

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 11.15 am on 22 March 2024 at Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

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

Co-opted Members:

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

In attendance

1/24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Steve Williams and George Potter who attended online.

2/24 MINUTES OF THE PREVIOUS MEETING [15 DECEMBER 2023] [Item 2]

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

3/24 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/24 QUESTIONS AND PETITIONS [Item 4]

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

There were five supplementary questions:

1. Jackie Macey asked on behalf of Kevin Clarke if it would be possible to have a separate list of main fossil fuel holdings on the website to assist those that have limited financial knowledge.
The Head of Investment & Stewardship would consider what could be done regarding this request.
2. Janice Baker asked if there had been any concrete steps implemented as a result of Robeco's engagement plan.

- Border to Coast responded by encouraging Janice to read Robeco's quarterly reports to the Committee, suggesting a couple of examples, for instance plastics, where there had been some good engagement.
3. Jennifer Condit asked if the Committee was comfortable with the fact that Surrey now has approaching £8 million invested in ConocoPhillips. Border to Coast explained that this was held by one of the external managers and the process that B2C undertakes with them was the same as with internal portfolio managers. With any big emitters in portfolios, it was expected that detailed investment rationales were developed as to why they hold those companies. Also, ConocoPhillips was on the priority list of companies for voting this year. Border to Coast also explained the challenging and deep-dive into the transition processes of the heaviest emitters.
 4. Lindsey Coeur-Belle stated that in September 2023, the UK Department of Energy Security and Net Zero announced that the UK would review its membership of the Energy Charter Treaty (ECT) if progress in the modernisation was not made at the November conference. On 22 February this year, the Minister confirmed that the UK would withdraw, citing failure of the parties to align to Paris or to support the energy transition. Considering this recent government decision and similar concern in the EU, does the Committee agree that protection for fossil fuel companies was evaporating and the risk of stranded assets increasing? The Chair stated that the Committee had an RI policy which was reviewed annually, and these developments would be considered at the next review. The Committee also expects its managers to operate within those guidelines.
 5. Lucianna Cole asked when banks were contacted ahead of their AGM's and if that included setting out clear consequences for inaction if they don't change their practices as a result of the engagement. Border to Coast responded that the point of writing to the companies is to let them know when Border to Coast was intending to vote against management. For those companies on the priority list this will be done prior to the AGM, so that there is the opportunity of dialogue ahead of the meeting. It can also lead to possibly changing voting intentions, depending upon company response. For other companies where Border to Coast votes against management, they will be informed after the AGM. Border to Coast's escalation process is clear in their voting guidelines, which are available for companies and stakeholders.

5/24 GLOSSARY, ACTION TRACKER & FORWARD PLAN [Item 5]

Speakers:

Neil Mason, LGPS Senior Officer
Chair

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted an item on the forward plan for the next meeting in June, which is when the Committee will agree the scope and process for reviewing its investment beliefs. Following agreement of the scope it was proposed to hold a workshop where experts in the investment field would be invited, to discuss fiduciary duty and to understand the relationship with Border to Coast and how that affects the strategy and its implementation. Depending on when the General Election was to be held it was hoped to have a paper ready for either the September or the December committee meeting.

2. One Member suggested that it may be better for this to take place after County elections in 2025. The LGPS Senior Officer responded that this was being done now because more and more investment decisions were coming to the Committee and Members were being asked to make decisions on items which may contravene the current set of investment beliefs.

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted. There were no recommendations to the Local Pension Board.
2. That progress on the action tracker was noted.
3. That the forward plan be noted.

6/24 SECOND YEAR OF THE STRATEGIC PLAN FOR THE SURREY PENSIONS TEAM [Item 6]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer gave a detailed overview of the strategic plan contained within the submitted report.
2. A Member praised officers for the work put into this document and asked the LGPS Senior Officer what he felt less confident about and what was going to require more attention to ensure success. The LGPS Senior Officer stated that succession planning and staff management were uppermost in mind, with the need to ensure investment in people so that the Surrey pensions team was an attractive place to work.

Actions/ further information to be provided:

None.

Resolved:

That the plans contained in the submitted report and Annexe be approved.

7/24 CHANGE PROGRAMME UPDATE - QUARTER 3 [Item 7]

Speakers:

Nicole Russell, Head of Change Management

Neil Mason, LGPS Senior Officer

Paul Titcomb, Head of Accounting & Governance

Key points raised during the discussion:

1. The Head of Change Management introduced the report by highlighting a few areas she was proud of. These included:
 - the dashboard, on which there had been much feedback;
 - the workforce strategy put in place, with a positive change in nearly every metric on the people side;

- the refreshed Communications Policy, and
 - the new Members website.
2. The Head of Change Management explained that the Digital Design Team had been working in her area to understand how much progress was made towards the mission and vision of the team. The team was also looking at any areas that would benefit from a digital solution or enhancement. The findings of this work would be reported to the next committee meeting.
 3. A Member queried the issues around banking controls and Unit 4. The Head of Accounting & Governance explained that the banking controls concerned the upload of data from the bank account into Unit 4. That was the only piece of the process that not under the Pensions team's control and new practices therefore were being developed.
 4. A Member asked for further details around audit ratings and what they meant. Another Member, who was also a Member of the Audit Committee, explained that there were historic issues, but good progress was being made with their resolution.
 5. The LGPS Senior Officer introduced and explained in detail the annex to the report on training. He explained that training would be specific to the quickly changing regulatory, administration and investment landscape of the LGPS. There was significant pressure from the Scheme Advisory Board and the Department for Levelling up Housing and Communities on this, reiterated by the Minister in his speech last week, that Pension Fund committees should essentially have the same level of training as professional trustees. Officers had taken soundings across the industry, and in particular amongst partner funds, and were proposing a residential course on 23 and 24 October 2024.
 6. The Chair reiterated the benefits of the proposal for a residential development course which would enable more detailed dialogue between the Committee, Board Members and the officers. Also, the Committee was signing up to the Stewardship Code which required programmes of continuing professional education. Long-standing Members were encouraged to take up the development courses as there had been many changes over the last decade and refresher training was essential.
 7. A few Members commented on the need for a backup plan for those unable to make the residential course and for newcomers that may start after the residential. The LGPS Senior Officer stated that this had been considered and assured the Committee that the residential course did not replace any of the existing training arrangements but was an extension.

Actions/ further information to be provided:

That the Democratic Service Officer share explanations of the audit ratings with Committee Members.

Resolved:

That the report be noted.

8/24 COMMUNICATION POLICY STATEMENT 2024/25 [Item 8]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS gave a brief introduction to the Communication Policy document which is required to be approved annually. It explains the different methods and frequency of communication with stakeholders.

Actions/ further information to be provided:

None.

Resolved:

1. That the Communication Policy Statement 2024/25 be approved.
2. That the policy be reviewed on an annual basis was noted.

9/24 TRAINING POLICY 2024/2025 [Item 9]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS gave a brief introduction to the Training Policy which set out the approach to training and development, which applies to Members of the Committee, Members of the Board and officers. It also incorporated the new residential course.

Actions/ further information to be provided:

None.

Resolved:

That the training policy be approved and agreed that Members should prioritise attendance at training events wherever practicable.

10/24 SUMMARY OF THE LOCAL PENSION BOARD REPORT [Item 10]

Speakers:

Chair of the Pension Board, Tim Evans

Neil Mason, LGPS Senior Officer

Tom Lewis, Head of Service Delivery

Key points raised during the discussion:

1. The Chair of the Pension Board explained that the main issue over the last nine months was the implementation of My Surrey / Unit 4. The challenge has been to get the administration systems operating effectively and to make sure its functionality is absolutely fit for the purposes of the Pension Fund. This work has moved forward significantly through the participation of the Head of Service Delivery with the main IT project delivery team.
2. In response to a Member question around Payroll IT issues, the Head of Service Delivery explained the work being undertaken to work around the issues and to ensure benefits were recorded and paid accurately. A Member referred to a Resources and Performance Committee task and finish group which was investigating the range of issues with this software, to make recommendations and to learn lessons.

Actions/ further information to be provided:

None.

Resolved:

1. That the support of the Pension Board be noted, and
2. That no recommendations to the Pension Board were needed.

11/24 LOCAL PENSION BOARD - PROPOSED AMENDMENT TO THE TERMS OF REFERENCE [Item 11]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced the report that detailed the updated terms of references, including definitions of roles and the appointment process; the revisions have already been agreed by full Council.
2. A further change was to allow the two representatives of active scheme members to be drawn from any trade union, rather than roles being reserved for a specific trade union. The Chair of the Local Pension Board assured the Committee that subject to this change there was no problem with filling other places on the Board.

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted.
2. That the proposed amendments to the Terms of Reference of the Local Pension Board be agreed.

12/24 BUDGET 2024/25 [Item 12]

Speakers:

Paul Titcomb, Head of Accounting & Governance

Key points raised during the discussion:

1. The Head of Accounting & Governance introduced the budget report. Previously these reports were not reviewed by the Committee, and the change was being made to improve governance. The report assessed the operational costs for the coming year. The main costs revolved around staff and associated expenditure, with allowance made for project work, as there are several high priorities with mandated deadlines. Budgets would be monitored and reported back to the Committee.

Actions/ further information to be provided:

None.

Resolved:

That the Fund's Budget for 2024/25 be approved.

13/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 13]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship gave some highlights from his report which included:
 - In terms of the fund's performance, it was a strong quarter in absolute terms for all asset classes.
 - There was added commentary on the private markets and how it compared against the global listed equity benchmark.
 - As requested by Committee, there was an annexe that showed the sector exposure split for the equity portfolios, comprising all the actively managed portfolios and the Future World Fund.
 - Regarding the funding of capital calls, predominantly the Fund has used the B2C Listed Alternatives Fund to meet capital calls. As that has now reduced to just under around £100 million, going forward the Fund was more likely to be use the Newton investments to meet capital calls and some of the balances with Legal & General.

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.

14/24 COMPANY ENGAGEMENT & VOTING [Item 14]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the report on engagement. Engagement is delegated to each manager and the report included information from Robeco and the LAPFF. The report also showed how Surrey had voted over the last quarter on the Newton assets.

Actions/ further information to be provided:

None.

Resolved:

- 1) That it was reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Responsible Investment Policy through:
 - a) Continuing to enhance its own RI approach and Sustainable Development Goal (SDG) alignment.
 - b) Acknowledging the outcomes achieved for quarter ended 31 December 2023 by LAPFF and Robeco through their engagement.

c) Note the voting by the Fund in the quarter ended 31 December 2023.

15/24 ASSET CLASS FOCUS - CREDIT MARKETS [Item 15]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Anthony Fletcher, MJ Hudson

Steve Turner, Mercer

Milo Kerr, Border to Coast

Key points raised during the discussion:

1. The Head of Investment & Stewardship reported that last year the Committee had approved switching assets into the Border to Coast Multi Asset Credit Fund, reflecting the Fund's overall investment strategy. Although not all purchases had been completed at the time of this report, the aim was to increase the weighting to that fund to around 15%. In addition, last year the Fund had changed how the exposure to Gilts was derived through LGIM, switching from direct conventional gilts into a fund managed by them.
2. The Independent Advisor explained his report included performance of the Border to Coast Multi Asset Credit Fund. He explained the reasons behind the performance data for each sub-fund. Bearing in mind the global economy, he thought Border to Coast had performed reasonably over the two years. He also suggested that officers and the Committee look in more detail at the three-year anniversary of the fund, highlighting areas to be considered.
3. The Independent Advisor advised that the benchmark for PGIM be reviewed because the selected performance benchmark would appear to be inconsistent with how the fund was allocated.
4. The Independent Advisor advised the Committee to put pressure on Border to Coast to demonstrate that they have the resources in terms of analytic systems and the skilled people.
5. The Chair stated that the Independent Adviser had raised several credible points that should be followed up and suggested this happen as part of the three-year review with a report coming to a future Committee meeting.
6. Border to Coast thanked the Independent Adviser for his comments and stated that the next deep dive had been earmarked for Multi Asset Credit and for it to be more thorough. Border to Coast explained that they had added structure and resources recently towards the asset allocation committee, to help making decisions on relative positioning.
7. In response to a question from Mercer, Border to Coast confirmed their review of Multi Asset Credit would include the structure of the fund, and the strategic allocation to the sub asset classes in the strategy.
8. Members raised a number of detailed questions to be looked at as part of the Border to Coast three-year review.

Actions/ further information to be provided:

None.

Resolved:

1. That the Fund's credit market holdings, respective funds' investment performance and review from the Fund's independent investment adviser be noted.

2. That a review at the three-year point by Border to Coast be brought to this Committee in due course including the question raised by George Potter in relation to information to properly manage and provide oversight by Border to Coast was agreed.

At 13.04pm the Committee adjourned for 15 minutes and reconvened at 13.21pm

16/24 RESPONSIBLE INVESTMENT IMPLEMENTATION REPORT [Item 16]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship
Tristan Ainsworth, Finance Graduate Trainee
Steve Turner, Mercer

Key points raised during the discussion:

1. The Head of Investment & Stewardship highlighted the following areas of the report:
 - As part of the Responsible Investment policy last year, one of the priorities was to apply to become a signatory to the Stewardship Code. Thanks to the secondment of a Finance Graduate Trainee this huge piece of work had taken 6-7 months and the application would be made in May.
 - If the application was not approved this time, then any feedback would be considered, to allow an improved re-application.
2. The Head of Investment & Stewardship also informed the Committee of elements that would be expected to the June committee meeting including:
 - the annual sense check of the RI policy in terms of best practice, provided by Minerva,
 - a review of the net zero investable universe, and
 - a review of the impact if the Fund excluded the largest 25 fossil fuel companies in terms of the potential risk / return for the Fund.
3. The Chair urged Members to let the Training Officer know of any recent training undertaken not already included in the report.

Actions/ further information to be provided:

None.

Resolved:

1. That the draft Stewardship Code application document be noted.
2. That the delegation to the Chair for the final approval of the application for the Fund to become a signatory of the UK Stewardship Code be agreed.

17/24 LGPS UPDATE (BACKGROUND PAPER) [Item 17]

Speakers:

Neil Mason, LGPS Senior Officer
Sandy Armstrong, Technical Manager

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted the new General Code of Practice from the Pensions Regulator, which replaces the existing 10 codes. The team were currently looking at how to assess compliance against the new Code. The assessment will go initially through the Pensions Board for a deep dive and then in summary to this Committee. There will also be a need to ensure that Members understood the new Code as it directs how the scheme is managed.
2. A Member thanked the LGPS Senior Officer for the report covering Sharia Law, which union members had asked about.

Actions/ further information to be provided:

None.

Resolved:

That the report be noted.

18/24 EXCLUSION OF THE PUBLIC [Item 18]

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

19/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 19]

Resolved:

That the Part 2 annexe to item 8 on the agenda (Minute 13/24) be noted.

20/24 NEW INVESTMENT PROPOSITIONS [Item 20]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Milo Kerr, Border to Coast

Steve Turner, Mercer

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Head of Investment & Stewardship referred to the training received by Members prior to the Committee regarding the two proposals in the Part 2 report. The UK Real Estate presentation was an update and a final paper for decision would come to the next meeting of the Committee. The UK Opportunities Fund was for decision at this meeting.
2. Border to Coast explained the proposals in some detail with inputs from the Head of Investment & Stewardship and Mercer.
3. Border to Coast explained that they had held a webinar in January with various economic development stakeholders across the councils in the Border to Coast pool to introduce the strategy of the UK Opportunities Fund, its aims and goals.

4. The Chair asked Border to Coast to share the webinar presentation with the Committee.

Actions/ further information to be provided:

That Border to Coast be requested to share the webinar presentation with Members of the Committee.

Resolved:

1. That delegated authority be approved for the Director of Finance Corporate & Commercial, in consultation with the Assistant Director – LGPS Senior Officer and the Chair of the Pension Fund Committee to invest in the Border to Coast UK Opportunities Fund, subject to necessary conditions being met.
2. That the development of the Border to Coast UK Real Estate proposition be noted and that Officers, Investment Consultant and Independent Advisor to consider the appropriateness of the investment, and work towards the necessary conditions being met, be agreed.

21/24 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE [Item 21]

Speakers:

Neil Mason, LGPS Senior Officer

Milo Kerr, Ewan McCulloch and Jane Firth, 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.
2. The LGPS Senior Officer explained the governance around the Border to Coast Strategic Plan in that it is approved by the shareholder representatives. The shareholder representative at Surrey is the Section 151 officer and has approved this Strategic Plan. Therefore, the Committee was being asked to note the Plan and the approval of it by the S151 officer.
3. There was a Member question around a particular Border to Coast investment in tar sand oil extraction, which he understood to be excluded under the Responsible Investment policies of Border to Coast. Border to Coast explained that when exclusions were first introduced into the climate change policy and into the Responsible Investment policy, it was at a very high revenue threshold of tar sands being at 90% of a company's revenue. There had been a significant shift over the last couple of years when that had been reduced down to 70%, and then quite significantly for this year down to 25%. The company referred to by the Member was under the current exclusion threshold. All portfolios and benchmarks were screened when reassessing exclusions policies and feedback from all partner funds was taken on board. This would be assessed again this year and on an annual basis going forward.

Actions/ further information to be provided:

None.

Resolved:

That the shareholder approval of the Border to Coast Strategic Plan 2024-27 be noted.

22/24 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.

23/24 DATE OF NEXT MEETING [Item 23]

The next meeting of the Surrey Pension Fund Committee will be on 21 June 2024.

Meeting ended at: Time Not Specified

Chairman