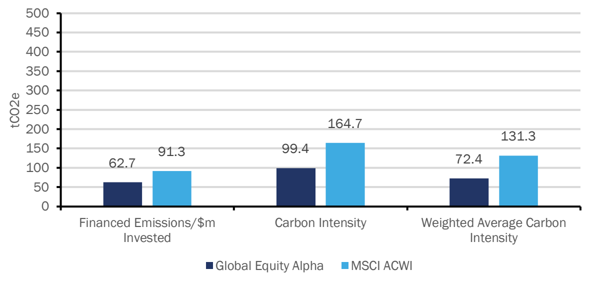
Q3 2023

MSCI ESG RATING

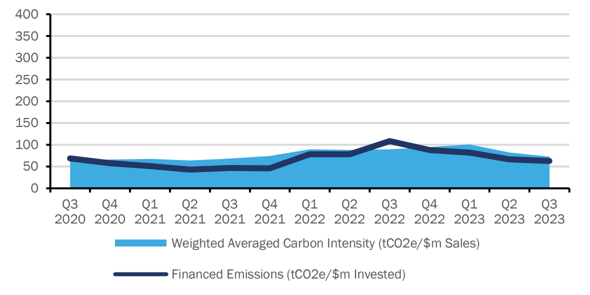
A

PENSIONS PARTNERSHIP

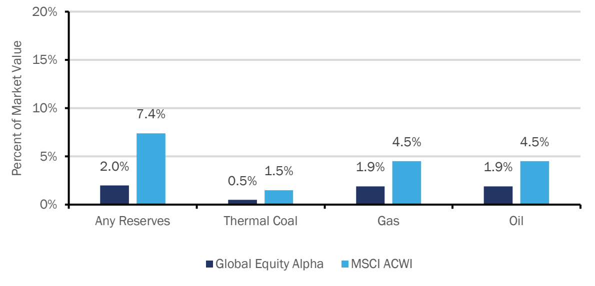
Carbon Emissions and Intensity[1]



Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



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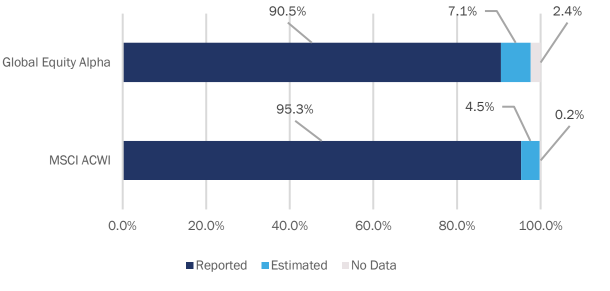
Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]					
	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Heidelberg Materials	0.5%	+0.4%	36.9% [1]	Yes	3
Holcim	0.4%	+0.3%	13.7% [1]	Yes	4
easyJet	0.2%	+0.2%	6.3% [1]	No	3
Southwest Airlines	0.2%	+0.2%	4.6% [1]	No	4
Linde	1.0%	+0.7%	3.5% [1]	Yes	3

Quarterly Carbon Commentary

- The Fund remains materially below the wider index on all metrics, owing to the underweight allocations to some high emitting sectors including oil and gas.
- Heidelberg Materials and Holcim account for around 50% of portfolio financed emissions, down from 62% in Q1 2023. Emissions fell during the period, owing primarily to a lower portfolio weighting in each company (-0.2% combined in the quarter). Due to their involvement in cement production, the carbon metrics of the Fund are highly sensitive to each of these companies' emissions, as well as any fluctuations in their investment value and/or allocation.

Feature Stock: Heidelberg Materials

Heidelberg Materials (Heidelberg) is one of the world's largest building materials companies headquartered in Germany. Its products include cement, ready-mixed concrete, and aggregates.

Amongst a peer group of global listed cement producers, Heidelberg continues to achieve and target ambitious carbon emission reductions, with the largest absolute and relative CO_2 reductions targets to 2030. That accolade is based on CO_2 emissions per tonne of cementitious material produced, which is considered to be the most appropriate metric. Heidelberg continues to make progress, by reducing the CO_2 emissions per tonne of cement, the clinker ratio, and the energy intensity of the product.

For investors in Heidelberg, these leading carbon reduction initiatives place the Company in an advantageous position in terms of profitability and maintaining margins, as carbon prices likely increase, and allowances are used up. Recent analysis highlights that Heidelberg should require the lowest cement price increase to compensate for higher carbon costs over the coming years, compared to peers. In reality, cement will trade at the same price within a given local market; therefore, other producers will need to accept lower margins or rethink decarbonisation plans. This could represent significant margin upside to Heidelberg, as it will have already budgeted for and undertaken the hard work to decarbonise more than peers.

[1]Source: MSCI ESG Research 30/09/2023

Issuers Not Covered [1]		
Reason	ESG (%) 2.1	Carbon (%) 2.4
Company not covered	0.1%	0.4%
Investment Trust/ Funds	2.0%	2.0%

Important Information

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[1]Source: MSCI ESG Research 30/09/2023

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BORDER TO COAST UK LISTED EQUITY ALPHA FUND

ESG & CARBON REPORT

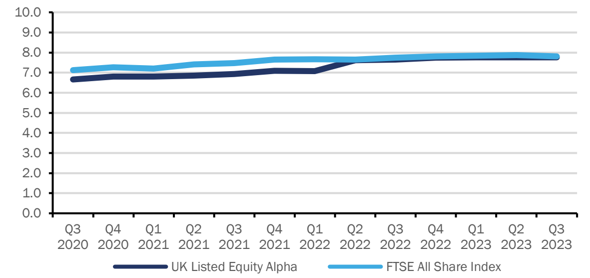
Q3 2023

MSCI ESG RATING

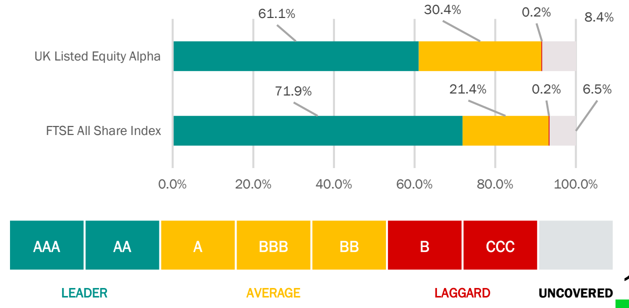
AA

	End of Quarter Position[1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**	(green)	Fund has an equal or better *Weighted ESG Score* than the benchmark.
UK Listed Equity Alpha	AA [1]	7.8 [1]	(amber)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE All Share Index	AA [1]	7.8 [1]	(amber)	(red)	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



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Highest ESG Rated Issuers[1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers[1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Diageo	3.3%	+0.3%	AAA [1]	Young & Cos Brewery	0.1%	+0.1%	B [1]
Burberry	2.8%	+2.5%	AAA [1]	FeverTree Drinks	2.6%	+2.6%	BB [1]
Relx	2.5%	+0.2%	AAA [1]	Lancashire Holdings	0.7%	+0.1%	BB [1]
The Sage Group	2.5%	+2.0%	AAA [1]	Alpha Financial Markets Consulting	0.2%	+0.2%	BB [1]
Unilever	2.3%	-2.2%	AAA [1]	Learning Technologies Group	0.2%	+0.2%	BB [1]

Quarterly ESG Commentary

- The Fund's weighted ESG score was stable over the period and remains marginally below the benchmark, due to its greater allocation to companies rated A-BB. This is driven primarily by an overweight to smaller companies, which are often less mature in their reporting and disclosure practices.
- The Fund's weighted ESG score remained largely flat in the quarter. However, there were a number of upgrades including Aviva, Hargreaves Lansdown and Oxford Nanopore Technologies.

Feature Stock: FeverTree

FeverTree is a beverage company producing soft drinks and premium mixers. Founded in 2004, it has since become the established market leader in the UK. Long-term, structural growth in consumer spending on premium spirits is expected to continue to support the demand for premium mixers, and the relatively underpenetrated US market is expected to underpin growth forecasts,

FeverTree is working on a range of initiatives to support its science-based 2030 target to reduce absolute scope 1 and scope 2 GHG emissions by 50% from a 2018 base year and reduce scope 3 GHG intensity emissions from 2021 onwards. In addition, all products sold in the UK are carbon neutral. However, the Company has not yet put a robust Net Zero pathway in place.

From a governance perspective, although the Company is listed on the Alternative Investment Market, which enables a more relaxed regulatory environment, it chooses to report in line with the more rigorous Financial Reporting Council corporate governance code. In addition, the Company's audit committee has been strengthening its governance framework for the potential growth in scale and complexity of the business. In particular by the creation of an Internal Controls Function and appointment of a Head of Internal Audit.

FeverTree has just marked its tenth year of its partnership with 'Malaria No More UK' to support the fight against malaria in developing countries where it sources its raw ingredients.

[1]Source: MSCI ESG Research 30/09/2023

BORDER TO COAST UK LISTED EQUITY ALPHA FUND

ESG & CARBON REPORT

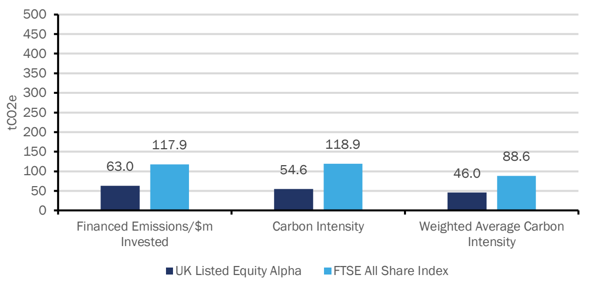
Q3 2023

MSCI ESG RATING

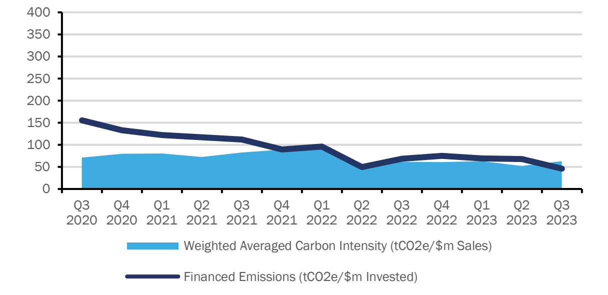
AA

BORDER TO COAST PENSIONS PARTNERSHIP

Carbon Emissions and Intensity[1]



Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]

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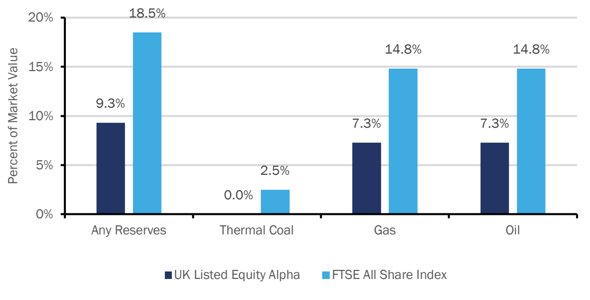
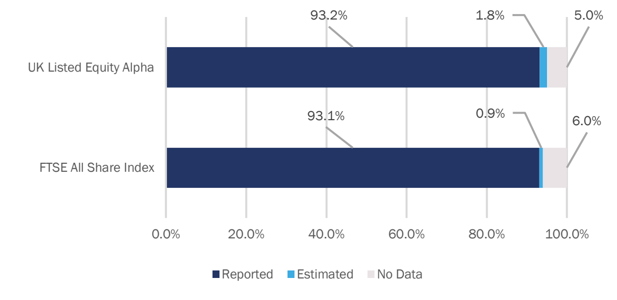


Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]					
	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
easyJet	0.6%	+0.5%	16.3% [1]	No	3
Shell	2.2%	-5.5%	15.8% [1]	Yes	4
BP	2.4%	-1.6%	13.6% [1]	Yes	4*
Centrica	2.3%	+1.9%	7.7% [1]	Yes	4
Anglo American	1.1%	-0.1%	7.2% [1]	Yes	4*

Quarterly Carbon Commentary

- Portfolio financed emissions fell marginally, and carbon intensity metrics increased, both largely in line with the benchmark over the period.
- The Fund remains materially below the wider index on all metrics, owing to the relative underweight allocations to high emitting sectors including materials and energy.

Feature Stock: Anglo American

Anglo is a global mining company with a diversified portfolio of commodities including iron ore, copper, metallurgical coal, platinum-group metals and diamonds. The energy transition will be metals and minerals intensive, and Anglo American's iron ore, copper, manganese and nickel will be particularly important in this transition. The Company is also developing polyhalite (POLY4), a new, organic fertiliser which the Company believes will help feed more people and do less damage to the environment.

In 2021, Anglo spun out its thermal coal assets in South Africa and also exited its joint venture with Glencore in Columbia. It however continues to have a metallurgical coal business, which is the main driver of its scope 1 and 2 carbon emissions. To address these emissions, the Company is working on capturing methane for use in local electricity generation and is studying Ventilation Air Methane technologies to further reduce methane emissions. The Company is increasing its own power generation and entering power purchase agreements for renewable energy, which will reduce scope 2 (particularly in South Africa where grid electricity is dominated by coal powered generation). Within iron ore, there is growth in high-quality iron ore pellet feed, used for low-carbon methods of Direct Reduced Iron, this will help reduce scope 3 emissions from the iron ore business. The Company has set commendable targets for scope 1 and 2, with a -30% target by 2030 and carbon neutrality by 2040, however it does not have a Net Zero target that includes scope 3 emissions. Anglo has received the highest rating from TPI at 4*.

Anglo is currently under engagement via Robeco's "Net Zero Carbon Emissions" Theme. The engagement is expected to run until 2025. In addition, Robeco is the co-lead investor for the Climate Action 100+ engagement with Anglo.

[1]Source: MSCI ESG Research 30/09/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	5.8%	2.4%
Investment Trust/ Funds	2.6%	2.6%

Important Information

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2023

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BORDER TO COAST
LISTED ALTERNATIVES FUND

ESG & CARBON REPORT

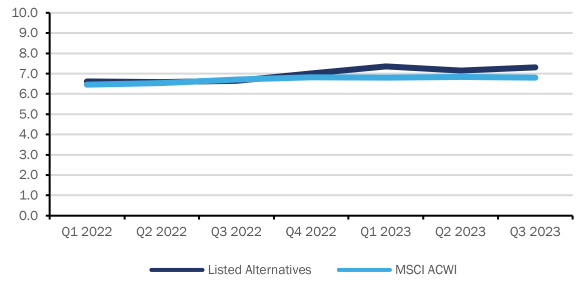
Q3 2023

MSCI ESG RATING

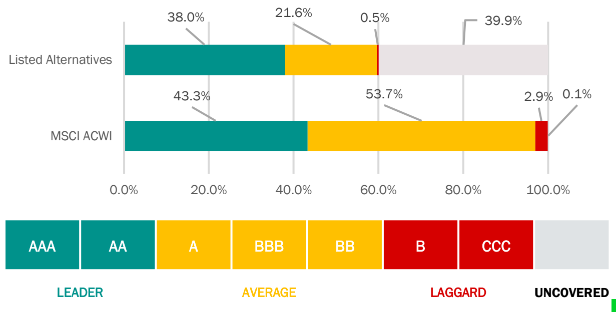
AA

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Listed Alternatives	AA [1]	7.3 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.8 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



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Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Iberdrola	2.6%	+2.5%	AAA [1]	Hercules Capital	0.5%	+0.5%	B [1]
3i Group	1.6%	+1.6%	AAA [1]	VNV Global	0.4%	+0.4%	BB [1]
National Grid	1.2%	+1.1%	AAA [1]	LXI REIT	3.0%	+3.0%	BBB [1]
Transurban	1.1%	+1.1%	AAA [1]	KKR	2.7%	+2.7%	BBB [1]
Orsted A/S	1.1%	+1.1%	AAA [1]	Alexandria Real Estate Equities	2.6%	+2.5%	BBB [1]

Quarterly ESG Commentary

- The ESG Weighted score has remained constant since the fund launched in Q1 2022 and remains above the benchmark for weighted ESG Score.
- There were several upgrades during the quarter including Blackstone Mortgage Trust.

VNV Global

VNV Global is a Swedish-listed holding company that acts as an investment vehicle for venture capital investments. The Company focuses on high-growth, platform-businesses in areas such as online classifieds and future mobility. Key holdings include European ride-sharing app BlaBlaCar and cosmetic bookings platform Booksy.

The main weaknesses in VNV's MSCI ESG Rating are down to its small team size. For example, they are penalised for the lack of a dedicated ESG team and no membership of responsible investing initiatives. As VNV has always had a small, focused investment team generally comprised of less than five people, we are relatively relaxed about this criticism. While membership of additional bodies may be helpful in building their external credibility on ESG, we have no concerns over the portfolio companies or their approach to incorporating ESG issues. In addition, while VNV undoubtedly has risks relating to its reliance on a skilled workforce, it has strong incentive mechanisms in place to retain talent and utilises a flexible scout model to pull in sector-specific resource temporarily for individual projects.

[1]Source: MSCI ESG Research 30/09/2023

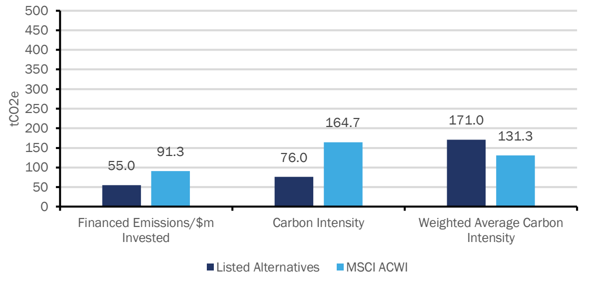
BORDER TO COAST
LISTED ALTERNATIVES FUND

ESG & CARBON REPORT **Q3 2023**

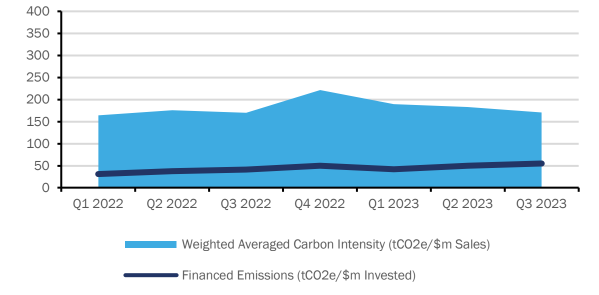
MSCI ESG RATING
AA

BORDER TO COAST PENSIONS PARTNERSHIP

Carbon Emissions and Intensity[1]

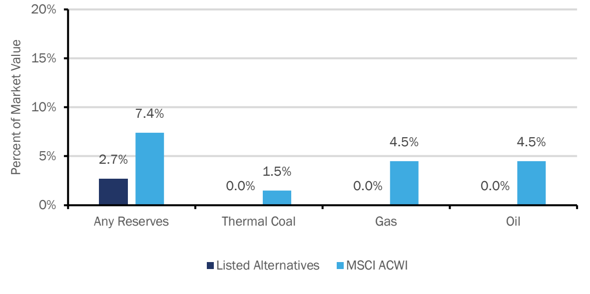


Carbon Trends[1]

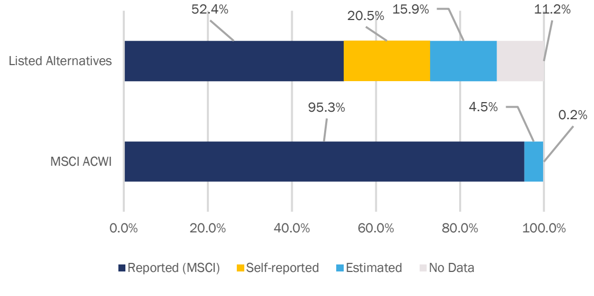


Weight of Holdings Owning Fossil Fuel Reserves[1]

10



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]					
	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Cheniere Energy	3.7%	+3.6%	37.8% [1]	No	2
NextEra Energy	2.7%	+2.5%	15.1% [1]	Yes	3
Iberdrola	2.6%	+2.5%	11.9% [1]	Yes	4
Enbridge	2.5%	+2.4%	8.9% [1]	No	4
Eurazeo SE	1.2%	+1.2%	4.9% [1]	No	N/A

Quarterly Carbon Commentary

- When factoring in company reported data outside of MSCI data the Fund is currently significantly below the benchmark for carbon emissions and carbon intensity.
- WACI decreased slightly in the quarter largely driven by a reduction in portfolio weight of NextEra energy and a lower reported WACI figure for Cheniere Energy.

Enbridge

Enbridge is a Canadian-listed, diversified energy company. Its core business is the operation of multi-national liquids pipelines in the US and Canada. However, it also owns the largest natural gas utility in the US and generates over 5GW of renewable power through wind, solar and other renewables. The Company is a major counterparty to fossil fuel intensive industries, so it is no surprise that on an absolute basis it produces significant carbon emissions. However, when adjusting for its scale, the Company operates efficiently due to its expanding renewables portfolio, efficiency initiatives and the low-intensity nature of the midstream business versus more traditional energy producers in the upstream and downstream sectors.

The Company is recognised as a leader amongst its peers by MSCI and TPI and has clear decarbonisation targets. Moreover, Enbridge has a comprehensive and credible decarbonisation strategy that will gradually transform it into an integrated energy business with a renewable energy focus over time. Midstream is likely to receive less regulatory scrutiny than other parts of the energy industry due to its relatively low relative carbon intensity. Enbridge's market-leading position and clear commitment to managing environment risk helps to mitigate the potential for fines or regulatory risk. We judge the relative risks from carbon exposure to be well-managed and low materiality in comparison to the obvious financial strength of the business and its market positioning.

[1]Source: MSCI ESG Research 30/09/2023

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	30.5%	1.8%
Investment Trust/ Funds	9.4%	9.4%

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[1]Source: MSCI ESG Research 30/09/2023

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

Surrey Pension Team

DATE:	**15 DECEMBER 2023**
LEAD OFFICER:	**ANNA D'ALESSANDRO, DIRECTOR OF FINANCE - CORPORATE AND COMMERCIAL**
SUBJECT:	**ASSET CLASS FOCUS – PRIVATE MARKETS**

SUMMARY OF ISSUE:

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes each quarter. This quarter, the paper concentrates on private markets and the Border to Coast Pensions Partnership (BCPP) Listed Alternatives Fund.

RECOMMENDATIONS:

It is recommended that:

1. The Committee note the Fund's private market holdings and commitments, respective funds' investment performance and review from the Fund's Independent Investment Adviser.

2. Note the Independent Investment Adviser's report on BCPP Listed Alternatives.

REASON FOR RECOMMENDATIONS:

A solid framework of review is required to benefit from this long-term asset category. This is consistent with Fund's strategic investment objectives.

DETAILS:

Background

1. Private markets are investments made in assets not traded on a public exchange or stock market. This includes private equity, investments made in private companies, or private debt, where investors lend directly to borrowers when there is no listed market to trade that debt on. The Fund may distinguish these investments by asset type, for example infrastructure and climate opportunities.

2. Asset owners invest in private markets for a variety of reasons, including targeting superior returns or looking for portfolio diversification. Private markets can offer exposures that are unavailable on listed markets and access to companies throughout their lifecycle. However, fees can be large and opaque and liquidity is significantly reduced.

3. The Fund's significant legacy managers are Darwin Alternative Investment Management, Goldman Sachs Asset Management, abrdn (Standard Life), Pantheon, Capital Dynamics and Glennmont.

4. All the recent commitments have been made through BCPP. The total commitment to BCPP private markets as at 31 March 2023 is £1,185m, including the most recent commitments to Series 2B. The performance objective for private equity is 10%, for both infrastructure and climate opportunities 8%, and private credit 6%.

5. The target asset allocation of the Fund to private markets is 20%. As at 31 March 2023, the actual allocation was 15.1%. Current commitments will move the allocation toward 20%. Future commitments will be necessary to offset future distributions.

6. Given the time lag between commitment and actual investment, an investment in the BCPP Listed Alternatives Fund was made in February 2022 to act as a proxy for private market exposure. As capital is called and commitments are drawn down, this investment is used as a source of funds with the first redemption in December 2022. During the year to 31 March 2023, the Fund divested £110m from Listed Alternatives. There was also some funding from BCPP UK Listed Equity Alpha and LGIM Liquidity Fund. As at 31 March 2023, the investment in Listed Alternatives was 4.8% of the Fund.

7. Given the scale and timing of commitments, management of capital drawdowns is an increasingly significant focus regarding liquidity management.

8. The report on private markets by the Independent Investment Advisor can be found in Annexe 1.

9. The report on Listed Alternatives by the Independent Investment Advisor can be found in Annexe 2.

10. A table showing all the Fund's commitments, investments and returns as at 31 March 2023 can be found in Annexe 3.

CONSULTATION:

11. The Chair of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

12. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. Financial and value for money implications are contained within the report.

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

14. The Director of Corporate Finance & Commercial is satisfied that all material financial and business issues and possibility of risks have been considered, and that private markets have been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

16. The review of the Fund's investment programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

18. The following next steps are planned:

    a. Continued monitoring of private market holdings with a performance review report to be brought to the committee on an annual basis

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Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:
1. Summary report of private investment from the Fund's Independent Investment Advisor – Annexe 1

2. Summary report of Listed Alternatives from the Fund's Independent Investment Advisor – Annexe 2

3. Table of private market investments as at 31 March 2023 – Annexe 3

Sources/background papers:

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Surrey Pension Fund Committee

Private Markets Manager Review Meeting Minutes

November 2023

Attendees

Neil Mason; Assistant Director – LGPS Senior Officer
Lloyd Whitworth; Head of Investment and Stewardship
Anthony Fletcher; Independent Adviser

Background

The purpose of this meeting was to receive an update from the selected Private Equity, Infrastructure and Private Credit managers, on performance and activity over the last year for the Surrey Pension Fund.

To the extent these minutes contain the views of the adviser those views are intended as strategic advice to inform discussions around the strategic asset allocation. They are not intended as investment advice, nor should they be relied on as such.

Preface

The first part of my report covers the Private Markets investments we have with BCPP. These investments represent the post pooling future of how Surrey may seek to invest the majority of its private market's allocation.

The second part will cover the legacy investments Surrey has with various private markets managers. Most of these investments are at the end, or close to the end of their investment period and we should start to see increased realisations that will lead to net positive cash flows to the Surrey Pension Fund.

While it is important to understand how these assets are performing, we are not really in a position to change the allocation or sack one of these managers because of the contractual nature of the investment. It is possible to seek to sell, but in practice this is a very unpalatable experience which is very expensive and time consuming to achieve. It usually leads to the seller having to take a discount to NAV and not receiving a reasonable value on exit. This is also true of the private markets investments we make with BCPP; however, this allocation is still building and the pace of future commitments can be slowed to meet the asset allocation and cashflow needs of the whole Fund.

The reason I am reminding the committee of this, is over the last couple of years the overall value of assets has been stable and the growth rate of the Surrey Pension Fund has slowed. At the same time the cashflow dynamics of the Fund have been impacted by two larger than expected inflation increases to pensions in payment.

The Fund already has contractually committed to invest a total of £1,185 million into the BCPP private markets programme. Should the return of capital from legacy private markets investments slow, or if the value of the Surrey Pension Fund was to fall, or the cash flow dynamics of the whole Fund were to get worse. Then this level of commitments if called in full could distort the Fund's overall asset allocation and the Fund would have no choice but to respond by selling other more liquid assets like equities. This so called "denominator effect" had a significant impact on the asset allocation of closed corporate pension funds last year during the "Gilt Crisis" and continues to have an impact on their ability to manage their strategic asset allocation.

When the Fund is considering its future allocations to the BCPP private markets programme it may be prudent to think carefully about the commitments it has already made and the cashflow dynamics of the Fund.

BCPP

Ian Sandiford; Head of Investment team (Alternatives)
Jessica Wilson; Client Relationship Manager

Mandate summary

Surrey joined the BCPP private markets investment programme in April 2019, thus far Surrey have committed to Series 1 and 2. The total commitment to each series and to the Climate opportunities strategy is set out on table 1 below. The commitments have been phased in this way to ensure "vintage" diversification. Table 2 shows the percentage of the capital allocated by Surrey to each strategy has been invested.

Table 1, Private markets commitments to BCPP strategies in £ millions, September 2023.

Date of commitment	April 2019	April 2020	April 2021	**Series 1 Total**	April 2022	April 2023	**Series 2 total**	Total Commitments
Sleeve	1A	1B	1C		2A	2B		
Private Equity	50	50	50	**150**	50	20	**70**	**220**
Private Credit	100		100	**200**	100	30	**130**	**330**
Infrastructure	100	100	100	**300**	100		**100**	**400**
Climate Opportunities					**235**			**235**
Total Committed Capital across all private market strategies with BCPP								**1,185**

Table 2, Capital Allocated invested by and returned from Managers as a % of Commitments.

Private Equity %								
Commitments	99.7	99.1	100		99.8	45.8		
Invested	78.7	65.9	40.7		9.7	1.6		
Returned	17.5	2.0	0.1		0.0	0.0		

Private Credit %								
Commitments	99.5		99.5		100	23.7		
Invested	73.8		51.3		20.0	0.0		
Returned	14.6		7.8		0.6	0.0		

Infrastructure %								
Commitments	98.7	98.7	100		100			
Invested	72.8	53.4	76.1		31.3			
Returned	16.9	3.0	10.0		0.6			

Climate Opportunities %								
Commitments					71.9			
Invested					22.1			
Returned					0.5			

As of the end of September 2023, BCPP have allocated all of Surrey's committed capital from Series 1 and Series 2A to their appointed Private Market asset managers, 71.9% of the capital available for Climate Opportunities has also been appointed. Thus far the 2B appointments are 23.7% to Private Credit and 45.8% Private Equity.

In money terms Surrey have committed £1,185 million to the BCPP private markets program over the 4 years since it started of which, £533 million has been invested with various managers and £70 million has been realised and returned to Surrey. For asset allocation and cash flow management reasons Surrey reduced its allocations to series 2B, only adding £20million to Private Equity, £30million to Private Credit and no new money to Infrastructure. BCPP will be seeking new subscriptions to series 2C before mid-March 2024, the terms for series 2C are expected to be similar if not the same as those for series 2A&B. In addition, they will be launching and seeking subscriptions for a second Climate Opportunities fund and a new offering called UK Opportunities

The performance objectives, asset class sector and geographic distribution parameters for each investment strategy in series 1 and 2 were similar. The geographic split in all 3 strategies reflects the current investment universe hence the largest weight is to the USA followed by Europe including the UK then Asia and the rest of the world. For Private Equity the primary performance objective is 10% p.a. net of fees, with a secondary PME benchmark of MSCI ACWI + 3%. BCPP will invest in a combination of strategies, characterised as Buyout, Special situations, Growth and Venture. The performance objective for Infrastructure is 8% p.a. net of fees. BCPP will invest in a combination of strategies, characterised as Core, Core plus and Value-add / opportunistic. The performance objective for Private Credit is 6% p.a. net of fees. BCPP will invest in a combination of strategies, predominantly Direct Lending, with smaller allocations to Real Assets, Mezzanine / Speciality and Opportunistic.

The Climate Opportunities strategy is designed to exploit the opportunities provided by the transition to a lower carbon future. It will invest more broadly in operating assets, development assets and new technologies, including agriculture and forestry. Unlike the other strategies in the private markets' series, this fund can invest in private equity, debt and infrastructure, and up to 10% in public listed investments. The regional exposure will most likely be dominated by North America and Europe including the UK, however between 0% and 30% could be invested in the rest of the world. The fund also has a longer commitment period of 3 years and its performance objective is 8% p.a. net.

Investments to date

In general, BCPP have managed to allocate capital across all 4 strategies at a reasonable pace. Private equity deployment has been somewhat slower than expected in Series 2, but the background for this appointment period has been difficult with the Russian invasion of Ukraine and the ramp up in Inflation, Interest rates and bond yields, significantly impacti the flow of investment activity and realisations. Infrastructure, Private Credit and Climate Opps have all experienced deployment rates in line with expectations. About 60% of Surrey's Series 1 committed capital has been invested, while between 10% and 30% of the Series 2 capital has been invested.

Private Equity

Preliminary valuation data to 30th June 2023, produced independently for BCPP for series 1, suggests a net return of 15.2% (ranging between -4.9% and +40.8%) and a TVPI (Total Value to Paid In) of 1.2, (ranging between 0.94 and 2.3).

In series 1 BCPP appointed 25 different GP's. Asset allocation at the strategy level shows Buyout and Venture strategies are in the middle of the permitted range with Special Situations slightly below and Growth strategies slightly above the middle of the expected ranges. In terms of the expected regional distribution, BCPP found GP's offering more attractive opportunities in Europe and Asia than they did in the USA.

BCPP have managed to allocate 100% of series 2A capital to a total of 10 GP's, and for series 2B so far, they have only selected 3 GP's representing 45% of committed capital. The selected GP's in Series 2A&B have been slow to invest, with only 10% of series 2A capital invested and less that 2% of series 2B. In terms of the interim sector allocation, Buyout is at the upper range limit and Europe is at the top of the geographic range, with all other sectors and geographies at or near the bottom of their permitted range. This should be re-balanced as new GP commitments are allocated.

Infrastructure

Preliminary valuation data to 30th June 2023, for series 1, suggests a net return of 9% (ranging between -11% and +31%) and a TVPI of 1.1, (ranging between 0.85 and 2.3).

In Series 1 BCPP appointed 25 different GP's. At the sector level BCPP are around the middle of the expected range of deployment with slightly more Core plus and slightly less Core and Value Add strategies. In terms of the regional distribution, the GP's appointed are expecting to find more opportunities in the USA and fewer in Europe, Asia and the rest of the world.

The Series 2A appointment phase began on 1st April 2022, in total 9 GP's were appointed representing over 99% of Surreys commitment. Surrey decided not to commit any new capital to series 2B. The only change in strategy between series 1 and 2 is the regional allocation where the USA has been increased from 20-40% to 30-50% and Asia has been changed from 10-30% to 0-30%. At the moment with only 31% of committed capital invested, the aggregate series 2 allocation is at the top of its Core plus range and underweight in its allocation to Europe.

Private Credit

Private Credit GP's have returned about 22% of the capital from series 1, preliminary valuation data to 30th June 2023 for series 1 suggests a net return of 9.8% (with a range between 6.3% and 12.6%) and TVPI of 1.1, (ranging between 1.04 and 1.17).

BCPP appointed 12 different GP's for series 1, at the sector level the allocation to Direct lending and Mezzanine was slightly higher than target and slightly lower for Real assets and the Opportunistic debt categories. In terms of the regional distribution, the GP's appointed are finding more opportunities in the USA and Europe, fewer in Asia and the rest of the world.

The Series 2A appointment phase has been completed with the appointment of 4 GP's, who have thus far invested 20% of the money and returned 2.2%. BCPP have found 1 GP for Series 2B and so far, none of the money has been invested. In series 2, the regional allocation to the USA was increased from 30-70% to 40-80% and in Europe from 20-50% to 30-60%, Asia and the rest of the world are unchanged. BCPP have also changed the sector allocations 30-80% for Direct lending to 40-80% and Real assets from 0-50% to 20-50%.

Climate Opportunities

Climate opportunities was not available in series 1 and came about due to Partner fund demand for investing in "Transition Alpha". Partner funds wanted to be able to access not just operationally renewable assets such as power generation but also the companies that were leading the development and rollout of new technologies that will be part of the transition of the "built economy" enabling a resilient and sustainable lower carbon future.

The 3 year commitment phase began on 1st April 2022 and has proceeded faster than expected, at the end of September 2023 BCPP have appointed 10 different GP's representing over 70% of the committed capital and 22% has been invested. In terms of asset mix BCPP have found Operating assets difficult to find at the right price but have now filled the allocation range for Development assets and are mid-range in New Technologies. Regionally the fund currently has a higher allocation to opportunities located in Europe.

BCPP have found that the pipeline of opportunities that are aligned with the Climate Ops strategy has been greater than expected and as a result they have decided to launch a second fund, for which they will be seeking subscriptions before mid-March 2024, the terms for the new fund are likely to be similar to the current offering.

UK Opportunities

In order to help partner funds with commitments to delivering impact in the UK and to accommodate the request from Government for LGPS Funds to consider supporting sustainable, long term development in the UK. BCPP have designed the UK opportunities fund. As the name suggests it will invest solely in the UK and predominantly in investments that will deliver an appropriate risk adjusted return but also deliver measured environmental and /or social impact at the same time. The total return target will be 8% net p.a. and the fund size will be capped at £1 billion. While there will be no regional allocation limits, the fund will have the ambition, but not a commitment to invest some capital within the "BCPP region", however for risk adjusted return and diversification reasons invest within region is not guaranteed. The graphic below gives an idea of the areas of investment the UK Opportunities fund could seek to exploit.

Adviser view

It is too early at this stage to have any investment performance for series 2 and the Climate Ops strategy. The longer running series 1A&B investments appear to have got off to a promising start given the economic conditions of the last three years. The independent valuations of investments in series 1 shows a wide range of outcomes but in aggregate they appear to be broadly in-line with return expectations at launch. I am comfortable that BCPP has a robust process for GP selection and sufficient resources to help Surrey build and maintain an exposure to Private markets that is highly diversified by region, sector and vintage.

Part of the reason for pooling, was to give individual LGPS access to a wider range of asset classes, to improve the investment governance and due diligence band width and to save on fees. Thus far the decision to use BCPP for the investment of Surrey's private market allocation appears to have achieved these objectives. On fees, BCPP have estimated that they have achieved in aggregate, fee savings for all their private markets strategies. However, these fee savings are compared to the industry standard fee rates and not the fees that Surrey may have been able to negotiate on its own or has achieved in the past for some of its legacy investments. Having said that, it is better to focus on the returns that are achieved and then to judge whether Surrey has achieved long term "value for money" from the BCPP private markets investment programme.

Goldman Sachs Asset Management

Mandate summary

Surrey has a very long relationship with GSAM private equity, which started in 2000. Over that time Surrey has invested in 7 different vintage year, Private equity fund of funds, 5 of which have invested in Primary offerings and 2 in Secondary offerings. The last investment was in West Street Infrastructure Partners fund III, which is being managed by Goldman Sachs Merchant Bank. This report covers the 5 remaining investment vehicles in which Surrey has an investment.

Investments - Private Equity

All of the funds have come to the end of their investment phase and are now returning capital. Fund performance has been mixed, as would be expected due to the vintage year. The lowest return on capital invested was achieved by PEP 2004 which delivered 1.5x TVPC and a very low IRR, fortunately, Surrey only committed US$ 10 million to this fund. The secondary market funds, Vintages VI and VII have done rather better, Goldmans reported that as of 30th June 2023 the net ROI was 1.63x and 1.84x, with net IRR's of 12.1% and 14.9% respectively. The final private equity primaries fund investment was made in 2011, PEP XI, this fund has delivered a net ROI of 2.2x and net IRR of 18%.

Adviser view - Private Equity

In aggregate the investment in private equity with GSAM has been made using a highly diversified fund of fund strategy. The variation in the IRR shows the importance of vintage diversification. It can take a long time to get invested and harvest returns therefore the timing of entry and exit from closed end fund structures can be significantly impacted by the business and economic cycle, which will impact the total return.

While average returns have outperformed the Public Market Equivalent (PME) these legacy investments are an expensive route to market with several layers of high fees and charges not just for GSAM but also the underlying fund managers. Surrey is already benefitting from the more cost efficient route to market provided by BCPP, where fees may be lower and probably with an equally robust investment process.

Investments - Infrastructure

West Street Infrastructure Partners (WSIP) fund III, the fund's objective was to invest in a global portfolio of infrastructure investments in a wide range of sectors, where companies have sector expertise and enjoy high barriers to entry for competitors. In total the fund made 10 different investments between January 2016 and December 2020, the fund is now in the process of selling its investments and returning capital to investors. As of the end of June 2023, the fund has sold completely three companies in the US and one partially in Europe. The valuation shows that the net ROI is 1.5x and the net IRR is 9% but this is dependent on reasonable exits from the 6 remaining investments.

Adviser view - Infrastructure

WSIP III is a single fund with a small number of high commitment investments, similar to the Capital Dynamics infrastructure fund, but completely different to the Pantheon Infrastructure, fund of funds approach. As it turns out West Street's due diligence process and a conservative valuation policy, appears to have delivered a better outcome for its investors than Capital Dynamics at this stage. But it should be noted that Pantheon's approach has actually delivered a better net return (see below).

As I mentioned before I believe BCPP should be able to give Surrey cheaper access to this type of infrastructure strategy

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Pantheon Global Infrastructure Fund III

Mandate summary

Surrey appointed Pantheon in 2018 to invest in an Infrastructure "fund of funds"; Pantheon Global Infrastructure Fund III (PGIF III). The committed capital was US$ 60 Million. Pantheon have mainly used secondary market investments, co-investments and a few primary market investments, to achieve full investment of the committed capital.

Investments to date

As of 30th June 2023, of the US$ 60 million committed to Pantheon by Surrey, US$ 53.3 million or 89% has been committed to investments. The NAV of Surrey's investments is US$ 54.5 million, and a further US$ 16.2 million has been returned to Surrey via distributions on the disposal of assets. This means that on the invested capital the fund has delivered a net IRR of 11.5% or 1.33 times, multiple on invested capital (MOIC).

The fund is very well diversified with 56% invested in secondary investment funds and 42% in co-investment funds, with a total of 199 different investee companies. By sector the largest allocation is digital infrastructure at 31%. Transportation 23%, which is evenly distributed between roads, ports, logistics and airports. 19% is invested in renewable energy split between solar and wind, with the largest allocation (11%) in energy efficiency. In terms of geography 50% is invested in Europe, 38% in USA and 11% in Asia Pacific and the rest of the world.

Pantheon confidently expects to deploy over 90% of committed capital in the investment period. In the last year US$ 9 million was drawn and US$ 7.5 million distributed. In the last 12 months to the investment period, Pantheon expect to draw a final US$ 3.7 million and distribute US$ 15.6 million. By June 2024 a little later than originally forecast the fund will become a pure distributor of cash with the majority of the capital returned over the following 4 years.

Adviser view

The fund's investment strategy remains on track to deliver a portfolio of "core and core plus" investments with good diversification by sector. Distributions of US$ 7.5 million in the last year an interim net IRR of 11.5% and an average net multiple of 1.33x as of 30th June 2023 are all reasonable and in line with expectations for this fund, as it comes to the end of its investment period.

When quizzed about fees, Pantheon reminded us that Surrey pays an LGPS aggregate fee of 70bps, plus for secondaries manager fees are between 50 and 90bps, which they said was only about 2/3 the fee charged for primary deals and no manager fees are payable on 95% of the co-investments. But there are performance fees of 10% over the hurdle rate of 8% are on top of these management charges. From year 7 the funds fees will taper lower. Pantheon, have a very good ESG service delivery and promised to have the funds ESG metrics available for Surrey's TCFD report. When asked about the contribution to performance from ESG, they noted that the portfolio companies' de-risk via ESG, but it was not clear that more money was being made by a focus on ESG.

Capital Dynamics

Mandate summary

Surrey has invested into four funds with Capital Dynamics; £8 million each into 3 private equity funds specifically designed for LGPS investors and one infrastructure fund. The private equity funds have a fund of funds structure but with a very low manager selection fee of 0.05% (the fee paid to Capital Dynamics). Surrey's private equity investments have different vintages; 2016/17, 2017/18 and 2018/19. Another feature of the private equity funds is their structure. In order to mitigate the negative performance that can be experienced with many primary only funds, during the investment period (the "J" curve effect). The funds can buy up to 30% of their investments from the secondary market, thereby receiving some distributions immediately, rather than having to wait for distributions from their primary market investments. Surrey has also invested US$25 million into their Clean Energy and Infrastructure Feeder Fund, which invests in renewable energy generation, distribution and storage.

Performance update

Based on the valuations of the funds on 30th June 2023, the net returns are as follows.

Capital Dynamics Funds	Total value / paid in capital	% IRR net
LGPS Private Equity 2016/17	1.7x	15.6
LGPS Private Equity 2017/18	1.6x	18.2
LGPS Private Equity 2018/19	1.4x	20.2
Clean Energy and Infrastructure 2013	0.6x	-5.3

The performance of the private equity funds has been good; across all 3 vintages, the purchase of secondaries has completely mitigated the "J" curve effect with distributions being received from the start. Vintage 2016/17 has drawn down 80%, vintage 2017/18 has drawn 89% and vintage 2018/19 has drawn 71% of Surrey's committed capital. The Clean Energy Infrastructure fund has invested 97% of Surrey's capital.

Investments to date

Private Equity: Each of the private equity funds invests in a wide range of GPs in various geographies with different skill sets in various parts of the market, including special situations, buyout, growth and venture. These GPs then invest into a large number of companies to achieve a diversified portfolio in order to mitigate the risk. As a result, each Capital Dynamics fund could hold over a 1000 different investee companies. The returns shown above demonstrate the value of this diversification, with strong returns against a backdrop of Covid, the Russian invasion of Ukraine and changes in regulations in China. Capital Dynamics reported that CMC capital, one if its GP's in the 16/17 vintage fund has significant exposure to China and they have marked down the value of these investments. They also reported that some of the Investments in vintage 17/18 based in the UK were struggling against a background of higher interest rates, but that these poorer valuations were already reflected in the June 2023 valuation. At the moment there were no impairments to report in the 2018/19 vintage fund.

Infrastructure: The situation, that seemed to be under control in the Clean Energy infrastructure fund has gone from bad to worse. The development, asset management and outlook for the two Texas based wind farms has become significantly worse. One wind farm has experiencing very bad performance with its turbines, which means it has been unable to deliver the contracted supply of electricity. The other is experiencing very poor connectivity to the electricity grid infrastructure and both facilities were negatively impacted by the severe weather events that Texas has experienced in recent years. Capital Dynamics were able to confirm that remedial works were in progress which may recover some of the costs of the projects and that the funds liability had a floor at zero. As a result, this fund is highly unlikely to achieve its target returns despite the relatively good performance of the other investments in the fund.

Adviser view

The Private equity funds provided by Capital Dynamics have delivered very good returns for Surrey, but the performance of the infrastructure fund shows the importance of diversification. The highly diversified nature of the private equity, fund of funds approach, means that Surrey's direct exposure to individual investments is low. Provided there is no systemic event or over concentration in a sector or geography, investment risk can be mitigated. Infrastructure on the other hand, tends to have fewer and much bigger investments, where if one investment goes wrong it can have a significant impact on a portfolio even if the rest of the investments deliver on their expected returns.

While it is Surrey's long term objective to invest more in BCPP over time, should their private equity not deliver the desired performance, Capital Dynamics may on the experience to date, offer an alternative. Their manager selection fees are conquerable to BCPP as are their strong ESG credentials.

Glennmont Clean Energy Fund

Mandate summary

Glennmont Partners Fund III (GPF III) is a single strategy fund that invests directly in renewable infrastructure in Europe, the total fund size is Euro 850 million. At inception the deployment of capital is expected to be 60% to 80% offshore and onshore wind, 15% to 25% solar with the balance in biomass electricity generation. Geographic distribution is targeted to be 20% each in UK and France, and 25% each in Germany and Italy, with the balance in other EU countries. Surrey have committed capital of Euro 45 million to this fund.

Performance update

Based on the valuation of the fund on 30th June 2023, the fund has a net IRR of 6.54% and a TVPI of 1.12x. The distribution yield is running at 7%, higher than expected.

Investments to date

The fund is now fully invested and has delivered its first sale, a wind farm at Goudelancourt in northern France. With the investment phase completed the shape of the actual portfolio of assets can be seen, it is slightly different to expectations at launch but not materially. The fund is well diversified by stage of development, geography and technology. The stage of development split is operational assets 35%, assets under construction 56% and under development 6%. All projects are in the Euro-Area, by country Finland 17%, Germany 21%, Italy 17%, Portugal 7% and Spain 37%. Solar is the dominant source of generation at 43%, onshore wind 34%, offshore wind 21%, and other 2%.

To support the ongoing development and exits from the other projects in the fund Glenmont have increased the size of these teams. They have also appointed PWC and Ernst & Young as valuers to start the process of price discovery. The modelling will use 31st December 2023 as the "valuation date" using the prevailing interest rates and power price forecasts at that time to calculate the NAV. They have outlined a hierarchy of sales but this will be flexible and dependent on the current phase of development and the attractiveness of the bids they receive.

Over the last 18 months, with 56% of the fund in its construction phase, higher costs, have had an impact on profitability. Weaker energy prices, higher interest rates and reduced government support has also depressed valuations. Glenmont pointed out that the price of most of their generation capacity has been contractually agreed and while some of the prices are capped, they are aligned to inflation which will increase the value of future revenues. Glenmont reminded us that the strategy of the fund was to buy and develop clusters of generating assets that have sufficient size that could then be sold on to other investors who want to benefit from a long term inflation aligned cash flow, with low operational and maintenance costs. They expect the range of buyers to be quite diverse including utilities and manufacturers who are looking to replace legacy high carbon generation, Sovereign Wealth and Pension funds for the inflation aligned cash flows, energy distribution companies and even Oil companies, who are emerging as a buyer in order to diversify their businesses.

Adviser view

The management team have done a good job of identifying good locations where they can increase scale to create clusters of operational and development assets with a greater critical mass, and where this can't be achieved to divest assets at reasonable exit values. The past 18 months has been a very difficult period with higher construction costs and increased interest rates having a significant short term impact. However, the inflation aligned nature of the revenues should mitigate this impact over the longer term. From here forward Glenmont will need to focus on getting the full value from the sales of their investments if they are going to deliver the target return. I believe this is going to more difficult and may take longer than expected in the new environment of "normal" interest rates.

Darwin Investments

Mandate summary

Surrey has three similar investments with Darwin. The Darwin Leisure Property Fund (DLPF) which dates back to 2013, initially Surrey invested £20 million in the "D accumulation" units. The second investment with Darwin is in the Darwin Leisure Development Fund (DLDF). Surrey invested £40 million in this fund, and it is now fully drawn down and invested. The third investment was in 2021 where Surrey invested a further £25 million in the DLPF "K accumulation" units.

DLPF buys and operates leisure parks in the UK with a mixture of Camping, Touring caravan and Static holiday caravans / lodges. In this fund the approach has been to use the operational cash flow of the individual leisure parks to upgrade the leisure proposition to the holiday park and campsite sector. By offering better quality and more diverse leisure facilities that will attract an all year round usage, thereby increasing occupancy rates and annual turnover. The long term target return of DLPF is 6% to 8% p.a.

DLDF has a similar business model, but this fund is focusing on locations that may or may not already have a "holiday park" offering. The locations need to have potential for re-development from their current use. The fund can use a modest level gearing to finance acquisition and re-development costs. The long term target return of DLPF is 10% to 14% p.a.

Valuation update

Both funds are valued using a 10 year Discounted Cash Flow methodology, a bit like the method used to estimate future liabilities of pension funds. But unlike a pension fund, where this model is used to estimate the present value of future liabilities, and that results in a decreased liability value as interest rates rise. The impact is the other way round when applied to Assets, e.g. the present value of the leisure parks accommodation units and the value of future rental income from those units, falls when interest rates rise.

Darwin uses an independent valuer to determine the appropriate discount rate that is used to appraise the value

11 of assets. At the Board meeting in July 2023, the Boards of both funds accepted that because interest rates had risen significantly over the previous 2 years and that it was more likely that they would remain high for some time, it would be prudent to accept the valuers higher discount rate and the impact that would have on the present value of the assets in each fund.

This has resulted in significant fall in the value of both funds and this revaluation is responsible for the very poor 12 month performance of the funds reported below.

Performance update

Darwin Leisure Property Fund

In the 12 months to 31st October 2023 the return of the D accumulation units was -30.8%, this write-down is so significant that it has had a marked impact on the longer term returns. Over 5 years the D Shares have now returned -3.8% p.a. however, over 10 year the annualised return is +3.2%.

On the 1st June 2021, Surrey invested a further £25 million in the K accumulation share class. At the end of October 2023, the 12 month performance was -30.3%, which is decline in value of -26.3% since June 2021.

Darwin Leisure Development Fund

In the 12 months to 31st October 2023 the return of the B class accumulation units was -14.8%. The total return over 5 years remains positive but has fallen to +2.5% p.a.

Strategy and Fund update

Darwin remains upbeat on the businesses as an "on-going concern", on the positive side for both funds, occupancy rates and future bookings for rentals remain high. Customer Satisfaction surveys are very positive and both businesses having received a number of Industry awards for quality and service provision. Initiatives to reduce operating costs are expected to improve profitability, including a 2 year fixed price contact for cleaning accommodation units. On the revenue side they have been able to pass on higher costs through higher rental charges and they have increased flexibility of booking periods to increase occupancy and allowed more units to become "pet friendly" which also increases net revenue.

Specifically, for the DLPF revenues are higher as maintenance work at a couple of sites has been completed and sales of lodges which had slowed to zero are now being achieved. In the DLDF a number of re-developments, most notably the high quality Blenheim Palace lodge retreat and the Plas Isaf site in North Wales, have opened for business. Other development projects are also proceeding as planned.

From an operating point of view this is all good news for the businesses as an "on-going concern" and will help Darwin work through the impact of the write down arising from the change in weighted average cost of capital, provided they do not have to sell any assets in order to keep the business going. While there is some leverage in both funds it appears to be in-sufficient to have triggered any Bank funding covenants.

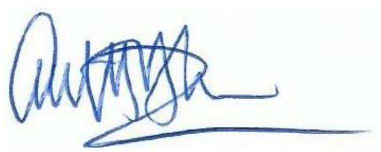
However, the DLPF does have an additional challenge to manage. One of their larger Private Wealth managers has, due to a change of ownership, decided to sell its holding in the fund. In order to manage this liquidation without impacting the remaining investors, Darwin have set up what is referred to as a "side car" portfolio that will hold sufficient assets, that once sold, will meet the redemption requirements. Darwin have already used on balance sheet cash and borrowings from a revolving credit facility to part fund the redemption. However, it will require the sale of some assets, which they view as non-core to the long term running of the business. They have also launched a capital raise where they will issue new "K shares" to new and or existing investors, to help with the process.

Adviser view

I mentioned last year that Darwin was struggling to recover from the impact of Covid on their business model. An extended period of closure for which they were only partly compensated for by government support, the problem with returning, recruitment and retention of staff and higher costs due to inflation and supply side disruption.

The evidence they provided in this and last year's report, on occupancy, customer satisfaction, cost reduction measures and increased revenues, provides support for their optimism that the funds are likely to be able to recover from that period of poor performance and deliver the targeted long-term returns. However, the NAV revaluation and the decision of a major investor to sell their holdings has made that investment performance recovery more difficult to achieve.

I do not believe Surrey should consider seeking to sell this investment at this stage, as this could only be achieved at a significant discount to an already reduced NAV. However, Surrey will need to pay close attention to the ongoing revenues and profitability of the businesses in both funds, so that while we will have to accept a lower level of return in the short term, we may have the reasonable expectation of better performance in the long term. In addition, for DLPF, the result of the capital raise and the sale of assets to meet the redemption are important considerations, in order to make sure as an ongoing investor Surrey are not dis-advantaged.



Anthony Fletcher – Independent Adviser to the Surrey Pension Fund

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MJ HUDSON
Allenbridge

Surrey Pension Fund Committee

Manager Review Meeting Minutes

25th July 2023

11

Attendees

Neil Mason, Assistant Director – LGPS Senior Officer
Lloyd Whitworth - Head of Investment and Stewardship
Mel Butler – Investment Strategy Manager

Anthony Fletcher, Independent Adviser

Background

The purpose of this meeting was to receive an update from BCPP on the performance, activity and outlook for the Listed Alternatives Fund managed on behalf of the Surrey Pension Fund.

BCPP

Mark Lyon – Deputy CIO
Ryan Boothroyd – Portfolio Manager
Milo Kerr – Head of Client Relations

Mandate summary

In February 2022 Surrey invested in the BCPP Listed Alternatives Fund (LAF). The investment objective is to produce a long-term return in line with global equity markets by investing in a diversified portfolio of alternative assets. The Fund aims to generate returns with less volatility and provide investors with a higher level of income than broader equity markets.

Performance

In the 3 months to the end of June 2023 the fund returned +0.22% compared to the benchmark return of +3.26%. Over 12 months the fund delivered -2.2% and the benchmark +11.3%. Since inception in February 2022 the fund has returned -3.6% and the benchmark +4.3%. The funds benchmark is the MSCI All Country World Index.

Surrey's objective

The objective was to have a sufficiently liquid investment vehicle that reflected the performance and risk characteristics of unlisted private market assets such as Private Debt, and Equity and Infrastructure, rather than the pooled diversified growth funds (DGF's) that were owned at the time by Surrey. These DGF's were invested predominantly in listed equity and bond markets. It was understood that there would be "basis risk" between the returns of the LAF and both listed and unlisted assets.

Unlisted assets are often re-valued based on estimates of a change in value, by price discovery ie when they are sold, or valued at purchase cost. Listed Alternatives are priced based on supply and demand and the markets perception of changes in intrinsic value in the same way as listed equity and bond markets. Hence at times of increased uncertainty the price may not properly reflect the real value of the underlying investments and may be more volatile due to their potential lack of liquidity.

Market Background

The period over which we are comparing the performance of the LAF, to the MSCI ACWI has been unfortunate in a number of ways. The inception of the fund was immediately before Russia invaded Ukraine; the resulting shock to global markets caused equity and bond markets to fall in price. Increased food and energy inflation caused central banks to respond with rapid increases interest rates. This has led to a marked increase in bond yields, which was quickly reflected in the value of the assets owned by the LAF but not immediately in the value of the unlisted private market assets the fund was designed to mimic.

In 2023 the underperformance of the fund relative to the MSCI ACWI, has been further influenced by the performance of what are now being called the "magnificent 7"; or what used to be referred to as the "FAANG". The magnificent 7 stocks are Apple, Alphabet, Amazon, Meta, Microsoft, Tesla and Nvidia. Year to date these 7 companies are responsible for almost 95% of the performance of the US stock markets, and because the US represents 65% of the MSCI ACWI, the vast majority of the performance of that global index. If you did not hold these stocks in your US and Global equity portfolio's your performance may have been negative year to date. The LAF would not have been expected to hold these companies even though it chose to have its performance compared to an index that did.

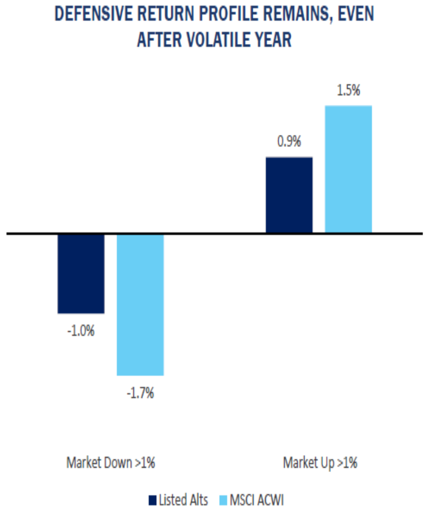
However, there is also a new opportunity for investors, the rise in interest rates and bond yields means that investors do not need to sacrifice liquidity for the higher income offered by less-liquid assets classes, like those that are owned by the LAF. As a result, cash and short maturity bonds may provide a "parking place" for money waiting to be drawn down by Surrey's private market managers.

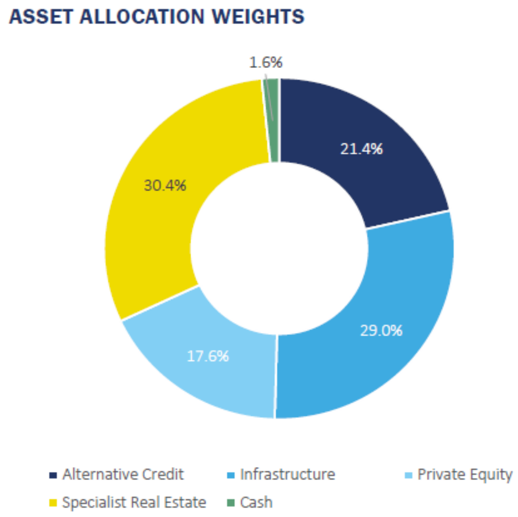
Current positioning

11 The current positioning of the fund is set out below, as can be seen in the left hand table the fund has a higher yield, lower volatility and lower value at risk than global equity. The middle chart seeks to further confirm the fund's defensive characteristics when compared to MSCI ACWI. The right chart shows the funds asset allocation, as can be seen the highest weight is to Specialist Real Estate funds and trusts. While a number of the investment vehicles in this allocation will have underlying assets with "infrastructure and debt like" characteristics, they are still considered by the market as real estate assets.

KEY CHARACTERISTICS VS. GLOBAL EQUITIES

	LISTED ALTERNATIVES	GLOBAL EQUITIES
Positions	50	2,900
Dividend Yield	4.8%	2.1%
Volatility	12.9%	17.1%
Value-at-Risk	28.5%	35.7%





Source BCPP 30th June 2023

Adviser View

To be honest I believe BCPP have been unlucky with the launch of this fund and the market conditions that have led to its performance. I believe they have looked carefully at the experience of the period since inception and presented a reasonable defence of the fund's past and possible future long term performance. The point about the magnificent 7, is my observation against their chosen benchmark.

However, I believe they did not pay enough attention to Surrey's needs for liquidity to fund private market drawdowns, but again maybe they did not anticipate the speed and magnitude of the drawdowns, when compared to historical experience.

Furthermore, I believe that we (the advisers and Surrey) may have compromised too much for the sake of pooling in the design of the fund. At the outset Surrey wanted a fund that mimicked it's private markets allocation, roughly 1/3 private equity, 1/3 private debt and 1/3 Infrastructure. But Surrey accepted the feedback from other partner funds about their needs and BCPP's assertion that there was insufficient market depth and breadth in that allocation, and hence the need to add "real estate assets" with similar characteristics to achieve the desired risk, return and liquidity requirements.

However, Surrey was clear with BCPP that the LAF would be used to fund drawdowns to unlisted private market assets and after that to keep the actual allocation to private markets neutral to the strategic allocation. This message may not have been fully appreciated by BCPP in the portfolio construction.

Anthony Fletcher – Independent Adviser to the Surrey Pension Fund.

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Surrey Pension Team

Providing our customers with a better tomorrow

Annexe 3

Fund Manager	Investment	Vintage Year	Paid in Capital	Outstanding Commitment	Total Commitment	Distributions Received	Fair Value of Remaining Investments	Total Value Distributions + Fair Value	Total Value versus Paid In Capital	Net IRR
As at 31 March 2023			000s	000s	000s	000s	000s	000s		
Sterling Funds										
HG Capital	HG 6	2009	9,374	0	9,374	15,106	127	15,233	1.63	NA
HG Capital	HG7	2013	12,677	184	12,861	25,968	5,449	31,417	2.48	22.00%
Capital Dynamics	LGPS Collective Private Equity Vehicle 2016/2017	2016	6,360	1,640	8,000	3,040	7,784	10,824	1.70	15.60%
Capital Dynamics	LGPS Collective Private Equity Vehicle 2017/2018	2017	6,820	1,180	8,000	880	10,515	11,395	1.67	18.20%
Capital Dynamics	LGPS Collective Private Equity Vehicle 2018/2019	2018	5,280	2,720	8,000	280	7,263	7,543	1.43	20.20%
Living Bridge	LIVING BRIDGE 4 LP (LP2)	2013	11,654	1,400	15,000	22,131	88	22,219	1.91	18%
Living Bridge	LIVINGBRIDGE ENTERPRISE 1 LP (LP5)	2013	7,619	2,381	10,000	10,452	224	10,676	1.40	10%
Darwin Property Management	Darwin Leisure Development Fund	2017	40,000	0	40,000	0	59,940	59,940	1.50	N/A
Darwin Property Management	Darwin Leisure Property Fund	2013	20,000	0	20,000	0	38,340	38,340	1.92	N/A
Darwin Property Management	Darwin Leisure Property Fund	2021	25,000	0	25,000	0	26,010	26,010	1.04	N/A
Border to Coast	Border to Coast Surrey LP Climate Opportunities	2021	29,864	218,968	248,832	464	30,908	31,372	1.05	24.10%
Border to Coast	Border to Coast Surrey LP (Infrastructure 1a)	2019	61,308	38,607	99,915	8,047	68,487	76,534	1.25	13.90%
Border to Coast	Border to Coast Surrey LP (Infrastructure 1b)	2020	45,061	58,223	103,284	2,105	47,939	50,044	1.11	9.40%
Border to Coast	Border to Coast Surrey LP (Infrastructure 1c)	2021	67,358	38,359	105,717	4,892	71,061	75,953	1.13	12.70%
Border to Coast	Border to Coast Surrey LP (Infrastructure 2a)	2022	10,810	89,359	100,169	0	10,328	10,328	0.96	-13.30%
Border to Coast	Border to Coast Surrey LP (Private Credit 1a/b)	2020	66,461	38,310	104,771	6,974	68,286	75,260	1.13	11.50%
Border to Coast	Border to Coast Surrey LP (Private Credit 1c)	2021	41,411	65,246	106,657	3,627	41,327	44,954	1.09	13.10%
Border to Coast	Border to Coast Surrey LP (Private Credit 2a)	2022	14,032	82,019	96,051	1,561	12,078	13,639	0.97	-5.80%
Border to Coast	Border to Coast Surrey LP (Private Credit 2b)	2023	0	30,000	30,000	0	0	0	NA	NA
Border to Coast	Border to Coast Surrey LP (Private Equity 1a)	2018/19	31,976	19,565	51,541	4,717	42,423	47,140	1.47	25.80%
Border to Coast	Border to Coast Surrey LP (Private Equity 1b)	2020	27,621	25,387	53,008	451	31,877	32,328	1.17	15.60%
Border to Coast	Border to Coast Surrey LP (Private Equity 1c)	2021	17,301	37,822	55,123	1	16,975	16,976	0.98	-2.30%
Border to Coast	Border to Coast Surrey LP (Private Equity 2a)	2022	1,624	48,206	49,830	59	1,316	1,375	0.85	-43.90%
Border to Coast	Border to Coast Surrey LP (Private Equity 2b)	2023	0	20,000	20,000	0	0	0	NA	NA
x										
Euro Funds			€	€	€	€	€	€		
SL Capital	ESP 2006	2006	13,894	1,106	15,000	19,012	1,415	20,427	1.47	5.90%
SL Capital	ESP 2008	2008	14,515	485	15,000	20,730	1,722	22,452	1.55	NA
SL Capital	ESP II	2004	9,323	677	10,000	15,346	36	15,382	1.65	12.40%
SL Capital	ESF I	2011	15,585	1,915	17,500	15,395	7,873	23,268	1.49	7.90%
Glennmont Partners	Glennmont Clean Energy Fund Europe III SCSp	2018	32,936	12,064	45,000	4,948	37,969	42,917	1.15	5.59%
x										
Dollar Funds			$	$	$	$	$			
BlackRock	Vesey Street III	2005	15,400	2,100	17,500	20,825	429	21,254	1.38	4.39%
Goldman Sachs	GS PEP 2004 LP	2004	9,799	201	10,000	15,601	151	15,752	1.50	NA
Goldman Sachs	GS PEP XI LP	2011	28,648	11,352	40,000	56,134	23,150	79,284	2.21	18.00%
Goldman Sachs	GS Vintage VI	2013	15,230	4,770	20,000	19,771	4,001	23,772	1.50	1.50%
Goldman Sachs	GS Vintage VII	2016	40,290	9,710	50,000	29,893	35,866	65,759	1.10	15.50%
Goldman Sachs	WS EUROPEAN INFRASTRUCTURE LP	2017	18,034	1,966	20,000	8,480	16,418	24,898	1.38	9.50%
Pantheon	Pantheon Global Infrastructure Fund III	2017	53,300	6,700	60,000	16,200	54,100	70,300	1.32	12.20%
Capital Dynamics	Clean Energy And Infrastructure Feeder	2013	24,100	675	24,775	10,326	4,766	17,016	0.71	-5.44%
SL Capital	SOF I Feeder	2014	17,106	2,894	20,000	23,643	2,327	25,970	1.35	10.20%
SL Capital	SOF II Feeder	2014	11,211	8,789	20,000	26,187	82	26,269	1.32	13.60%
SL Capital	SOF III Feeder	2017	30,633	14,367	45,000	33,165	41,558	74,723	1.70	21.50%
TOTAL (GBP)			**848,680**	**885,218**	**1,735,844**	**387,460**	**789,668**	**1,178,683**		

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **15 DECEMBER 2023**

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

SUBJECT: **RESPONSIBLE INVESTMENT UPDATE**

SUMMARY OF ISSUE:

The Fund's Responsible Investment (RI) policy takes an 'engagement with consequences' approach to responsible investment issues. A key element of this approach is the escalation policy if issues persist. As this engagement is delegated to the investment managers, the Committee asked Border to Coast Pensions Partnership (BCPP) to present some case studies showing this process in action. Investment managers were also asked to provide data showing the underlying exposure to the largest fossil fuel companies and engagement approaches.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Note the engagement case studies presented by BCPP.
2. Note the underlying exposure to the largest 25 fossil fuel companies within the global equity mandates and the engagement approaches by BCPP, Legal & General Investment Management (LGIM) and Newton Investment Management.

REASON FOR RECOMMENDATIONS:

The Committee requested engagement case studies from BCPP, and data related to the exposure to the largest fossil fuel companies within the global equity mandates.

BACKGROUND:

1. The Fund's RI policy has taken an 'engagement with consequences' approach to engaging with companies on RI issues. During 2023, Committee Members asked BCPP to provide case studies of real-world engagement in action.

2. At the September 2023 Committee meeting, officers were asked by the Committee to analyse the Fund's exposure to the largest 25 fossil fuel companies, by turnover, within the global equity mandates and ask the investment managers for comment on engagement.

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DETAILS:

Case Studies

3. In response to the request for engagement case studies, please find four BCPP case studies in Annexe 1.

Largest 25 fossil fuel companies

4. The report in Annexe 2 shows the exposure the Fund has within its global equity mandates to the largest 25 oil related companies globally, by turnover, as at end June 2023. As shown in the table in Annexe 2, all the Fund's global equity mandates have a smaller exposure to these companies than the broad FTSE All-World Index.

5. Each investment manager was asked to comment on engagement and data verification for these companies and the energy sector. Their responses can also be found in Annexe 2.

CONSULTATION:

6. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

7. 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

8. Responsible investment decisions can have an impact on the Fund's risk and return.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL

9. 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

10. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

11. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13. The following next steps are planned:

    a. Application for becoming a signatory to the UK Stewardship Code.

Contact Officer:
Lloyd Whitworth, Head of Investment & Stewardship

Consulted:
Pension Fund Committee Chair

Annexes:
1. BCPP Engagement Case Studies – Annexe 1

2. Comment related to the largest 25 fossil fuel companies – Annexe 2

Sources/background papers:

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BORDER TO COAST ENGAGEMENT AND ESCALATION CASE STUDIES

PENSIONS PARTNERSHIP

Border to Coast's Responsible Investment (RI) strategy has four pillars with stewardship featuring prominently. We practice active ownership, using our voting rights and engage with companies on financially material issues. It is also important to engage with the wider industry, and we engage with policymakers, regulators and standard setters on systemic risks to help create a stable environment to enhance long-term portfolio returns. Collaboration and long-term relationships are an essential element to increase and build our influence.

We believe in leveraging our internal stewardship capabilities, our external engagement provider Robeco, third-party managers and our connections across the industry to improve standards in the companies in which we invest.

Engagement, depending on the issue, can be a longer term process. And even when companies have made changes and commitments, engagement will likely continue, monitoring, challenging and holding companies to account. If, however, engagement does not lead to the desired result, escalation may be necessary. There are many tools available to investors which could involve conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, pre-declaring voting intentions, attending a shareholder meeting in person, and filing/co-filing shareholder resolutions. This isn't necessarily a linear process and in some cases actions can occur simultaneously. If following escalation, the investment case has been fundamentally weakened, the decision may be taken to reduce or sell the company's shares.

While we do not pursue escalation frequently, we have used it where we consider it appropriate as a key part of our broader RI strategy.

EXAMPLE ONE: BORDER TO COAST'S RESPONSIBLE INVESTMENT TEAM VOTING AND ENGAGEMENT: CLIMATE CHANGE AND OIL MAJORS & BANKS

Voting is an integral part of our engagement approach and escalation process. During the 2023 voting season, we introduced and began implementing our strengthened voting policy on climate change for oil majors and banks:

- We introduced voting against the Chair of the Board of oil companies which fail to meet one of the first four indicators of the Climate Action 100+ benchmark, which includes short, medium and long-term emission reduction targets. We will also vote against oil companies scored 3 or lower by the Transition Pathway Initiative (TPI), meaning they have not yet developed a strategic understanding of climate risks and opportunities or integrated this into business strategy and capital expenditure decisions. In the 2023 voting season, we voted against 95% of Oil Major Chairs.
- Alongside voting, Border to Coast will engage oil and gas companies on decarbonisation strategy and capital alignment with net zero goals and will raise concerns regarding the development of new fossil fuel reserves, which are incompatible with limiting global warming to 1.5C.
- We also introduced voting against the Chair of the Sustainability Committee at banks where the company has materially failed indicators of the Transition Pathway Initiative (TPI) framework for the sector. This includes banks that have not sufficiently integrated targets, decarbonisation strategy, or climate policy engagement into their business strategy. This year, we voted against the Chair of the Sustainability Committee at eight banks: Bank of America, Citigroup, Goldman Sachs, Groupe Credit Agricole, JP Morgan, Mitsubishi UFJ, SMBC, and UBS.

SHELL AND BP

Shell and BP are significant contributors to Border to Coast's financed emissions which we are seeking to reduce, to meet our net zero commitments. We determined that both companies have set insufficient medium-term emission reduction targets. We were also concerned about BP's backtracking on its climate targets which were put to a shareholder vote last year, and Shell's failure to meet every indicator of the Climate Action 100+ Net Zero Benchmark for the alignment of capital expenditure with net zero. Border to Coast held meetings with, BP and Shell ahead of the AGMs.

We notified both companies of our voting intentions in advance and advised that we would be voting against the re-election of the board Chairs in line with our strengthened climate voting policy. We also informed them we would be supporting an independent shareholder resolution of a Scope 3 emissions reduction target aligned with the Paris Agreement.

We believe that the low-carbon side of these businesses is integral to the global energy transition, and so it is important that Border to Coast continues engaging these companies as a responsible asset owner.

In April 2023, as part of engagement escalation, we signalled our concern by publicly predeclaring our votes ahead of the AGMs, attracting significant press coverage. Engagement is continuing with Shell and BP in the second half of the year.

EXAMPLE TWO: ENGAGEMENT AND ESCALATION VIA THIRD PARTY VOTING AND ENGAGEMENT SERVICE PROVIDER (ROBECO)

We work in partnership with Robeco, our voting and engagement partner, who engage with companies we own globally. Robeco actively uses its aggregate ownership rights, across its wide client base, to engage with companies in a constructive manner. They believe that engagement with companies contributes to both investment results and society.

Robeco carries out engagements for Border to Coast across around 20 ESG themes including climate change, biodiversity, human rights, diversity, governance and remuneration. Although themes generally run for three years, some themes due to the longer-term nature of the issue are being extended. We input into new themes on an annual basis. In 2023, Robeco adopted two themes driven by our preference: Just Transition and Diversity of Thought. Objectives and milestones are set for each engagement theme, and reporting on progress is provided on an ongoing basis. This allows us to better fulfil our stewardship objectives as an active shareholder in global markets and complements our other engagement approaches.

CLIMATE CHANGE - ESCALATION

As part of Robeco's engagement escalation strategy, in 2023 they filed a shareholder proposal at Berkshire Hathaway which focuses on the oversight of climate-related risks and opportunities. The shareholder resolution focused on the governance and oversight of climate-related risks by the Board. This follows on from progress made by the company earlier in the year, where they clarified the responsibilities of the audit committee to specifically articulate a responsibility for the management of climate-related risks and opportunities. The resolution seeks to better understand how this change is being implemented by the Board. This includes how the company integrates low-carbon assumptions into their reports and accounts. The company is expected to be stress testing its financial performance against low-carbon scenarios, including a 1.5°C scenario. Border to Coast supported the resolution which received around 17% of support from the company's shareholders.

EXAMPLE THREE: ENGAGEMENT AND ESCALATION VIA THIRD PARTY MANAGERS

Border to Coast utilises third-party managers for your following investments:

- Equities - Global Equity Alpha, UK Alpha, EM Alpha
- Fixed income - Multi Asset Credit
- Alternatives - Private Equity, Private Credit, Infrastructure, Climate Opportunities

In the case of utilising external managers, responsible investment is built into our initial selection, appointment and ongoing monitoring of managers.

EXTERNAL EQUITY MANAGERS

Responsible Investment integration starts at manager selection of Border to Coast's externally managed equity and fixed income funds. For every manager, initial due diligence involves a dedicated RI questionnaire, RI team interviews with the manager, and RI-specific scoring criteria. We monitor external managers quarterly in relation to RI and request examples of engagement conducted over the quarter; we also conduct a more extensive review annually. As part of our appointment and annual review process we provide feedback to our external managers on potential areas for improvement with respect to stewardship and RI. We expect managers to engage on financially material ESG issues and with top carbon emitters across portfolios.

ESCALATION ON EXTERNAL MANAGERS RESPONSIBLE INVESTMENT STANDARDS

At times, we must work proactively with the external manager to strengthen their RI approach. The quarterly and annual monitoring of external managers offers a key opportunity for our RI team to recognise possible areas for improvement. During the annual review of a manager, the RI team identified perceived weakness across both integration and stewardship. They downgraded the manager, and this was reported to our Investment Committee. We escalated it with the manager and held further calls to discuss the improvements needed. Following our intervention, we noted a material increase in the quality of the manager's disclosures and we have greater confidence in the integration of ESG factors.

ALTERNATIVES

Responsible investment is incorporated into each step of our private markets manager assessment framework. Our team includes a high-level ESG assessment and RI-specific scoring criteria as part of the initial due diligence. An ESG section is included in the final investment report presented at the Alternative Investments Sub Committee. Quarterly monitoring includes assessment of any ESG incidents, and we carry out an ESG monitoring questionnaire each year as part of our annual review and reporting.

US VENTURE CAPITAL – IMPROVING STANDARDS

Border to Coast will engage with General Partners (GP) where we believe their responsible investment standards and policies require improvement. This was the case when a GP identified an attractive Venture Capital (VC) opportunity for the Private Equity Portfolio. ESG is less well developed in VC, especially in the US. The GP was considering ESG-related criteria during its investment process but had no formalised policy. The Border to Coast Alternatives team engaged with the manager during the diligence process to outline ESG requirements and showcase industry best practice. Consequently, the manager introduced a formalised ESG Policy, and implemented an ESG diligence checklist to use as part of their standard diligence process for all new investments. They appointed a third-party specialist firm to conduct annual ESG training for their full team and added a series of ESG related questions to the annual reporting request issued to all portfolio companies. Border to Coast continues to engage with the manager to support further enhancements to their ESG process and procedures. Where a VC manager fails to collaborate with us, we may consider it appropriate to further escalate our approach. A similar VC manager was rejected for investment due to failing to engage or implement the required RI enhancement.

EXAMPLE FOUR: COLLABORATION

We collaborate with other like-minded investors and organisations to amplify Border to Coast's influence on behalf of our Partner Funds. As a member of the Local Authority Pension Fund Forum (LAPFF) we have added our voice to an influential group of local authority pension funds and pools, to maximise our influence as shareholders. We also look to collaborate with other like-minded investors and bodies. By partnering with other institutional investors, we can have a stronger voice and greater impact when voting and engaging with investments. We recognise that addressing market-wide and systemic risks requires collaborative efforts, and we are committed to engaging with other stakeholders to tackle these issues.

MODERN SLAVERY

Modern slavery is a widespread, criminal activity which has a significant economic impact globally. It is estimated to be a $150bn trade which involves approximately 40.3 million people in some form of slavery. The exploitation of people through forced labour and sexual slavery has been fuelled by a growing number of global migrants in search of prosperity (estimated at 60 million in 2019), more complex supply chains (brought about by globalisation) and weak enforcement by regulators. Section 54 (s54) of the Modern Slavery Act requires companies to publish a statement setting out what steps they have taken to ensure modern slavery is not taking place in their business or supply chains. But it lacks enforcement powers and standards of disclosure are generally low.

In January 2023, Border to Coast joined the 'Votes Against Slavery' initiative led by Rathbones and co-ordinated through the PRI Collaboration Platform. This collaborative engagement aims for radical improvement in supply chain transparency through s54. Failure to comply results in votes against the annual report and accounts. There were 38 companies from the FTSE 350 identified as non-compliant and requiring engagement ahead of AGM season which, if not responsive would lead to collective votes against their annual report and accounts. Of these companies, Border to Coast invested in 12. Following engagement, 11 of the 12 companies owned by Border to Coast have acted to become compliant with s54. The company that was non-compliant remains under engagement and is on our watch list ahead of the AGM in April 2024.

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Annexe 2

Exposure to, and engagement comment on, the largest oil related companies

Exposure

The table below highlights the exposure to the largest oil related companies within the global equity mandates managed by Border to Coast Pensions Partnership, BCPP, Legal and General Investment Management, LGIM, and Newton Investment Management. The companies are ranked by turnover and their weightings within the FTSE All-World Index, a broader index than MSCI, are given as a guide.

Security Name	Turnover £bn	Weighting in FTSE All-World	BCPP	LGIM	Newton
Saudi Aramco	433.0	0.04%	0.02%	0.004%	-
China Pet. & Chemical	398.8	0.03%	-	-	-
Petrochina	386.8	0.03%	0.04%	-	-
Exxon Mobil Corporation	327.8	0.68%	-	-	-
Shell	319.1	0.32%	-	0.156%	1.96%
TotalEnergies SE	214.0	0.20%	-	0.090%	-
BP	206.3	0.16%	-	0.141%	-
Chevron	192.9	0.43%	-	0.122%	-
Valero Energy	144.8	0.07%	-	0.032%	-
Marathon Petroleum	144.8	0.08%	-	0.021%	-
Phillips 66	139.7	0.07%	-	0.012%	-
Equinor ASA	118.1	0.04%	-	0.019%	-
Eni	110.2	0.05%	-	0.021%	-
Petrobras PN	103.0	0.09%	-	0.041%	-
Eneos Holdings	92.1	0.02%	-	0.001%	-
Reliance Industries	91.0	0.16%	0.03%	0.071%	-
Indian Oil	87.1	0.01%	-	0.001%	-
SK	86.6	0.01%	-	0.001%	-
PTT	79.3	0.02%	0.02%	-	-
Oil & Natural Gas Corp.	70.8	0.01%	-	-	-
Repsol	63.2	0.03%	-	0.012%	-
PKN (Polski Koncern Naftowy)	62.9	0.01%	-	0.002%	-
ConocoPhillips	62.8	0.20%	0.81%	0.101%	-
Idemitsu Kosan	58.0	0.01%	-	0.001%	-
SK Innovation	51.4	0.01%	-	0.005%	-
Weight of Largest 25 Companies		2.81%	0.92%	0.85%	1.96%
Total Energy Sector Weight		4.76%	2.25%	1.97%	1.96%

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As can be seen, all the mandates are less exposed to these companies than the broader index. Newton has the highest exposure to the subset of companies shown, but the lowest exposure to the Energy sector in its entirety. All mandates are currently significantly underweight the sector, but this is a snapshot in time and not a requirement from the Fund.

Engagement Commentary

BCPP

All five companies highlighted in the table are under engagement by BCPP, BCPP's third-party managers and/or Robeco (BCPP's engagement provider). A summary of this engagement is in the table below. Also included in the table are links to the independent organisations of Climate Action 100+, CA100+, and Transition Pathway Initiative, TPI. All five companies are under CA100+ coverage and have a TPI rating of 3 or 4.

The TPI is a global initiative led by asset owners and supported by asset managers. It uses a framework to evaluate the quality of companies' management of greenhouse gas emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement.

The TPI currently covers around 1,000 publicly listed companies. Companies' management quality is assessed against a series of indicators, covering issues such as company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration. Based on their performance against the indicators companies are placed on one of six levels:

- Level 0 – Unaware of (or not Acknowledging) climate change as a business issue.
- Level 1 – Acknowledging climate change as a business issue.
- Level 2 – Building capacity.
- Level 3 – Integrated into operational decision-making.
- Level 4 – Strategic assessment.
- Level 5 – Transition Planning and Implementation (Beta).

The following links provide more information on both CA100+ and TPI.

Climate Action 100+

Home - Transition Pathway Initiative

.Security Name	Surrey Holding	Under Engagement (Robeco)	Under Engagement (Border to Coast)	Latest Engagement(s)	CA100+	TPI
Saudi Aramco	Yes	Yes	Yes	Robeco – Net Zero Carbon Emissions / Border to Coast – AGM Letter on climate expectations	Yes	3
PetroChina	Yes	Yes	Yes	Robeco – Environmental Challenges in the O&G Sector / Border to Coast – AGM Letter on climate expectations	Yes	3
Reliance Industries	Yes	Yes	Yes	Robeco – Just Transition in Emerging Markets / Border to Coast – AGM Letter on climate expectations	Yes	3
PTT	Yes	Yes	Yes	Robeco – Net Zero Carbon Emissions / Border to Coast – AGM Letter on climate expectations	Yes	3
ConocoPhillips	Yes	Yes	Yes	Robeco – Environmental Challenges in the O&G Sector / Border to Coast – AGM Letter on climate expectations	Yes	4

The following table explains the engagement themes and approaches being used by BCPP and its partners.

Engagement	**Overview**
Robeco - Net Zero Carbon Emissions	*This engagement Theme focuses on smoothing the decarbonisation journeys for the four key* *emitting industries: oil and gas, electric utilities, steel and cement by encouraging the companies under engagement to take climate change mitigation actions and secure their long-term license to operate. The engagement approach is based on the Climate Action 100+ (CA100+) Net-Zero Company Benchmark Framework.*
Robeco - Just Transition in Emerging Markets	*This engagement will initially focus on the energy (oil & gas and utilities) and mining sectors due to the stronger urgency to decarbonize and their socio-economic relevance for emerging markets.* *A Just Transition is crucial for achieving climate goals in a manner that respects human rights, promotes social equity, supports economic well-being, and fosters global collaboration. It is a comprehensive approach that acknowledges the complexities of transitioning to a sustainable future and aims to make the process as inclusive and positive as possible. It enhances social equity, economic stability, and global cooperation, creating a more inclusive and sustainable pathway towards a net-zero future.*
Robeco - Environmental Challenges in the O&G Sector	*Oil and gas companies are having to reconsider their business strategies as the rise of renewable energy, the promise of energy storage and the potential of electrified transportation. At the same time, tighter environmental and climate change legislation on a global, regional, and national level is and pressure for more concerted climate-policy coordination has increased post Paris COP in 2015.* *As investors, we need to know how the oil & gas companies will deal with these changes in their industry, how they will address the huge risks and how they plan to profit from the opportunities that arise. The engagement objectives are based on the drivers that shape the new energy world. Objectives for companies were around how they will future-proof business strategy, striving for operational carbon-efficiency, assessing asset portfolio resilience, public policy engagement and working on product stewardship.*
Border to Coast – AGM Letter on climate expectations	*Prior to the company's Annual General Meeting (AGM), Border to Coast wrote to the company to explain we would vote against management as they do not fully meet the first four indicators of the Climate Action 100+ Net Zero Benchmark (CA100+ NZB). Therefore, it is determined that the company has set insufficient short, medium and/or long-term emission reduction targets.*

BCPP data verification comments

An independent review of the company's approach to climate change and data has been conducted by CA100+ and the TPI. These are included as links in the table above. 12

LGIM

Below, LGIM report some examples of the engagement they carry out on behalf of the Fund and their approach.

At LGIM, we believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under our Climate Impact Pledge, we publish our minimum expectations for companies in 20 climate-critical sectors. We select roughly 100 companies for 'in-depth' engagement - these companies are influential in their sectors, but in our view are not yet leaders on sustainability; by virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains. Our in-depth engagement is focused on helping companies meet these minimum expectations, and understanding the hurdles they must overcome. For in-depth engagement companies, those which continue to lag our minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).

BP

Rationale:

As one of the largest integrated oil and gas producers in the world, BP has a significant role to play in the global transition to net zero, hence our focus on this company for in-depth engagements. As members of the CA100+ we commit to engaging with a certain number of companies on their focus list and on account of our strong relationship with BP, we lead the CA100+ engagements with them.

What LGIM have done:

We have been engaging with BP on climate change for a number of years, during the course of which we have seen many actions taken regarding climate change mitigation.

BP has made a series of announcements detailing their expansion into clean energy. These include projects to develop solar energy in the US, partnerships with Volkswagen (on fast electric vehicle charging) and Qantas Airways (on reducing emissions in aviation), and winning bids to develop major offshore wind projects in the UK and US. Our recommendation for the oil and gas industry is to primarily focus on reducing its own emissions (and production) in line with global climate targets before considering any potential diversification into clean energy. BP has also announced that it would be reducing its oil and gas output by 40% over the next decade, with a view to reaching net-zero emissions by 2050.

We met with BP several times during 2022. In BP's 2022 AGM, we were pleased to be able to support management's 'Net Zero – from ambition to action' report (Resolution 3). Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP has also expanded its scope 3 targets, committed to a substantial decline in oil and gas production, and announced an increase in capital expenditure to low-carbon growth segments.

Next Steps:

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We will continue engaging with BP on climate change, strategy and related governance topics. Following the company's decision to revise their oil production targets, we met with the company several times in early 2023 to discuss our concerns. In their 2023 AGM, we voted against the re-election of the Chair; given the revision of the company's oil production targets, shareholders expect to be given the opportunity to vote on the company's amended climate transition strategy at the 2023 AGM. Additionally, we note concerns around the governance processes leading to the decision to implement such amendments. We will continue to engage with the company.

Exxon Mobil (currently on the divestment list, but engagement continues)

Rationale:

As one of the world's largest public oil and gas companies, we believe that Exxon Mobil's climate policies, actions, disclosures and net zero transition plans have the potential for significant influence across the industry as a whole, and particularly in the US.

What LGIM have done:

We have been engaging with Exxon Mobil since 2016 and they have, over time, participated willingly in our discussions and meetings. Under our Climate Impact Pledge, we identified a number of initial areas for concerns, namely: lack of Scope 3 emissions disclosures (embedded in sold products); lack of integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities.

Our regular engagements with Exxon Mobil have focused on our minimum expectations under the Climate Impact Pledge. The improvements made have not so far been sufficient in our opinion, which has resulted in escalations. The first escalation was to vote against the re-election of the Chair, from 2019, in line with our Climate Impact Pledge sanctions. Subsequently, in the absence of further improvements, we placed Exxon Mobil on our Climate Impact Pledge divestment list (for applicable LGIM funds) in 2021, as we considered the steps taken by the company so far to be insufficient for a firm of its scale and stature. Nevertheless, our engagement with the company continues. In terms of further voting activity, in 2022 we supported two climate-related shareholder resolutions (i.e. voted against management recommendation) at Exxon's AGM, reflecting our continued wish for the company to take sufficient action on climate change in line with our minimum expectations.

Next Steps:

Since 2021, we have seen notable improvements from Exxon Mobil regarding our key engagement requests, including disclosure of Scope 3 emissions, a 'net zero by 2050' commitment (for Scopes 1 and 2 emissions), the setting of interim operational emissions reduction targets, and improved disclosure of lobbying activities. However, there are still key areas where we require further improvements, including inclusion of Scope 3 emissions in their targets, and improving the level of ambition regarding interim targets. We are also seeking further transparency on their lobbying activities.

The company remains on our divestment list (for relevant funds), but our engagement with them continues. Further escalating our engagement, LGIMA and Christian Brothers Investment Services, CBIS, co-filed a shareholder resolution at Exxon's 2023 AGM, requesting the company to disclose the quantitative impact of the International Energy Agency Net Zero Emissions, IEA NZ, scenario on all asset retirement obligations, AROs. The proposal was centred around disclosure and seeking greater insight into the potential costs associated with the decommissioning of Exxon's assets in the event of an accelerated energy transition. We believe this is a fundamental level of information for the company's shareholders, in light of growing investor concerns about AROs in a carbon constrained future, and that it is financially material information. The proposal received over 16% support from shareholders which, although lower than we would have liked, demonstrates an increasing recognition of the importance of this issue for investors. In terms of our next steps, we will continue our direct engagements with the company under our Climate Impact Pledge and separately, to better understand and challenge Exxon on their approach to the energy transition, where financial material issues such as disclosure of the potential costs to retire their long-lived assets and decarbonization levers being some of the key discussion points. We will also be engaging with proxy advisors and fellow investors to better understand their voting rationale.

Further details on our Climate Impact Pledge and our ESG scoring methodology can be found at the links below. In addition, further case studies and engagement examples can be found within our Active Ownership Reports and Quarterly ESG Impact reports, available online.

Climate Impact Pledge scores and ESG Scores

LGIM data verification comments

When engaging with companies, we are alert to the fact that climate disclosures are not as regulated, or subject to the same audit and assurance requirements as financial disclosures. We use a number of tools to assess the information provided by companies:

Data and assessment: our data providers track the participation of companies in credible sustainability initiatives and their external certifications. When companies announce emissions targets, we don't just take their word for it –we compare targets against our own modelling of how fast emissions need to fall in each sector to meet global climate goals, and we also look at companies' past emissions performance. We also use data that scores companies' lobbying activities –to make sure what companies say publicly is consistent with what they tell governments privately.

Engagement: the stewardship and investment teams have decades' worth of experience in engaging with companies and challenging the statements (and numbers) issued by their management. In addition to the expertise of the 24-person stewardship team, LGIM has established Global Research and Engagement Groups bringing together industry specialists from our Investments, Real Assets and Investment Stewardship teams in working groups to assess the evolving materiality of climate and ESG factors across different sectors, from energy to consumer goods. Climate change has been a key area of focus since the inception of the groups.

Newton

As reported in the TCFD, the Newton mandate has the lowest carbon footprint and intensity in the Fund.

Comments from Newton on Shell

Against a background where Newton favours "engagement over automatic exclusion" of companies and where we have published our approach to achieving 'net zero', Shell is one of our company-specific engagement priorities. We have already held a series of engagement meetings with senior management this year. The primary objective of these discussions has been to encourage Shell to set out a clear, credible and achievable energy transition plan that they can implement and control.

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These discussions have included our direction to the management that their transition strategy should include absolute Scope 3 emission reduction targets. Other ground has been covered in these interactions. For example, they also need to be profiling investment in clean energy, disclosure on clean alternatives and planned investment therein. There is an acceptance that the transition strategy for emerging market economies will need to be different from the US, UK, Europe and an explanation thereof. Other factors that they should outline are plans around staff re-training/upskilling, job security, employee satisfaction surveys and suchlike. Our understanding is that they will be announcing their new climate transition plan towards end-Q1/early-Q2 2024.

Against a backdrop of open and regular dialogue from both parties, we are now getting a clearer understanding of their plans and there is a better understanding of our expectations around these important issues. These factors are incorporated in our overall assessment of the investment case.

Newton data verification comments

Regarding data quality, we have a data team that sits within our Responsible Investment team so this is something that we monitor and assess as part of our research into the investment case. As such, while we will tap into various sources, our own oversight on climate-related matters includes a combination of engagement plus ‘evidence’ (i.e. what they have done in the past and are planning to do, financial commitments already made, management incentives linked to climate factors/GHGs, key financial and business metrics around GHGs, internal policies, changes to products and services etc.).

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITEE

DATE: **15 DECEMBER 2023**

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

SUBJECT: **LGPS UPDATE (BACKGROUND PAPER)**

SUMMARY OF ISSUE:

This report considers recent developments in the Local Government Pension Scheme (LGPS).

RECOMMENDATIONS:

The Pension Fund Committee (Committee) is asked to note the content of this report.

REASON FOR RECOMMENDATIONS:

The report provides background information for the Committee.

DETAILS:

Highlights

1	**McCloud regulations laid**	The LGPS regulations to implement the McCloud remedy have now been laid and effective from 1 October 2023. More information on McCloud in paragraphs 11 to 17, 33, 34 and 36.
2	**Investments and Climate Related Financial Disclosures highlighted**	Scheme Advisory Board (SAB) responds to Department for Levelling Up, Housing and Communities (DLUHC) consultation on next steps for LGPS investing. In addition, the Local Government Association (LGA) publish a technical brief and submit written evidence to a Bill which will extend to LGPS investment decisions. More information can be found in paragraphs 9, 10, 18 and 19.
3	**All factors received following Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate change**	Following change to the SCAPE discount rate, all batches of actuarial factors have been received. More information can be found in paragraphs 4, 15 and 16.

LGPS updates

4. Following the change on 30 March 2023 to the SCAPE rate, the final batch of factors were issued on 2 October and are for Club transfers in and out, purchase of additional pension, conversion of Additional Voluntary Contributions (AVCs) transfer credits, conversion of AVCs to provide additional pension and purchase of additional survivor

benefits. For members who are purchasing additional pension or additional survivor benefits under a contract which began before the revised factors came into effect (2 October), and the contract is due to expire after March 2024, will need to be contacted to advise of the change in factors and recalculated contributions will be collected from 1 April 2024 onwards, in line with the new factors.

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5. The DLUHC have published the LGPS statistics for England and Wales: 2022 to 2023.

6. The LGA have published free and interactive bite-size training on ill health retirement for employers.

7. The LGA have published employer and member frequently asked questions (FAQs) about strike action for LGPS members.

8. Booking is now open for the LGPS Governance Conference 2024. The conference will take place on 18 and 19 January 2024 in York and can be attended in person or online. The conference is aimed at Councillors and others who attend pension committee/panels and local pension boards.

9. On 22 November DLUHC published its response to the consultation LGPS:Next steps on investments, confirming they will proceed with the proposed reforms relating to investments of the LGPS.

10. On the same day the Chancellor announced in the Autumn Statement:

    - Establishing a deadline for the accelerated consolidation of LGPS assets into pools.
    - Progression of reforms set out at Mansion House, to improve pension savers' returns and boost growth in the UK.
    - The Lifetime Allowance (LTA) will be removed from 6 April 2024 through legislation in the Autumn Finance Bill.
    - The triple lock will remain in place for State Pensions.

McCloud

11. The DLUHC announced the outcome of the consultation on supplementary McCloud issues and draft regulations on 8 September. On the same day The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 were laid and took effect from 1 October. These regulations implement the McCloud remedy and amend the statutory LGPS underpin rules, ensuring younger members are also afforded protection, by removing the age discrimination and ensuring the underpin now works effectively and in line with the government's policy intent, following the McCloud judgement and the government's acceptance, that the discrimination found by the Court of Appeal, applied to all public service pension schemes.

12. To qualify for underpin protection members must meet the following criteria:

    - Been a member of the LGPS or another public service pension scheme (PSPS) on or before 31 March 2012 (the former PSPS benefits do not have to have been transferred to the LGPS) and,
    - Provided they do not have a subsequent continuous gap in membership of a PSPS of more than 5 years and,

- Contributed to the LGPS at some point during the remedy period (1 April 2014 and 31 March 2022), or transferred in PSPS membership where the member contributed to the scheme during the remedy period and,
- Were under age 65 during some, or all, of the remedy period.

13. The DLUHC have, or are: 13

- Published a new version of the McCloud member factsheet, which reflects the final regulations.
- Issued a McCloud initial prioritisation policy, with a final version being issued early next year.
- In the process of setting up an implementation group to decide what other statutory guidance is required.

14. The LGA have, or are:

- Published the first instalment of a McCloud technical guide for administrators.
- Published a member factsheet.
- Will be hosting McCloud online surgeries, as well as in person breakout session at the Pension Managers' Conference in Torquay.
- Created a new area in the member website dedicated to McCloud, which includes an interactive 'Am I affected?' tool, examples and frequently asked questions.
- In conjunction with the Communications Working Group, produced initial template paragraphs for member correspondence, together with an article to inform members about the changes which must be issued to all members who may be affected by 31 December 2023.

15. The Government Actuary's Department (GAD) are updating actuarial guidance to reflect the changes, which will be published by DLUHC as soon as it is available. As a result, for those who qualify for the underpin protection, the calculation of a transfer out will be different from 1 October 2023 and as the GAD guidance has not yet been issued, those transfers must be put on hold. The DLUHC have confirmed that payments to other LGPS Funds may continue for affected members and the payment will not need to be revisited once the updated guidance has been issued, but the expectation is data sent should include the relevant information necessary to perform underpin calculations.

16. The Club Memorandum, used for calculating transfers between public service pension schemes, has also been updated to reflect the changes following the McCloud remedy, as well as the SCAPE rate review.

17. Further regulations will be needed to implement the remedy, primarily for excess teacher service and it is expected DLUHC will publish a consultation on these changes in 2024.

Scheme Advisory Board (SAB)

18. The SAB published a statement setting out some key principles that will form the basis of its response to the DLUHC consultation on LGPS: Next steps on investments, which closed on 2 October. The SAB also submitted their full response to the consultation on 2 October.

19. The LGA submitted written evidence on The Economic Activity of Public Bodies (Overseas Matters) Bill (also known as the Boycotts, Divestments and Sanctions Bill) to the Public Bill Committee. The Scottish Scheme Advisory Board also sent a letter to the Committee about the Bill expressing concerns.

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20. The SAB have published its 2022 Scheme valuation report, which is compiled from data from local fund valuation reports. This shows an improvement in the average funding levels since 2019.

21. The SAB have set up a small working group to look at the issues presented by the improving funding position across the Scheme. For example:

    - What impact could/should being in surplus have on employer contributions.
    - When is it appropriate to set a negative secondary contribution.
    - What impact could/should being in surplus have on investment and funding strategies.
    - How best to communicate being in a surplus position to employers and member representatives.

22. The Board is considering its own cost control mechanism and the assumptions on which the process is based. This follows changes made to HM Treasury's mechanism after a review by the Government Actuary and public consultation.

23. The SAB have published guidance on academy conversions.

24. The SAB gave an update via LGPS-Live website on 6 December 2023 as well as discussing along with a panel, investment strategies for different employers and the key investment questions of the day for LGPS investors. Other recent topics include governance issues and best practice in keeping pension board and committee's knowledge and skills up to date, McCloud, audit issues and the gender pensions gap. The LGPS-Live website has recordings of previous webinars, together with registering for future webinars.

Pensions Dashboard Programme (PDP)

25. The PDP continue to update and launch new resources along with a newsletter in August.

26. The PDP published an article on 13 September 2023, reiterating why dashboards are needed.

27. The PDP have published a blog addressing some common dashboard questions.

28. The National LGPS Technical Group have formed a sub-group to look at AVCs and dashboards to establish common approaches on matching and providing value data.

29. The PDP host an informal virtual connection forum via MS Teams every eight to ten weeks, which can be signed up to by emailing eventspdp@maps.org.uk. Updates are provided to attendees together with discussion on relevant topics.

30. TPR have published a blog encouraging schemes to be prepared for pensions dashboards and to follow their checklist.

His Majesty's Treasury (HM Treasury)

31. HM Treasury published The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023. The directions replace those previously published in 2014 and apply to the 2020 and later valuations.

His Majesty's Revenue and Customs (HMRC)

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32. HMRC released draft legislation and a policy paper on abolishing the pensions lifetime allowance from 6 April 2024, responses were asked for by 12 September and the LGA sent a response. Within their response they have said they do not believe this will simplify the tax regime for the local authority workforce and other LGPS employers and is likely to cause confusion. Following the Autumn Statement, it has been confirmed the removal of the LTA will now proceed.

33. The Government laid The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) (No.2) Regulations 2023, which came into force on 14 September 2023. These regulations address issues not dealt with in the first set of regulations (The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023), in relation to the McCloud remedy for the Public Service Pension Schemes.

34. HMRC has published a further public service pensions remedy newsletter in October 2023. Included within the newsletter is the introduction of a calculator for members who may need to correct their tax position due to the McCloud remedy in respect of annual allowance or lifetime allowance, an interactive guide for members to check if they are affected by McCloud, as well as guidance for members and administrators covering the pension tax rules.

Department for Work and Pensions (DWP)

35. The DWP published results of the independent review of TPR, which found it is broadly well run and well regarded.

The Pensions Regulator (TPR)

36. TPR published guidance on annual benefit statements (ABS) for 2023 to 2025 in relation to the McCloud remedy for public service pension schemes. The guidance is primarily aimed at the other public service pension schemes where those affected by the McCloud remedy, will have to be rolled back into their 'legacy' scheme for the remedial period and will be offered a 'deferred choice underpin (DCU)' at retirement, this does not apply to the LGPS, where affected members will automatically have the underpin applied to their benefits. The guidance sets out TPR's expectations, but acknowledge this will be challenging and so will take a risk based approach when assessing and ABS breaches during 2023 to 2025.

37. TPR published a blog titled 'Why we are building relationships with pension administrators' emphasising the importance of fostering closer relationships with administrators, allowing TPR to gain a better understanding of the challenges they face and address risks more effectively.

38. TPR launched a new industry facing campaign on LinkedIn encouraging trustees and administrators to not let scams go unreported.

The Pensions Ombudsman (TPO)

39. The TPO published a member factsheet outlining what members should do if they have a complaint about receiving incorrect information.

Other news and updates

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40. The Pensions Administration Standards Association (PASA) published new data guidance on benefit accuracy for defined benefit (DB) schemes building on from their previous guidance on data quality.

41. The Money and Pensions Service (MaPS) published its review of the evidence on the scale of pension scams in the UK.

42. The Pensions (Extension of Automatic Enrolment) Act 2023 has received Royal Assent and gives the UK Government the power to make regulations that will lower the minimum age for automatic enrolment from age 22 to 18 and remove the lower earnings limit for contributions. The UK Government will shortly launch a consultation on implementing the changes.

43. The Office for National Statistics announced on 18 October 2023 the Consumer Prices Index (CPI) rate of inflation for September 2023 was 6.7%. It is yet to be confirmed by the Government that this increase will apply in April 2024 to the revaluation and pensions increase that apply to LGPS active pension accounts, deferred pensions and pensions in payment.

CONSULTATION:

44. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

45. None.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

46. None.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

48. None.

EQUALITIES AND DIVERSITY

49. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

51. No next steps are planned.

Contact Officers:

Sandy Armstrong	Technical Manager
Paul Titcomb	Head of Accounting and Governance

Consulted: Pension Fund Committee Chair

Annexes: None

Sources/background papers: None

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE:	**15 DECEMBER 2023**
LEAD OFFICER:	**ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL**
SUBJECT:	**RESPONSE OF THE DEPARTMENT OF LEVELLING UP, HOUSING & COMMUNITIES TO ITS CONSULTATION ON NEXT STEPS FOR INVESTING FOR THE LGPS**

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SUMMARY OF ISSUE:

To provide details of the response of the Department for Levelling Up, Housing & Communities (DLUHC) to its consultation on the Next Steps for Investments for the Local Government Pension Scheme (LGPS).

RECOMMENDATIONS

This report recommended that the Pension Fund Committee (Committee):

1. Notes the report and annexe.

REASONS FOR RECOMMENDATIONS:

To provide the Committee with information regarding national initiatives with a consultation process and any response from Surrey the Fund.

DETAILS:

Background

1. In July 2023, the government published a consultation seeking views on proposals for the Next Steps for Investments in the LGPS. The consultation was launched alongside a range of other policy initiatives, as part of the 'Mansion House' set of reforms. In total, these are designed to improve outcomes for pension saver, while 'unlocking' additional investment for high growth businesses.

2. On 29 September 2023, the Surrey Pension Fund responded to this consultation. The Committee were consulted on the content of this response at their meeting of 8 September 2023 (this is included as Annexe 1).

3. On 22 November 2023, the government responded to its consultation. The government confirmed it will seek to implement its proposals to accelerate and expand pooling, and to increase investment in levelling up and in private equity. In summary, it will seek to:

   a) set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.

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b) revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.

c) implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.

d) revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.

e) make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.

f) amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

g) revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity.

Details

4. The government consultation posited 15 questions. It has responded to the views of consultees on these 15 questions as follows:

Question	Summary Government Response
1. The government asked for views on alternative approaches to pooling in the LGPS to that set out in the consultation. The proposed approach included setting a long-term direction towards fewer pools to deliver scale of at least £50 billion of assets under management.	The government's view is that the focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability. But in the long term the government considers that transition of assets alone will not deliver the full benefits of pooling, as the benefits of scale are present in the £50-75 billion range and improve as far as £100 billion. The Government Actuary's Department estimate that the LGPS could reach around £950 billion in assets in 2040. The government believes we should therefore look towards a smaller number of pools with assets under management averaging £200 billion in the future and government will work with funds and pools over the medium to long term to consider the pathway. In the meantime, the government would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication.

Question	Summary Government Response
2. The government sought views on the setting of a deadline in Investment Strategy Statement (ISS) guidance for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe.	The government will draft guidance to implement the proposal. The proposals set out in the consultation were to have a requirement in Investment Strategy Statement (ISS) guidance to either transition assets by March 2025, or to set out a detailed rationale for each asset remaining outside the pool including value for money considerations. This is effectively a "comply or explain" regime, which does not mandate particular investment choices.
3. The government sought views on revising guidance on pooling to ensure all funds participate in a strong partnership with their pool and with other partner funds, and delegate effectively to their pool.	The government has decided to revise guidance on pooling as proposed. It believes that this will set a clear direction for all funds to move towards delegation of strategy implementation and manager selection, in order to deliver the benefits of scale for all. The government has recognised there are several current models of pooling, and that all have some benefits, but the government's view is that in the medium- and longer-term certain key characteristics are essential for progress, although there may be transitional costs for some pools. Progress towards this model will be monitored and reviewed.
4. The government sought views on proposals to set out in guidance that administering authorities should have a training policy for pensions committee members and report against it.	The government will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members.
5. The government sought views on increasing transparency of asset allocation, pooling, returns and savings, in order to provide transparency on progress of pooling by fund, by pool and across the scheme.	The government will revise guidance to implement the proposed changes working with the Scheme Advisory Board (SAB). We believe that these measures will ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports.
6. The government sought views on our proposals for the SAB to expand their Scheme Annual Report to provide a report on the progress of pooling and on asset allocation across the LGPS.	The government have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category as well as by pooling status (pooled, not pooled or under pool management).

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Question	Summary Government Response
7. The government asked for views on its proposed definition of levelling up investments. The proposed definition was that an investment would meet the levelling up requirement if: a) it makes a measurable contribution to one of the levelling up missions set out in the Levelling Up White Paper; and b) it supports any local area within the United Kingdom.	The government's view is that the definition is sufficiently broad to allow administering authorities to work with fund managers and agree mandates which suit them.
8. The government asked for views on whether funds should be able to invest through their own pool in another pool's investment vehicle.	The government will revise guidance on pooling to set out the circumstances in which it would be appropriate for LGPS funds to invest through their pool in another pool's investment vehicle.
9. The government asked for views on the proposed requirements for the plan to invest up to 5% of assets under management in projects that support levelling up across the UK.	The government will revise guidance on investment strategy statements to require funds to have a plan to invest up to 5% in levelling up projects.
10. The government asked for views on the proposed reporting requirements on levelling up investments. These were to require funds to report annually on their progress against their plan in their annual report, to provide transparency and accountability on investments made by funds.	The government will revise guidance on annual reports to include guidance on reporting progress against the fund's plan.
11. The government asked for views on whether funds should have an ambition to invest 10% of their funds into private equity as part of a	The government will set a new ambition for funds to invest 10% of assets in private equity in revised guidance on investment strategy statements.

Question	Summary Government Response
diversified but ambitious investment portfolio.	
12. The government sought views on whether the LGPS should be supported to collaborate with the British Business Bank (BBB).	The government will encourage LGPS pools to develop and strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity.
13. The government sought views about proposed amendments to regulations and guidance to require LGPS funds to set and review strategic objectives for any investment consultants which they use.	The government will bring forward amendments to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance to implement requirements on LGPS funds that use investment consultants.
14. The government asked for views on a proposed technical change to the definition of investments within regulation 3(1)(b) and 3(4) of the 2016 regulations. This would correct an inconsistency in the definition of investment that the Joint Committee on Statutory Instruments identified in the 2016 regulations.	The government will bring forward amendments to the regulations to make a technical change to the definition of investments within regulation 3(1)(b) and regulation 3(4) of the 2016 regulations.
15. The government asked for views on impact on any particular groups with protected characteristics, in order to help us ensure that the impact of any changes on groups with protected characteristics is properly considered, with proper regard to our obligations under the public sector equality duty.	The government believe that the proposed reforms will not affect any particular groups with protected characteristics adversely

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CONSULTATION:

5. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

6. Risk related issues have been considered and are included within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

7. Financial and value for money implications are considered as part of the Government response to the consultation.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

9. Any legislative changes, including new government guidance or revision to the LGPS regulations will be considered when available.

EQUALITIES AND DIVERSITY

10. The approval of the various options will not require an equality analysis.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

12. The following next steps are planned:

    a) Officers to work with Border to Coast and advisors in response to government guidance.

Contact Officer:

Neil Mason, Assistant Director, LGPS Senior Officer

Sources/background papers:

1. Chancellor's Mansion House Reforms 'Mansion House'
2. The DLUHC consultation: Next steps on investments Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

3. The DLUHC policy paper on Levelling Up the United Kingdom Levelling Up the United Kingdom - GOV.UK (www.gov.uk)

4. The DLUHC consultation response: Local Government Pension Scheme (England and Wales): Next steps on investments - government response - GOV.UK (www.gov.uk)

Annexes:

1. Surrey County Council response to the DLUHC consultation on Local Government Pension Scheme (England and Wales): Next steps on investments.

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Surrey Pension Team

Providing our customers with a better tomorrow

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29 September 2023

lgpensions@levellingup.gov.uk
By e-mail

Dear Sir or Madam,

Local Government Pension Scheme: Next steps on investments

Surrey County Council (Surrey) welcomes the opportunity to respond to this consultation on the supplementary issues and draft regulations in relation to the 'Local Government Pension Scheme (LGPS): Next steps on investments.

Surrey is the Administering Authority for the Surrey Pension Fund (the Surrey Fund) as part of the LGPS. The Fund has assets of more than £5 billion and has over 300 employers.

We welcome this consultation on the future of the LGPS and believe it is an important contribution to how we can collectively build on some of the good practice that has evolved across the LGPS since 2016.

In 2018, the Surrey Fund's jointly owned pooling company, Border to Coast began managing investments on behalf of 11 Partner Funds. The Partner Funds came together with an agreed set of principles that continue to guide how we work together. As a partner Fund of Border to Coast we are delivering against Central Government's original pooling policy objectives:

- Over £40bn pooled through Border to Coast, with clear plans to increase this in the years to come;

- £65m of net cost savings had been delivered to 31 March 2023, with expectations to increase this to £340m by 2030 (for the Surrey Fund, the cumulative savings net of setup, operating and transition costs at 31 March 2022 were £0.5m - with an expectation to increase this to £35m by 2030) and;
- Border to Coast's private markets team have given the Surrey Pension Fund's greater scope to explore this asset class and provided an extra layer of due diligence.

14 Border to Coast adds significant value to the Surrey Fund above and beyond the original pooling objectives as a centre of expertise. The Surrey Fund works collectively with Border to Coast partner funds in developing innovative and effective investment propositions – such as 'Climate Opportunities', which is delivering investment to drive the transition to Net Zero. The collective scale also increases our influence as an active steward – whether on executive pay, climate change, or on driving standards in Responsible Investment and ESG disclosure.

The Surrey Fund has made significant strides since 2018, with nearly all our listed assets now pooled and plans established for pooling any residual non-pooled assets. In addition, our private market allocations are now delivered through Border to Coast and we already have a strategic allocation of 20% of the total portfolio to this asset class.

That said, while significant progress has been made, evolution is not fixed. We recognise the need to review and adapt to reflect both our individual development and to meet the various dynamic challenges that may impact us in pursuit of paying pensions in an affordable and sustainable manner. While we do not oppose further consolidation in the LGPS, it should be consistent with the specific circumstances of Funds and pools with differing profiles and we would guard against an imposed solution that does not recognise this. Any evolution should be consistent with the guiding principle that it is the responsibility of the Surrey Fund to agree an investment strategy consistent with our fiduciary obligation to meet the pension promise of our scheme members, while ensuring that contributions for scheme employers remain stable and affordable.

We would note that it is regrettable, given the importance of governance to the successful delivery of the Government's policy intent in this consultation that there has been no comprehensive response to the Scheme Advisory Board's statutory recommendations in relation to the Good Governance Project, as we feel that significant progress in this area will assist in driving progress on the agenda reflected in this consultation.

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Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

We recognise that the ecosystem in which the LGPS operates is changing and it is important to acknowledge and adjust to this, to ensure we can continue to collectively deliver for LGPS members. This includes the increasing regulatory and governance complexity and burden on individual Funds.

This challenge can be addressed through:

- Engaged and informed Pension Committees and Local Pension Boards, exhibiting an appropriate level of knowledge, understanding and professionalism. They should be supported by experienced officers, exclusively dedicated to the Pension Fund, with the right resources and support to develop, and manage the oversight of their investment strategies.
- Appropriately resourced pools, which can support the development and implementation of the investment strategies of their Partner Funds. As centres of expertise these pools can provide wider support for Partner Funds.

In operating any system, good governance is fundamental. This can cover a wide range of issues, but includes the establishment of clear divisions of responsibilities, robust oversight and simplified, flexible decision-making, including effective delegations to specialists trusted to exercise sound judgement over the long-term. The importance of this is often underestimated.

The "governance premium" is thought to be around 0.6% per annum additional return (and has been estimated as high as 1-2% p.a.) – as can be evidenced via asset owners with "good governance" (this relates primarily to clear delegation of investment decision-making with strong oversight and scrutiny by the asset owner board) based on research[1] over the last 20 years. We recognise that standards are variable with smaller funds, in particular, less likely to rate themselves as highly on a number of important measures of quality. While each fund and pool should consider their own governance frameworks, progress on the 'Good Governance' review will support all of the LGPS and progress would therefore be welcomed by all.

Scale can deliver significant benefits. A 2022 publication[2] by CEM looked at the case for scale for pension schemes. Its findings were that asset pooling led to lower staff costs per assets invested (due to the ability to internalise certain investment capabilities) and to lower external management fees (due to the negotiating strength that comes from the value of mandates being placed, negotiated by professional investors whose interests are fully aligned with the ultimate asset owners).

However, scale doesn't always deliver additional benefits; seeking scale without addressing issues such as good governance, management of conflicts of interest, a common vision and culture (within the Pool and among Partner Funds), complexity of investment strategies, and client needs, can either inhibit, or damage, a pools ability to deliver.

Delivering the benefits of pooling can be challenging and requires an understanding at officer and elected member level of both the benefits and costs of compromise, and an ability to assess where such compromise does not have a material impact on the risk/return profile that the Partner Fund wishes to achieve.

[1] Pension Policy Institute: "Defined Benefits: the role of governance"

[2] A Case For Scale February 2022

In considering the LGPS ecosystem and ensuring that good outcomes are delivered it is important to recognise and manage the potential conflict of interests that both investment consultants and pools may have in providing investment advice to Funds.

There has been greater progress in pooling where Funds have worked constructively with their advisors and consultants to make pooling a success. In this situation the benefits that come from pooling (in both investment outcomes and reduced ongoing governance / advisory costs) are taken into account as part of the overall business case.

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2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

We support the principle of transferring, or having a clear path to transition, assets to pools. We believe that each funds' ISS should include a transition plan for assets to be transferred to the pools, as well as the composition and justification of any assets remaining outside the pool.

We would welcome clarity on the position of legacy illiquid assets particularly those in private markets. With fees already negotiated, and with typically no ability to adjust them post commitment, transferring these assets to the pool may simply incur new legal and tax costs. Apart from the existing 5% of assets which can be invested outside the pool, which is of a local and specific nature and due to its scale be ineffectively delivered through the pool, it may be appropriate to agree that individual Partner Funds should not seek to make new illiquid investments outside their pool from this date, and the pools (where appropriate) support Partner Funds on the oversight of legacy illiquid assets as they run-off. This could be on a case-by-case basis – for example it is possible to transition UK Real Estate assets with appropriate tax planning and achieve strong investment and business case benefits.

We would also welcome clarity on 'passive' investments. In our current arrangements, we have jointly procured 'market index' funds in large, liquid and low-cost pools. These assets benefit from oversight from Border to Coast, and there is no obvious value for them to be replicated within the Pool. We believe that these investments should continue to be considered pooled ("assets under pool management"). We also note the current guidance that up to 5% of assets can be invested outside the pool. We believe this flexibility should remain – particularly when it is supporting other relevant objectives, such as making local investments.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Through Border to Coast we have developed a model of pooling which has successfully allowed us to meet the government's objectives for pooling. We support the approach set out in the consultation, which is reflective on the manner in which we have sought to pool. Nonetheless, we would urge caution on being overly prescriptive in describing any model in guidance as doing so would bring with it the risk of stifling innovation and the ability of Partner Funds and pools to respond to changing circumstances.

Administering Authorities are responsible and accountable for their investment strategies. A pool such as Border to Coast could potentially play a significant role in supporting the development of, and being responsible for implementing, a Partner Fund's investment strategy. However, robust governance arrangements need to be in place to manage potential conflicts, and to ensure proper oversight and scrutiny by Partner Funds can take place.

When drafting guidance, due consideration should be given to investment strategies that meet needs of a diverse employer group. This could include employers with differing maturity characteristics that may benefit from different investment approaches to protect their position. Sufficient specific investments would need to be available to adopt these.

Question 4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

The key to a successful system is ensuring decisions are made by the right people, with the right level of knowledge, at the right time.

It is important that there is local accountability for target returns, risk appetite, and investment beliefs that underpin the investment strategy to deliver cost effective and sustainable pensions. 14

As outlined in the consultation, and something we support, the role of a Pension Committee is to review and approve the investment strategy, and to provide oversight and scrutiny on how this is being executed. To be effective in this role Committees will need to have in place appropriate delegation of functions which are not central to the setting of strategy to Officers, who have sufficient experience and knowledge to support the Committee. In turn, Officers (and Committee's) can be supported by the centre of investment expertise that resides in the pool that they own, which is also responsible for the implementation and management of that Funds investment strategy.

The knowledge and understanding of Pensions Committees may be supported by independent advisors but cannot be a replacement – and may play a key role in supporting the Committee in their responsibilities in the oversight and scrutiny of the investment strategy by the pool.

For Pension Committees, a key component to this is an effective training policy, which is reported against as part of clear delegation of functions between Committee and Officers. This is something the Surrey Fund manages in a structured way.

We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We believe it is appropriate that the condition on sitting on a Pension Committee should match that of membership of a Local Pension Board.

Given both the significant training requirements, and the responsibilities of membership of a Pension Committee, we believe it is appropriate that Pension Committee members should be appropriately remunerated.

We believe Government proposals in relation to the interaction of pools and funds, and the training of pension committee members, should be addressed as part of a holistic response to the Good Governance Project report completed by the Scheme Advisory Board to ensure changes take place within a framework focused on delivering the best outcomes for LGPS members.

Question 5. Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

We support the proposal to have standard reporting requirements (with clear and consistent definitions). We would welcome this is progressed as part of the Good Governance project. We would also welcome a complete review of the regulations to simplify and streamline processes.

While support reporting net savings, this needs greater consideration – specifically "against what?". In calculating our savings, we are comparing our current position with (often) data from 2015/16 – which is not necessarily the market pricing we see today. There is a danger that this information becomes dated and irrelevant. Equally, a focus on cost may also drive unintended consequences (particularly given the desire from the Government to increase investment in more expensive asset classes, such as private markets). As the pooling journey continues, it may be appropriate to use other reporting mechanisms. We have significant concerns on the proposals to produce standard reporting on investment returns. Each individual fund has its own investment strategy and risk appetite. Even within a single pool, although two funds may superficially have similar investment strategies, they may be seeking to deliver significantly different outcomes. There is a danger that returns are taken out of context – and could lead to inappropriate short term investment decisions being made.

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Question 6. Do you agree with the proposals for the Scheme Annual Report?

We support clear and consistent reporting by the Scheme Advisory Board, provided the Board is sufficiently resourced to undertake the work and it is undertaken in such a way as to minimise the data collection burden on funds.

We also note the broader issue of increased reporting for the LGPS. The research in "LGPS: Views from inside the scheme" found that over half (54%) of respondents feel that the legislation/regulatory requirements are too complex to execute, while two in five (43%) continue to feel legislation/ regulatory requirements hinder them from doing their job effectively.

This is not to diminish the fundamental role of transparency and reporting. This is essential to ensure accountability, and to drive best practice across the LGPS. However, simplicity is key. Partly driven by the scale and complexity in current reporting requirements, we understand a recent review by SAB suggested that nearly a third of LGPS funds were not meeting their annual report disclosure requirements.

Simply adding additional reporting requirements not only adds cost, but there is a significant negative impact for the intended audience of the scheme members due to the volume and complexity of information being published. We believe that the impact assessment of changes in guidance – in terms of cost, transparency, and in the ability of readers to interpret what is shared – should be taken in the context of the ongoing review of LGPS reporting requirements being undertaken by the Scheme Advisory Board.

Question 7. Do you agree with the proposed definition of levelling up investments?

Although we do not disagree with the definition outlined in the consultation, it should be stressed that levelling up investments should be consistent with the investment strategies of Funds. Through Border to Coast a new private markets strategy, 'UK Opportunities' is being developed. Set to launch in April 2024, we believe this will provide the Surrey Fund with opportunities to invest in the regions across the UK, including venture and growth capital, and will ultimately support the policy intent outlined in the Levelling Up white paper.

Under current guidance, individual funds have the flexibility to invest up to 5% outside the pool. The local and specific nature of these investments mean they may be of a small scale and unable to be effectively delivered through the pool. As such, this exemption to making these investments outside of the pool should be maintained (although this should still be subject to regulatory permissions, resourcing, recognising the importance of managing conflicts of interest that may still arise, and the role pools can play in advising in relation to non-pooled investments).

Question 8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Collaboration has been – and should continue to be – a hallmark of strength in the LGPS.

If a pool is unable to effectively develop and manage an investment proposition, there may be merit in sourcing this capability through another LGPS pool. However, it needs to be recognised that there are several implications that need to be fully considered and risks mitigated. These include issues such as:

- Proposition development – currently the Border to Coast propositions are designed with, and for, 11 Partner Funds who are both shareholders and customers. Care will be required should an external pool customer(s) wish to evolve existing propositions. The existing governance structures and processes will need to be reviewed to overcome this challenge.
- Niche strategies – certain investments may have capacity issues. For example, despite significant demand, the initial Climate Opportunities strategy at Border to Coast was capped at £1.35bn. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.
- Cost model – as shareholders, existing customers principally manage risk through Border to Coast's regulatory capital. As non-shareholders, external pool customers would be subject to different pricing.
- Managing demand – in owning and building Border to Coast, there has been a structured approach to its growth –building capacity and capability to reflect Partner Funds long term needs. This is likely to be absent with non-shareholder customers and, in accepting external customers, there is a risk of managing in- and out-flows, potentially destabilising our ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.

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Management of additional customers will require careful consideration, particularly noting the potential additional layer of due diligence costs that will be required as a regulated asset manager investing into another regulated asset manager's vehicle.

Nonetheless, if these issues are overcome, it could be easier to manage this on a pool-to-pool basis, rather than an individual fund-to pool basis.

Question 9. Do you agree with the proposed requirements for the levelling up plan to be published by funds?

The objective of the Surrey Fund is to generate the appropriate risk adjusted returns to ensure we can operate the LGPS in an affordable and sustainable manner. Where ancillary objectives can be co-delivered without impacting these returns or increasing risk, such as those outlined in the Levelling Up White Paper, this is to be welcomed. We believe that Levelling Up, effectively delivered, has the potential to create growth; including creation of jobs, drive productivity, improve people's quality of life and better health and wellbeing outcomes.

It is for this reason that the Surrey Fund is supportive of the launch of the Border to Coast 'UK Opportunities Fund', which is designed to deliver such investment across the regions of the UK. Nonetheless, LGPS assets are invested to deliver appropriate risk adjusted returns and should not be used to implement any Central Government policy objective – no matter how laudable it may be. We welcome the recognition in the consultation that each Fund is responsible for setting their investment strategy, designed to deliver the appropriate risk adjusted returns they require.

Any investment strategy and associated reporting on Levelling Up needs to be through the principal asset classes (e.g. Real Estate, Private Equity, Infrastructure, Private Credit, etc). This ensures that the risk adjusted returns are considered on the same basis. This can be reported via a Fund's ISS.

Question 10. Do you agree with the proposed reporting requirements on levelling up investments?

We are comfortable with the proposals, albeit we note that this again expands the reporting and regulatory requirements on Funds – which will have resource implications.

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Question 11. Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Administering Authorities remain responsible for their investment strategies. As open DB pension schemes, it is essential that we adopt appropriate diverse investment strategies designed to balance risk and return to ensure the LGPS remains affordable with stable employer contributions.

As part of this approach, private markets can play an important role. The creation of Border to Coast has significantly enhanced the Surrey Pension Fund's ability to access this asset class. As part of our investment strategy, our allocation to private markets already currently stands at 20%.

We note the reference to private equity. It is our belief that this is a relatively narrow definition. Indeed, early-stage growth, especially that focused on tech, is relatively high risk. For investors who have not made meaningful or any previous commitments to private capital more broadly, this is a challenging entry point and risks disappointing or volatile returns/losses which could discourage future investment in private markets.

A broader definition, covering 'private capital' allows investors to build private market risk appetites which suits their own circumstances, rather than pushing everyone to a more narrowly defined and therefore potentially crowded part of the market with more volatile returns.

Over the medium term we believe we will meet the aspiration to invest 10% of our assets in these areas. Recognising our current extensive UK investment exposure, in seeking appropriate and diverse investment opportunities exposure to this type of investment should be global in nature.

The most effective way to encourage any investment in the UK is the provision of a stable investing environment through policy certainty. If the LGPS and private capital is being asked to make large, long-term, capital investments, the Government needs to offer corresponding long-term guarantees and/or the necessary policy certainty to protect these potential investors. Examples include policy certainty on renewable energy, transport and other climate transition considerations; improvements to the planning regime to accelerate development opportunities and to enable clearer partnership opportunities with Local Authorities; and the development of structures (perhaps with the support of BBB or UKIB) that enable risk sharing or return visibility.

While there is understandably a continued focus on costs, we recognise that private markets are a more complex and expensive asset class. Through Border to Coast, the Surrey Fund has access to the capability and capacity to access these markets in an effective and efficient manner; in the last Border to Coast annual report they highlighted a c.24% reduction in fees in this key asset class across partner funds.

Question 12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

There is a range of potential partners that can support the LGPS pools to deliver growth capital in the UK – the British Business Bank (BBB) and the UK Infrastructure Bank (UKIB) being two examples.

Given their state ownership and strategic focus to ‘crowd in’ other investors, these institutions may be well placed to support the LGPS pools source and commit to ventures that meet their normal investment criteria.

We do note that one of the key objectives of LGPS pooling was to reduce the fee burden paid by pension funds, and in a private market context, reduce the reliance on fund of fund structures which introduce an additional layer of fees and carry (profit share) expense. As such, any vehicle should be offered on a cost only basis if the intention is to encourage 14
greater participation in this part of the market. Additional fee load will detract potential investors who are sensitive to fees. BBB will be investing balance sheet capital into all investments so a successful investment policy will deliver profitability for them without a reliance on fee income.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

The Surrey Fund already sets strategic objectives for investment consultants and we welcome its consistent application across the LGPS.

Question 14: Do you agree with the proposed amendment to the definition of investments?

No comment.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

No.

Yours faithfully,

Leigh Whitehouse
Deputy Chief Executive

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