

**MINUTES** of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 11.15 am on 21 June 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
- Steve Williams, Borough & Districts
- \* Kelvin Menon, Employers

**In attendance**

Tim Evans, Chair of the Local Pension Board

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

Apologies were received from Robert King and Steve Williams. Steve Williams attended online and left the meeting at 12.06pm at the end of item 8 on the agenda (Change Programme).

**25/24 MINUTES OF THE PREVIOUS MEETING [22 MARCH 2024] [Item 2]**

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

**26/24 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**27/24 QUESTIONS AND PETITIONS [Item 4]**

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

There were three supplementary questions:

sQ1 - Jackie Macey - Thank you for your reply, however, change happens, and the judgement given by the Supreme Court yesterday is an example of this. It recognised the significance of downstream emissions and why these cannot be dismissed. Perhaps it is time for Surrey Pension Fund to demand that its investment managers urgently assess the value of any investments in the UK fossil fuel sector to quantify the likely downside impact on valuation and assess the risk of holding potentially stranded assets.

The Chair stated that the court judgement was only yesterday and that a written response would be sent.

sQ2 - Kevin Clarke – I don't believe the response really answered my question, which was focused on fossil fuels. Anyway, I'm thinking that to reassure pension members who will no doubt have learned from yesterday's court ruling, that surely the next newsletter should state how the Pension Fund is reacting to that decision. The Chair stated that if it was helpful to expand the next newsletter that would be done.

sQ3 - Jackie Macey on behalf of Lucianna Cole - It's good to hear Pensions for Purpose offer a wide range of educational materials; with the general election fast approaching and new developments such as those following the Horse Hill judgement, it would be good to know if there are plans in place to gain more knowledge and expertise. Actions will subsequently need to be taken as regulations change, such as reviewing the Responsible Investment policy and fund objective.

The Chair noted that this was a statement rather than a question and stated that we will be looking at communications and how the Fund is reacting to climate change and other factors, including policy revisions as a consequence of a possible change of government.

## **28/24 GLOSSARY, ACTION TRACKER & FORWARD PLAN [Item 5]**

### **Speakers:**

Neil Mason, LGPS Senior Officer

### **Key points raised during the discussion:**

1. The LGPS Senior Officer explained the piece of work that officers were undertaking regarding governance of the Fund and that the S151 Officer as well as Audit and Legal are being consulted. This item was due to be discussed in September, but a separate meeting may be needed to ensure enough time was given to it.

### **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.

## **29/24 SUMMARY OF THE LOCAL PENSION BOARD [Item 6]**

### **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 introduced the Board's summary report and particularly highlighted the slight postponement to the GMP reconciliation work, but that should be completed this year. He also explained that a number of meetings had taken place, since the Board meeting, to discuss the legacy reduction programme. The latest position is that the i-connect file was received; this was an important step forward in improving processes.
2. The Head of Service Delivery explained the latest position with the annual benefits statements and currently we were on track for issuing these by the statutory deadline (end of August). There were still some data discrepancies which were being worked on but progress had reduced the risk level.
3. A Member mentioned the work that the Resources and Performance Select Committee had undertaken on the My Surrey/Unit 4 systems, and that recommendations were due soon. He expressed concern about new starters not being added to the Pensions System. The Head of Service Delivery reported that new starter packs had now been distributed.
4. There was detailed discussion about the work undertaken with starters and leavers information in relation to employers, IT systems/data, timings and monitoring going forward.

**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.

**30/24 SURREY PENSION TEAM OVERVIEW - QUARTER 4 [Item 7]**

**Speakers:**

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

**Key points raised during the discussion:**

1. The LGPS Senior Officer highlighted from the Dashboard report that there were three metrics below the desired target, but none were of material concern and fluctuations were expected.
2. A Member asked if the Fund was valued using the previous actuarial assumptions, would it still be over 100% funded? The LGPS Senior Officer explained that under 2022 assumptions the funding would be 98%. The in funding level in the last period was considered positive, as it was because of the asset growth rather than discount rate fluctuations.
3. A Member asked when the Dashboard information was to be made available for Committee members. The Head of Change Management explained that in the current format for this information was not available to anyone without an SCC email address. A new format was being investigated, but it was possible to provide a snapshot in time. She explained work being undertaken on improving communications.
4. Members were minded to request monthly snapshots for both the Committee and Board members.

**Actions/further information to be provided:**

That the Head of Change Management provide monthly snapshots of the data to Committee and Board Members.

**Resolved:**

That the report be noted.

**31/24 CHANGE PROGRAMME UPDATE - QUARTER 4 [Item 8]**

**Speakers:**

Nicole Russell, Head of Change Management

**Key points raised during the discussion:**

1. The Head of Change Management highlighted the following areas of the report:
  - The new member website had been launched
  - Members should have access to a resource SharePoint site
  - Engagement from the Team with the staff survey had increased for the third time in succession.
  - Lunch and Learn education sessions for the Team had been well received.
  - Bookings for speakers and finalisation of the agenda for the residential training was underway and would be shared with Members as soon as possible.
  - Resourcing for the 17 projects was explained.
2. In response to a Member query regarding the lunchtime session on cyber security, the Head of Change Management explained that this was session was mandatory and had been highlighted in an audit finding. A Member commented that Resources and Performance Committee had looked at performance statistics on cybersecurity and data breaches this week. Data breaches was extraordinarily low and Surrey County Council performed extremely well.
3. A Member requested that more information about the projects, which ones had gone back to business as usual, and which were the critical ones. This would help Members to understand the work.

**Actions/further information to be provided:**

That further information on the 17 projects be sent to the Members.

**Resolved:**

That the report be noted.

*Steve Williams left the meeting at 12.06pm.*

**32/24 SURREY PENSION TEAM STRATEGIC PLAN OUT-TURN REPORT - 2023/24 FINANCIAL YEAR [Item 9]**

**Speakers:**

Neil Mason, LGPS Senior Officer  
Sara Undre, Deputy Head of Accounting & Governance  
Lloyd Whitworth, Head of Investments & Stewardship  
Tom Lewis, Head of Service Delivery

**Key points raised during the discussion:**

1. The LGPS Senior Officer introduced this report which provided performance against the first year's strategic plan of the new team, from April 2023 to April 2024.
2. In response to a query about recharges the Deputy Head of Accounting & Governance responded that recharges were being done monthly and quarterly and would be completed as business as usual now and historical undercharges had been collected.
3. In response to a query about the project to become a signatory to the Stewardship Code the Head of Investments & Stewardship explained that the application had been submitted. This was the first application for Surrey, and he noted the fail rate for first applications was high, however a response on Surrey's submission was still awaited.
4. The Chair noted the excellent work done on the legacy rollout and requested a report on it when it was nearing the end. The Head of Service Delivery explained that he was reluctant to put an end date to that but was hopeful it would be around October/November when most of the legacy cases would be resolved. There was detailed discussion about the history of this issue. The Head of Service Delivery stated that a more detailed report would be going to the Board and that would answer many of the Members' questions.

**Actions/further information to be provided:**

None

**Resolved:**

That the report be noted.

**33/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE  
[Item 10]**

**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship

**Key points raised during the discussion:**

1. The Head of Investment & Stewardship introduced the report and highlighted the following points:
  - a) the assets and funding ratio had both improved this quarter; the Fund was now worth about 5.8 billion.
  - b) The market had been driven by equities in which the Fund has an allocation of nearly 60%.
  - c) government bond markets were weak, but the Fund had a small allocation to that area.
  - d) in terms of returns, the Fund was up over 5% in absolute terms.
  - e) the underperformance relative to benchmark was driven by the private markets section of the portfolio where a listed equity benchmark is used as a proxy.
  - f) there was underperformance from the active management funds at Border to Coast offset by some positive performance from Newton.
  - g) In terms of transactions, we have now made the first investment into the Border to Coast global real estate mandate.
2. Members noted that real estate was to be discussed further under a Part 2 report later in the agenda and there was no further discussion at this point.

**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.

**34/24 COMPANY ENGAGEMENT & VOTING [Item 11]**

**Speakers:**

Mel Butler, Deputy Head of Investment & Stewardship

**Key points raised during the discussion:**

1. The Deputy Head of Investment & Stewardship introduced the report and highlighted the following areas:
  - The LAPFF active engagement in the different SDGs this quarter had been on numbers 8, 16 and 17. Number 8 was "Decent Work and Economic Growth", number 16 was "Peace, Justice and Strong Institutions" and number 17 could be summarised as "Working in Partnership towards Sustainable Development". This included an initiative spearheaded by Rathbones to address and deal with modern slavery.
  - Annex 4, which was the ESG report from the Border to Coast Emerging Markets Equity Alpha Fund. When the decision was made to move from the index driven Emerging Markets fund into the actively managed Emerging Markets fund from Border to Coast, one of the goals was to reduce the carbon footprint. That has happened; the financed carbon emissions per million dollars are down over 70% and the weighted average carbon intensity (WACI) down by half.

**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 March 2024 by LAPFF and Robeco through their engagement.
  - c) Noting the voting by the Fund in the quarter ended 31 March 2024.

**35/24 INVESTMENT STRATEGY – FIDUCIARY DUTY AND INVESTMENT BELIEFS [Item 12]**

**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship  
Neil Mason, LGPS Senior Officer

**Key points raised during the discussion:**

1. The LGPS Senior Officer reminded Members about discussions at the last meeting about a series of training and reflection sessions over the summer, addressing the Fund's overall investment beliefs. He ran through the sample agenda for the proposed three sessions.
2. In response to Members comments, the Head of Investment & Stewardship explained that the first item was going to include a refresher of where the Fund had come with the SDGs.
3. The Chair explained that he wished the whole committee to be involved with the sub-committee

**Actions/further information to be provided:**

None.

**Resolved:**

1. That a sub-committee be established to consider how the Committee's fiduciary duty in law relates to the objectives of the Fund and reaffirm investment beliefs.
2. That the proposed agenda for the sub-committee sessions be accepted.
3. That any proposed changes to the investment beliefs by the sub-committee be brought back to Committee for consideration.

**36/24 COMPETITION & MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES [Item 13]**

**Speakers:**

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

**Key points raised during the discussion:**

1. The Head of Investment & Stewardship introduced the report and explained that the CMA review of the investment consultant's objectives comes to each December meeting. At the last review in December, it was shown that there were several criteria and objectives that had been set in 2021 which were no longer as relevant to how we work together. As a result, the need for a review of those criteria and objectives was identified. Following that review, four of the criteria have been deleted, a couple of the objectives have been deleted and some have been merged and rewritten. The resulting criteria were more reflective of the work that Mercer were being asked to do.
2. Mercer agreed that the changes were relevant.

**Actions/further information to be provided:**

None.

**Resolved:**

That the updated Strategic Objectives for the Investment Consultant of the Fund in line with CMA requirements be approved.

**37/24 LGPS UPDATE (BACKGROUND PAPER) [Item 14]**

**Speakers:**

Neil Mason, LGPS Senior Officer  
Sandy Armstrong, Technical Manager

**Key points raised during the discussion:**

1. The LGPS Senior Officer highlighted the letter from the outgoing minister which was written to chief executives and section 151 officers of all the pension fund administration authorities. A draft was being prepared to respond that the challenge the Minister set, to demonstrate the pace of progress to the pooling objective. Also, to consider how and if further efficiencies could be made. The Surrey Pension Fund was well placed to answer these questions favourably. The response would be shared with the Chair of the Committee and Board prior to it being sent to the new minister.
2. There was a detailed discussion on what the Cost Cap was, how it came about and its implications.
3. In response to a query about the new Pensions Regulator Code, and compliance with it, the LGPS Senior Officer explained that it was planned to present a compliance report to the Pension Board in November.

**Actions/further information to be provided:**

None.

**Resolved:**

That the report be noted.

**38/24 RESPONSIBLE INVESTMENT UPDATE [Item 15]**

**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship

David Crum, Minerva

Steve Turner, Mercer

**Key points raised during the discussion:**

1. The Head of Investment & Stewardship introduced the report and explained the three sections to it. These had all come from previous agreed actions for the Committee. These were:
  - a) The RI policy annual review
  - b) A review of the investable universe in relation to potential net zero dates
  - c) The potential impact on the Fund of excluding the 25 largest fossil fuel companies

Policy Review

2. The Head of Investment & Stewardship stated that the policy holds up well against best practice so there had been very limited changes to some of the wording because the committee has now set a net zero date and we have brought in the new voting policy.
3. Minerva considered it from their perspective and got all the different stewardship experts to look at it from an external benchmarking perspective. He agreed the policy was in good shape.

Investable Universe

4. Mercer explained in detail the analysis done on several options for net zero dates. The result of which showed that the number of companies that were



aligning to 2030 and 2040 relative to 2050 were just too small in order to be able to construct a sensible diversified investment portfolio. It was therefore agreed to continue to do an annual update.

5. Mercer explained the analysis undertaken and the conclusion to the question: what does the market cap of available companies need to look like until we get to a point where we can perhaps have a more meaningful discussion about bringing forward the net zero date? Mercer's current thought was that the number of companies would need to get to around what they are for the 2050 date. It was accepted that the analysis wasn't perfect but provided a good basis on which to provide more information.
6. In response to a Member query about company interdependencies, Mercer explained that the analysis was purely factual based on the actual numbers of companies in the universe and the number of companies that have stated net zero dates.
7. A Member stated that the analysis showed the number of companies that had a 2050 date was relatively small and asked if that was because they were unable to meet at 2050 date or some other reason and what could change the situation. Mercer explained that it was a complex issue with many reasons but that it shouldn't be underestimated the amount of work and complexity that companies needed to do to put this in place.
8. The Committee discussed the moving trends shown in the analysis, with the view that due to movements the Fund should be looking at where the market will be, and not where it is now, when setting its own date.
9. The Committee went on to discuss powers of incentivisation as an investor for companies to lower their targets dates.

#### Exclusion Exercise of 25 largest fossil fuel companies

10. Mercer gave a detailed overview of the analysis undertaken. The list of companies analysed was pre agreed with the committee. Help with the analyses was sought from Border to Coast and Legal & General in order to quantify the impact on some investment and carbon metrics. Mercer looked at the impact of excluding the 25 companies from the relevant benchmarks for the equity funds, looking at the impact at the index level.
11. Mercer went on to explain the metrics, and statistical theory. The main headline was that the reduction in investable universe in terms of market cap for all the portfolios apart from UK was relatively modest, with the UK a bit more notable. The analysis then showed what impact exclusion of BP and Shell would have on returns versus the index, encapsulated by a system called "tracking error".
12. Mercer also explained that it is important to acknowledge that, if companies were excluded it could have a positive or negative effect. Acknowledging that this was a theoretical exercise to look at the impact of the investable universe, and then to think about what impact that could have on the ability to achieve expected returns and then to consider how that relates to what you need to achieve from a discount perspective. On this basis, then Mercer's view was that it was a relatively modest impact.
13. Members stated that the report merited further thought and discussion and wanted to see it on the agenda at a future meeting to discuss any divestment from fossil fuel and the impact of that as well as the process and cost of divestment. It was noted that the UK as an investment universe was overweighted towards fossil fuels compared to the global economy. It was noted that work would need to be undertaken with Managers.
14. The Committee had a detailed discussion about when and how this was to be taken forward for further discussion as it was important to discuss practicalities

as well as principles. Changes to the recommendations was muted but it was agreed that they remain as they were, with the commitment from the Chair to include this item on future agendas and as part of the subcommittee discussions.

**Actions/further information to be provided:**

That the issue of divestment be raised at future meetings on the subcommittee and Committee.

**Resolved:**

The Committee:

- a) Noted the alignment of the RI Policy to industry best practice.
- b) Noted the report by Mercer, the Fund's investment consultant, on the investable universe in relation to potential Net Zero dates.
- c) Noted the report by Mercer on the potential impact on the Fund from excluding the largest 25 fossil fuel companies globally from the Fund's investment universe.
- d) Noted the Fund's current underlying exposure to the largest 25 fossil fuel companies.

**39/24 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.

*At 13.50pm the Committee adjourned for 12 minutes and reconvened at 14.02pm*

*Duncan Eastoe left the meeting at 13.50pm*

**PART TWO – IN PRIVATE**

**40/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 17]**

**Resolved:**

That the Part 2 annexe to item 10 on the agenda (Minute 33/24) be noted.

**41/24 ACTUARIAL UPDATE [Item 18]**

**Speakers:**

Sara Undre, Acting Deputy Head of Accounting & Governance  
Colette Hollands, Senior Pensions Programme Manager

**Key points raised during the discussion:**

1. The Acting Deputy Head of Accounting & Governance introduced the Part 2 report and explained the reasons for requesting an extension to the actuary contract with Hymans Robertson who are content with this proposal.

**Actions/further information to be provided:**

None.

**Resolved:**

That the extension of the contract with Hymans Robertson for the provision of actuarial services to the Surrey Pension Fund; from 1 October 2024 until 30 September 2026 be approved.

**42/24 ASSET CLASS FOCUS – EQUITY [Item 19]**

**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship - introduce  
Anthony Fletcher, Apex Group  
Joe McDonnell, Border to Coast

**Key points raised during the discussion:**

1. The Independent Advisor gave a precis of the Part 2 report which focussed on equity as an asset class. He highlighted:
  - a) Performance against targets for Newton, Legal & General, and Border to Coast.
  - b) The longer term versus the shorter term performance and some idea of the magnitude of underperformance and outperformance.
  - c) The conversation with Border to Coast had improved but highlighted areas he thought were lacking.
  - d) He advised that Border to Coast must be held to account in the same way as any other investor that was used to manage our funds and three years was a reasonable period over which to assess the performance of individual managers.
2. Border to Coast explained that underperformance was a difficult situation for any asset manager and gave a brief explanation of what was happening in the portfolio. They were addressing this issue with portfolio adjustments. The representative sought to assure the Committee that he was very much focused on getting the portfolio to where it needed to be and making sure that there was better performance in a forward-looking basis.
3. The Committee discussed pools, the structure of them and comparisons between them as well as similarities of problems they faced.
4. Based on the discussions a further recommendation was added which the committee agreed.

**Actions/further information to be provided:**

None.

**Resolved:**

1. It is recommended that the Committee note the Fund's Equity holdings, their performance and the review from the Fund's Independent Investment Adviser.
2. That officers and advisors engage with the Border to Coast CIO to explore understanding and options for change.

**43/24 REAL ESTATE UPDATE [Item 20]**

**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship

Steve Turner, Mercer

**Key points raised during the discussion:**

1. The Head of Investment & Stewardship introduced the Part 2 report with an update on changes since March.
2. Mercer presented their Part 2 report differentiating between strategy related issues and implementation issues. In terms of strategy, Mercer were happy to support the proposals.

**Actions/further information to be provided:**

None.

**Resolved:**

1. That the review by the investment consultant of the BCPP UK Real Estate funds be noted.
2. That delegation of authority to the Interim Executive Director, Finance and Corporate Services, in consultation with the Assistant Director – LGPS Senior Officer and the Chair of the Pension Fund to invest in the BCPP UK Real Estate Main Fund, subject to necessary conditions being met was approved.

**44/24 BORDER TO COAST UPDATE [Item 21]**

**Speakers:**

Neil Mason, LGPS Senior Officer

Joe McDonnell, Ewan McCulloch and Sharmila Sikdar, Border to Coast

**Key points raised during the discussion:**

1. Border to Coast presented slides to the Committee that covered the development of the partnership; challenges faced, partnership evolution and the three strands to the Strategy 2030. They explained the extra services that could be provided by Border to Coast to support investment management services. This was a natural evolution for an asset owner to have the main asset manager provide these extra services. These were optional, but it was important for them to build them out for the partnership as a whole.

**Actions/further information to be provided:**

None.

**Resolved:**

1. That the further details of development of the proposed Border to Coast 2030 Strategy be noted.
2. That the minutes of the Border to Coast Joint Committee meeting of 26 March 2024, included in the background papers be noted.

**45/24 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.

#### **46/24 DATE OF NEXT MEETING [Item 23]**

The next meeting of the Surrey Pension Fund Committee will be on 13 September 2024.

#### **VOTE OF THANKS**

The Committee were informed that the Committee Manager, Angela Guest, was retiring and thanked her for the support she had provided to the Committee.

Meeting ended at: 14.58 pm

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**Chairman**