Notice of Meeting

Surrey Pension Fund Committee

Date and Time	Place	Contact	Web:
Friday, 13 December 2024 10.00 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Amelia Christopher, Committee Manager amelia.christopher@surreycc.gov.uk	Council and democracy Surreycc.gov.uk **X:** @SCCdemocracy

Committee Members:

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

Co-opted Members
Cllr Nirmal Kang (Borough & Districts), Cllr Claire Malcomson (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 Amelia Christopher, Committee Manager on amelia.christopher@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 Amelia Christopher, Committee Manager on amelia.christopher@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

To receive any apologies for absence and substitutions.

2 MINUTES OF THE PREVIOUS MEETING [13 SEPTEMBER 2024] (Pages 1 - 16)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or
(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*9 December 2024)*.
2. The deadline for public questions is seven days before the meeting (*6 December 2024)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 GLOSSARY, ACTION TRACKER & FORWARD PROGRAMME OF WORK (Pages 17 - 44)

For Members to consider and comment on the Pension Fund Committee's (Committee) actions tracker and forward programme of work.

6 SUMMARY OF THE LOCAL PENSION BOARD (Pages 45 - 52)

This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (15 November 2024) for noting or actioning by the Pension Fund Committee (the Committee).

7 THE GOVERNMENT'S CONSULTATION ON THE FUTURE OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) (Pages 53 - 116)

In November 2024, the government published a consultation entitled “Local Government Pension Scheme (England and Wales): Fit for the future”. This paper explores the key implications for the Surrey Pension Fund of government proposals in this consultation.

8 SURREY PENSION TEAM OVERVIEW - QUARTER 2 (Pages 117 - 128)

This paper is an overview of the entire service at a macro level. The One Pensions Team Dashboard is the primary vehicle for providing this overview. The dashboard covers the period July - September 2024.

9 CHANGE MANAGEMENT REPORT (Pages 129 - 134)

This paper details the Change Team Quarterly Report of activity for the period July – September 2024.

10 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE (Pages 135 - 154)

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

Note: Part 2 annexe at item 16.

11 COMPANY ENGAGEMENT & VOTING UPDATE (Pages 155 - 184)

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting carried out on behalf of the Surrey Pension Fund (Fund) by Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP). Also included is the direct voting record for the Fund over the period.

12 INVESTMENT STRATEGY - FIDUCIARY DUTY AND INVESTMENT BELIEFS UPDATE (Pages 185 - 186)

Investment decisions made by the Pension Fund Committee must be within the regulations, in accordance with fiduciary duty and aligned with agreed investment beliefs.

13 **ASSET CLASS FOCUS - PRIVATE MARKETS** (Pages 187 - 200)

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 paper concentrates on Private Markets and specifically the exposure to renewable energy.

14 **RECENT DEVELOPMENTS IN LGPS (BACKGROUND PAPER)** (Pages 201 - 210)

This report considers recent developments in 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 211 - 212)

Part 2 Annexe 1 to item 10 attached.

17 **PROCUREMENT OF THE PENSION ADMINISTRATION SOFTWARE** (Pages 213 - 222)

The Committee is asked to endorse the outcome of the recent procurement tender for the Pension Administration Software.

18 **BCPP GLOBAL EQUITY ALPHA UPDATE** (Pages 223 - 248)

The Fund's officers and advisors have been engaging with Border to Coast Pensions Partnership (BCPP) to better understand the investment philosophy, process and people behind the Alpha fund range after sustained underperformance against both the benchmarks and targets.

19 **RESPONSIBLE INVESTMENT UPDATE** (Pages 249 - 258)

Border to Coast Pensions Partnership (BCPP) reviews its Responsible Investment (RI) Policy, Climate Policy and Corporate Governance & Voting Guidelines annually. BCPP seeks support from the Partner Funds for these policies.

20 **COMPETITION & MARKETS AUTHORITY (CMA) - INVESTMENT CONSULTANT STRATEGIC OBJECTIVES** (Pages 259 - 270)

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

21 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE (Pages 271 - 280)

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

22 PUBLICITY OF PART 2 ITEMS

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

23 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Committee will be on 21 March 2025.

Terence Herbert
Chief Executive
Published: Thursday, 5 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 13 September 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:

(Present = *)
(Remote Attendance = r)

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

Co-opted Members:

- * Duncan Eastoe, Employees
- r Cllr Nirmal Kang, Borough & Districts
- r Cllr Claire Malcomson, Borough & Districts
- r Kelvin Menon, Employers

In attendance

Tim Evans, Chair of the Local Pension Board (remote)

The Chairman welcomed the two new co-opted members representing the Borough and Districts, thanking the outgoing co-opted members.

47/24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Kelvin Menon, Cllr Nirmal Kang, Cllr Claire Malcomson who all attended remotely.

48/24 MINUTES OF THE PREVIOUS MEETING [21 JUNE 2024] [Item 2]

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

49/24 DECLARATIONS OF INTEREST [Item 3]

There were none.

50/24 QUESTIONS AND PETITIONS [Item 4]

a There were no Member questions.

b Five public questions had been submitted, those and the responses were published in a supplementary agenda.

There were five supplementary questions:

SQ1 - Janice Baker: Asked whether a graphic such as a pie chart or explanation could be provided when Fund members are next sent letters about their pension, showing the amount of money invested in fossil fuels, animal farms, the community-built environment.

The Chairman noted that a lot of information was already published, there were summary newsletters and he noted the suggestion could be taken on board.

SQ2 - Jenifer Condit - on Jenifer's behalf Lindsey Coeur-Belle: Asked whether the Committee was aware of the L&G Low Carbon Transition Global Equity Index Fund and the L&G Low Carbon Transition Developed Markets Equity Index Fund; which might use lower carbon than that used for the Future World Fund.

The Chairman noted that when the decision was made to enter the Future World Fund for LGIM a range of possibilities were reviewed such as the Paris aligned fund and the Low Carbon Fund was chosen. The Committee is aware of the other funds and would review alternative strategies in the annual review. A Committee member noted that some of the funds mentioned in the supplementary question might not have existed at the time the Committee made that decision. He noted that at the time the focus was on Surrey Pension Fund's (the Fund) responsible investment policies, particularly around the Sustainable Development Goals; at the time the Paris aligned fund was climate focused.

SQ3 - Jackie Macey: Noted that the outcomes concerning the Pension Scheme Bill were unclear, hoped that the changes would not slow the progress the Fund had made in investing in sustainable markets and divesting in fossil fuels.

The Chairman noted that the detail was awaited, the Assistant Director - LGPS Senior Officer would provide comments on the relevant agenda item.

SQ4 - Lucianna Cole - on Lucianna's behalf Jackie Macey: Welcomed that ocean biodiversity was the next theme, asked for the names of the companies that Robeco were engaging with on the issue.

The Border to Coast (BCPP) representative explained that once the engagement theme was finalised, the target companies would be identified; and a written response could be provided.

SQ5 - Lindsey Coeur-Belle: Asked the Committee to demonstrate that its portfolio meets the Paris Agreement objectives of increasing funding for green solutions and reducing funding for polluting businesses and that fossil fuel producers in the portfolio have credible transition plans to achieve that. The Chairman noted that a written response would be provided.

A Committee member noted that BP did not have a credible transition plan and backtracked from previous plans, so the Fund voted against it but continued its investment.

c There were no petitions.

Actions/further information to be provided:

1. 6/24 - The suggestion to provide a graphic such as a pie chart or explanation when Fund members are next sent letters about their pension showing the amount of money invested in fossil fuels, animal farms, the community-built environment will be taken on board.

51/24 GLOSSARY, ACTION TRACKER & FORWARD PROGRAMME OF WORK [Item 5]

Speakers:

Neil Mason, Assistant Director – LGPS Senior Officer

Key points raised in the discussion:

1. The Assistant Director – LGPS Senior Officer noted the completion of actions.
2. A Committee member referred to action 3/24, around providing monthly snapshots of data to Committee and Board members. He was surprised that this would not be implemented until all the suggested dashboard amendments had been made, and queried why it was taking so long, the issue having been raised in June that snapshots could be provided with the data available. The Assistant Director – LGPS Senior Officer noted the timing issues with the data and issues with Fund members accessing that. He would provide the monthly snapshots in the Surrey Pension Team Overview items.
3. The Chairman noted the simpler format for the forward programme of work.

RESOLVED:

1. Noted the content of this report. Made no recommendations to the Local Pension Board.
2. Monitored progress on the implementation of recommendations from previous meetings in Annexe 2.
3. Reviewed and noted the Forward Programme of Work in Annexe 3.

Actions/further information to be provided:

None.

52/24 IMPROVING THE GOVERNANCE OF THE SURREY PENSION FUND [Item 6]

Speakers:

Neil Mason, Assistant Director – LGPS Senior Officer

Key points raised in the discussion:

1. The Assistant Director – LGPS Senior Officer noted that the report went through a rigorous consultation process. It reflected the relationship between the Council as a scheme employer in the Fund and as the administration authority. It sought to more effectively manage the potential conflicts of interest, there would be a requirement to annually bring a Conflict of Interest Policy to the Committee. The delegations had been tidied up. The services and products provided by the Council to the Fund had been reviewed. The recommendations from Internal Audit from their last governance audit were being met.
2. The Chairman noted that the proposed changes to the Constitution were modest but important. The review of services sought to understand the nature of the charges, introducing some Service Level Agreements.
3. A Committee member welcomed the management of conflicts of interest. He asked whether the changes in the report were in response to the possible impacts of potential future legislation including the delegation of investment decisions to officers. The Assistant Director – LGPS Senior Officer clarified that there were no changes in the delegation of what were Committee decisions to officers; the report was horizon scanning.

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4. A Committee member noted the arguments for the benefits of the Single Purpose Combined Authority such as resolving the conflict of interests and asked what the position was on that. The Chairman explained that the report by the independent pensions industry expert outlined the options available. It was a first step and he urged caution against making changes that future legislation might prohibit.
5. A Committee member noted that the right decisions should be made for governance based on the current situation. The indications from the Government were that combined authorities and equivalent bodies were their preferred route. He asked whether the issue would be revisited in the future and was unclear whether the Single Purpose Combined Authority would be considered. The Assistant Director – LGPS Senior Officer explained that the Single Purpose Combined Authority was a potential solution, the report was the first step on establishing better governance within the existing framework and the Constitution. Forming a combined authority was not viable in London Boroughs.
6. A Committee member noted concern that with a significant number of organisations around the county who were employers within the Fund, it would be sensible to wait until the Government's position is known. The Assistant Director – LGPS Senior Officer clarified that there were no radical changes proposed in the report, it improved governance best practice now. Organisations using the Fund should not be nervous as it ensured that the Fund was treating them equally to the Council.
7. The Vice-Chairman welcomed the commitment to benchmark costs and have clear Service Level Agreements in place, demonstrating that conflicts of interest were being managed and Fund employers and members get the right deal.

RESOLVED:

1. Supported the proposed changes to the Council's Pension Fund Committee Terms of Reference and Scheme of Delegations and recommended approval of these changes to SCC at the full Council meeting of 8 October 2024.
2. Noted that officers are exploring options for the future of SPF, as outlined in this report. Any proposed options to be taken forward will be subject to further consideration by the Pension Fund Committee and the Council's governance, legal and financial due diligence.

Actions/further information to be provided:

None.

53/24 SUMMARY OF THE LOCAL PENSION BOARD [Item 7]

Speakers:

Tim Evans, Chairman of Local Pension Board
Tom Lewis, Head of Service Delivery
Neil Mason, Assistant Director – LGPS Senior Officer

Key points raised in the discussion:

1. The Chairman of the Board highlighted that the issues with the Unit 4/MySurrey system had many consequences for the Council and the impact on the administration of the Scheme was considerable. Both he and the Committee's Chairman were attending monthly progress meetings to resolve the issues; the project deadline was March 2025. He also noted the letter from the Minister on pooling.

2. The Head of Service Delivery noted that he was a member of the newly established MySurrey Stabilisation Board so could ensure that the developments were fit for purpose. He welcomed the ring-fenced budget to address the critical improvements. Pensions work was a priority in the first workstream, the team was nearing the point where the reports could be run live. 2,000 cases had been unable to be processed due to the MySurrey issues, adjustments were being made. The incorrect configuration of contribution deductions was an issue, and work was needed on data rectification as the data migrated was insufficient. For the active membership 94% of Annual Benefit Statements had been delivered, that figure would be 97% in line with previous years, excluding the 88% figure for the County Council employees. An impact assessment rated the risk situation at Amber as there were efforts to fix the issues and an update would be provided to the Regulator.
3. Responding to the Chairman, the Head of Service Delivery clarified that the contact with the Regulator was from the enrolment office around monthly returns.
4. A Committee member noted that significant issues remained to resolve data quality. He asked what the current impact risk score was. The Head of Service Delivery noted that the score was at a sufficient level at 16/20, as timely services were maintained for those retiring or in need of an immediate benefit.
5. A Committee member asked whether the Committee could formally note its concern to Cabinet or Council as the service provided was negatively impacting the Fund members. The Chairman noted that he and the Chairman of the Board, had raised it formally and discussed the matter with the Section 151 Officer. A Committee member noted that the Resources and Performance Select Committee had revisited how far the Lessons Learned Review was embedded in, and that the report was welcomed by Cabinet. The Assistant Director – LGPS Senior Officer explained that as a result of the letter to the Section 151 Officer, there had been workshops including the lead Cabinet Member. Greater resource and commitment had been provided by the Council, and there was a positive trajectory.
6. A Committee member hoped that once an adequate Service Level Agreement was in place, there would be recompense. He stressed that data quality should have been sorted out before the information was transferred.
7. A Committee member explained that the Council had intended to change its supplier, however the existing provider gave little warning that they would stop providing the previous software. The task and finish group recommended that for future acquisitions a detailed review must be undertaken of the outcomes, and the transfer to MySurrey should have been done properly rather than too rapidly. The Chairman would jointly with the Chairman of the Board, follow-up the previous letter calling for adequate resources to meet the March 2025 deadline.
8. A Committee member emphasised that the Council should have had a contingency plan, and it should have accurately exported the data. There was a commercial relationship between a customer and a provider, and the supplier should be asked to recompense Fund members. The Chairman noted that Fund members could go through the Internal Dispute Resolution Procedure (IDRP) or go to the Regulator. The Assistant Director – LGPS Senior Officer noted that if the IDRP was invoked, compensation was awarded where appropriate, and the cost recharged to the Council as the responsible employer.

RESOLVED:

1. Noted the content of this report.
2. Made no recommendations to the Local Pension Board.
3. Delegated the Chairmen of the Committee and the Board to take the matter regarding MySurrey further with the appropriate officers at the Council.

Actions/further information to be provided:

1. 7/24 - The Chairman will jointly with the Chairman of the Board, follow-up the previous letter calling for adequate resources to meet the March 2025 deadline to resolve Unit4/MySurrey issues.

54/24 SURREY PENSION TEAM OVERVIEW - QUARTER 1 [Item 8]

Speakers:

Neil Mason, Assistant Director – LGPS Senior Officer
Tom Lewis, Head of Service Delivery

Key points raised in the discussion:

1. The Assistant Director – LGPS Senior Officer noted that the Fund has a very good funding ratio of 143%, its assets surpassed £6 billion for the first time. There had been some underperformance against benchmark. The legacy reduction programme was proceeding well. The team was focused on McCloud, the pensions dashboard, GMP and MySurrey rectification work; and acted as a pipeline of talent. He noted upcoming audits and follow-up work with the Internal Audit team.
2. The Chairman referred to the dashboard report and queried why the performance and grants and survivor benefits had decreased by 10%. The Head of Service Delivery noted that the performance of the previous team had been inconsistent due to the impact of MySurrey, vacancies and inefficient processes. The Immediate and Future Benefit teams had blended, enabling staff to have a broader understanding of casework, increasing resilience. Targets and objectives were being set and the August KPIs were significantly higher.

RESOLVED:

Noted the content of this report.

Actions/further information to be provided:

None.

55/24 CHANGE MANAGEMENT UPDATE [Item 9]

Speakers:

Nicole Russell, Head of Change Management

Key points raised in the discussion:

1. The Chairman welcomed the description of all the individual projects.
2. The Head of Change Management noted that the team worked with colleagues to ensure the delivery of the Annual Benefit Statements. The team was on track in terms of the business as usual communications; and had been nominated for several awards. The reports template had been updated to be accessible. The third staff survey closed in June, and the results remained similar. The successful lunch and learn programme continued. The team was supporting officers in the Surrey Pension team in their certificate of Pensions Administration; and was looking to help upskill the leadership capability of the Extended Leadership Team. Progress was underway on a Digital Transformation Strategy.

RESOLVED:

Noted the content of this report.

Actions/further information to be provided:

None.

56/24 DRAFT ANNUAL REPORT 2023/24 [Item 10]

Speakers:

Colette Hollands, Head of Accounting and Governance
Neil Mason, Assistant Director – LGPS Senior Officer

Key points raised in the discussion:

1. The Head of Accounting and Governance noted that the report followed the new statutory guidance that was issued by the Ministry of Housing, Communities and Local Government in April 2024, replacing the old CIPFA guidance. The new areas covered were: increased fund management, governance and investment information; and there was now a standardised way of reporting KPIs enabling an easier comparison with peers. A difference was that links replaced the need to include the hard copies of Fund policies. The statutory publication deadline is 30 November 2024. It has also been circulated to members of the Surrey Local Pension Board and their comments would be incorporated.
2. The Chairman queried the status of the audit of the accounts. The Head of Accounting and Governance noted that EY required 143 items of information, 59 items were accepted, 79 items were under review by EY and 4 items were outstanding. EY had three weeks' worth of on-site testing to undertake in the next few weeks. The Assistant Director – LGPS Senior Officer clarified that the draft annual report would be published even if the accounts are unaudited; that was not unusual. He commended the team for meeting the new guidance proactively.

RESOLVED:

1. Noted the content of the draft Annual Report, shown in Annexe 1.
2. Made no recommendations to the Local Pension Board.
3. Agreed that approval of the final version of the Report be delegated to the Chair, subject to an unqualified audit.

Actions/further information to be provided:

None.

57/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 11]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship
James Sparshott, LGIM
Adrian Brown, Independent Advisor
Kathy Vawter, LGIM
Steve Turner, Mercer
Milo Kerr, Border to Coast
Neil Mason, Assistant Director – LGPS Senior Officer

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Key points raised in the discussion:

1. The Head of Investment & Stewardship noted that the improved funding ratio of 143%, the dual effects of a lower discounted liability number and a higher asset number. Using the assumptions for that analysis at the last valuation, the funding ratio was 100%. The Fund underperformed the benchmark particularly the BCPP Global Alpha Fund and LGIM Europe Ex-UK.
2. The LGIM representative noted that they wrote to pooled Fund clients in June regarding the changes to the treatment of withholding tax on dividends concerning LGIM Europe Ex-UK. Investors in Swiss and Belgian companies incurred withholding tax on dividends of 35% and 30%. LGIM concluded that withholding tax paid on dividends from Swiss and Belgian holdings was no longer expected to be recoverable. An adjustment was made in June to the net asset value of the pooled funds by removing the accruals in those holdings. LGIM would continue to try and reclaim the tax for its clients and had engaged with HM Revenue and Customs. Other local authority funds were similarly affected.
3. The Chairman sought clarification that it was a one-off reversing out the accruals, delivery should be on track against the benchmarks going forward. The LGIM representative agreed and confirmed that they would continue to deliver market returns to the reference benchmark which was itself being reviewed.
4. A Committee member suggested that if no progress was being made on these issues, then investments should be withdrawn from those countries. The LGIM representative explained that the adjustment made in June reduced the net asset value of the funds, reflecting the decision and that they would continue to try and recover the withholding tax. The value of the LGIM Europe Ex-UK fund had been reduced by the amount of withholding tax, being -2.65%.
5. The Chairman noted that it was a passive fund. The LGIM representative explained that they would continue to mirror the reference benchmark and weightings of the different countries that make up the LGIM Europe Ex-UK.
6. A Committee member presumed that the tax liability changed the nature of investing, so the appropriate investment level would need to be reviewed. The Independent Advisor clarified that the matter concerned tax on dividends and not capital, the adjustment would take the drag out of the performance numbers.
7. The Independent Advisor queried what the legal view was about treating customers fairly regarding the adjustment. The LGIM representative noted that the legal opinion was that adjusting in one go was the best way to treat customers fairly, otherwise some may have withdrawn or adjusted their holdings. The Head of Investment & Stewardship emphasised that those were accruals over several years when the Fund was not involved in the LGIM Europe Ex-UK fund, units were being bought and sold at an inflated price.
8. Referring to the MSCI World Index, the Independent Advisor noted that the Fund had given itself a tough benchmark for private markets. The Head of Investment & Stewardship noted that the impact had been discussed in previous meetings.
9. A Committee member requested an update on the escalation to the Chief Investment Officer (CIO) concerning the BCPP Global Equity Alpha being the largest contributor to the Fund's underperformance. The Head of Investment & Stewardship noted that the Independent Advisor and Mercer met with the CIO, followed by meetings with BCPP and a workshop with partner funds. The Mercer representative noted frustration as it was not clear that BCPP were taking onboard the feedback from partner funds, however they were looking to introduce a new global equity manager. The BCPP representative noted the upcoming workshop to discuss partner funds' concerns further. Procurement was underway for the new manager, other changes needed would be considered.

10. A Committee member asked what the recourse was should BCPP not address the concerns. The Head of Investment & Stewardship explained that there were alternatives such as LGIM global funds, and the BCPP in-house managed global fund. The Mercer representative noted that it was unrealistic to leave the pool.
11. A Committee member queried whether the LGIM's alternatives would put the Fund in a difficult position in terms of the Government's desire for more pooled funds. The Chairman noted that could be the case; the alternative was to get the fund manager to address the concerns. The Assistant Director – LGPS Senior Officer explained that LGIM passive funds were classified as being under pooled management by the Government due to joint procurement with ten partner funds. Regarding BCPP, he clarified that the Fund was an owner and not just a customer, so could challenge issues.

RESOLVED:

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

Actions/further information to be provided:

None.

58/24 COMPANY ENGAGEMENT & VOTING UPDATE [Item 12]

Speakers:

Mel Butler, Deputy Head of Investment & Stewardship
Milo Kerr, Border to Coast

Key points raised in the discussion:

1. The Deputy Head of Investment & Stewardship noted the focus on climate change and impact on the Sustainable Development Goals. The finance engagement from LAPFF and Robeco were more focused, actively engaging with three of the big Canadian banks lending to oil and gas companies. Robeco broadened its engagement theme for finance to be nature-related issues. The Fund voted in forty annual general meetings to nearly 750 resolutions, voting against management in around 28% of those.
2. A Committee member welcomed Robeco's strengthening of attention to climate issues and the addition of nature. He highlighted Iberdrola, a Spanish energy company which was transitioning from its natural gas power plants and had a clear goal to reach net zero before 2050. By contrast, there were examples of north American/Canadian institutions where engagement by Robeco resulted in no meaningful change. Asked what action would be taken as three years of targeted engagement had not led to success, the Deputy Head of Investment & Stewardship explained that Robeco was BCPP's engagement partner, and BCPP followed the clear engagement strategy in the Responsible Investment Policy.
3. The BCPP representative noted that much of Robeco's engagement was over a multi-year period, and where the outcome was not favourable, escalation might be needed. He clarified that the steps to be taken regarding unsuccessful engagement was specific to each company. There was a stepped escalation approach to engagement and an ongoing consideration of risk. He would provide examples of organisations BCPP invests in and the engagement outcomes. The Committee member suggested that the report should outline the escalations.
4. A Committee member noted that artificial intelligence technology was a large area of investment globally, but high energy usage was a concern; suggested it be

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picked up as a future theme looking at the need to invest and the impacts. The Chairman noted that it would be useful to raise that matter with the advisors.

RESOLVED:

1. Reaffirmed 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 Sustainable Development Goal (SDG) alignment.
   b) Acknowledging the outcomes achieved for quarter ended 30 June 2024 by LAPFF and Robeco through their engagements.
2. Noted the voting by the Fund in the quarter ended 30 June 2024.

Actions/further information to be provided:

1. 8/24 - The BCPP representative will provide examples of organisations BCPP invests in and the engagement outcomes.
2. 9/24 - The Deputy Head of Investment & Stewardship will raise the matter of AI as a future theme with the advisors.

59/24 RESPONSIBLE INVESTMENT UPDATE [Item 13]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised in the discussion:

1. The Head of Investment & Stewardship noted that the Fund was a signatory to the UK Stewardship Code. The draft Task Force on Climate-related Financial Disclosures had been provided on a voluntary basis, and there had been significant decreases in all the metrics. A notable aspect was the switch last July from a passive emerging markets fund to an active one; there was an opportunity to outperform the benchmark, and the carbon exposure reduced by over 50%.
2. A Committee member welcomed the positive report.

RESOLVED:

1. Noted the success of the Fund's submission to become a signatory to the UK Stewardship Code.
2. Approved the Fund's TCFD report for the year 2023/24.

Actions/further information to be provided:

None.

60/24 ASSET CLASS FOCUS - REAL ESTATE [Item 14]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship
Adrian Brown, Independent Advisor
Milo Kerr, Border to Coast

Key points raised in the discussion:

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1. The Head of Investment & Stewardship noted the first drawdown in April from the BCPP Global Real Estate fund for a few million pounds. The Fund would potentially be committing from March 2025 to the BCPP UK Real Estate fund.
2. The Independent Advisor noted that 25% Global and 75% UK was managed by CBRE, their global fund would be a significant part of the BCPP global property offering. Performance on the UK fund was challenging, due to closed defined benefit pension funds selling their illiquid assets, but yields were attractive. Returns on the global fund would be around 9% and slightly less for the UK fund. He noted that the global fund was open and the transition to it was necessarily slow as BCPP added in more funds; it could take them 18 months to finalise the transition. Using the BCPP UK fund would provide exposure to direct properties.
3. A Committee member asked what steps were being taken to manage the potential future financial obligations of new regulations around building standards. The Independent Advisor noted that CBRE and the fund managers were reviewing the matter. He highlighted the energy efficiency accreditation of buildings, and with legislation about minimum efficiency ratings, portfolios were being moved. He mentioned the new government was keen to improve renters' rights, with the changes concerning landlords and tenants was undefined. The Committee member noted that the Fund's investments were commercial and industrial, where currently tenant rights and the standards required were market driven rather than regulatory driven.
4. The BCPP representative explained that regarding the global proposition, BCPP chooses the underlying managers and takes a sustainable approach through assessing the managers. Whereas for the UK proposition, it was advised by a third-party investment manager - but it makes the final decision on which properties to hold - and BCPP looked at the BREEAM and GRESB which measure the sustainability and quality of buildings.
5. The BCPP representative explained that there were two stages to the launch of the BCPP Global Real Estate Fund. Firstly, for partner funds with some exposure to global real estate the existing holdings would transfer in 12 to 18 months' time to get to full investment. Secondly, BCPP was in the process of deploying for the partner funds that want to invest additional capital into global real estate. One investment had been made, five more to follow. The BCPP UK Real Estate fund launch date was 1 October 2024, the existing properties would transfer over the first six months, opening for new investment from 1 April 2025.

RESOLVED:

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

Actions/further information to be provided:

None.

61/24 INVESTMENT CONSULTANT UPDATE [Item 15]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised in the discussion:

1. The Head of Investment & Stewardship noted that Mercer was appointed three years ago. The recommendation was to renew that contract for two more years; Mercer had knowledge of the Fund and had satisfactorily passed the Competition

2

and Markets Authority review of objectives.

RESOLVED:

Approved the extension of the contract with Mercer for the provision of investment consultancy services to the Surrey Pension Fund.

Actions/further information to be provided:

None.

62/24 RECENT DEVELOPMENTS IN LGPS (BACKGROUND PAPER) [Item 16]

Speakers:

Neil Mason, Assistant Director – LGPS Senior Officer

Key points raised in the discussion:

1. The Assistant Director – LGPS Senior Officer noted that the Government had issued a terms of reference for the pension review and a call for evidence with the response date of 25 September 2024. He was working with pooling partners and senior stakeholders to co-ordinate a response. The call for evidence covered three areas: scale and further consolidation, cost versus value, scope for greater UK investment. The Pensions Minister's statement made it clear that government departments were aligned on greater UK investment. It was expected that the Fund would be invited to speak to the Minister; there were upcoming meetings to discuss the matter.
2. Regarding the scope for greater UK investment, a Committee member hoped that the response would be subject to the Fund's fiduciary duties. The Assistant Director – LGPS Senior Officer noted that would be the case, it needed to be consistent with what needed to be delivered for Fund members and employers. The Chairman noted how little of the world equity markets were now UK listed, and this was an issue to the Government. The letter would be shared with Committee and Board members.

RESOLVED:

Noted the content of this report.

Actions/further information to be provided:

1. 10/24 - The Assistant Director – LGPS Senior Officer will share the letter responding to the call for evidence with Committee and Board members.

63/24 INVESTMENT BENCHMARKING [Item 17]

Speakers:

Fleur Dubbelboer, CEM Benchmarking
Joao Barata, CEM Benchmarking
Steve Turner, Mercer
Adrian Brown, Independent Advisor

Key points raised in the discussion:

1. The CEM Benchmarking representative presented the results of their assessment for the year ending 31 March 2023. She explained that funds benchmarked with CEM because it was independent, with data sourced from the funds directly. Compared to last year's report, the peer group had broadened to include funds of between £3.7 and £9.7 billion. The summary report on investment costs preserved the data's anonymity.
2. The investment costs incurred were driven by the asset mix and implementation choices. The difference in investment costs between the years was due to a decrease in performance fees and there was a slight increase in assets under management (AUM) base fees. The Fund's costs were broadly in line with its peers.
3. The Mercer representative queried whether for the Fund the overall allocation to private markets was lower than average. The CEM Benchmarking representative explained that it was on par with the global average, but lower than the LGPS average. She clarified that the overall fees were in line with the global peer group. The CEM Benchmarking representative explained that the peer group benchmark - 37 LGPS peers and global - was adjusted to reflect Surrey's asset mix and the peer group had roughly the same asset allocation.
4. The Chairman noted that the graph showed that the Fund was not performing as well as its peers. The CEM Benchmarking representative noted that the low Net Value Added for the Fund was due to the higher allocation to passive funds. The Net Total Return and Benchmark Return were above the LGPS median.
5. Regarding the better performance of some peers, the Vice-Chairman asked whether they had certain characteristics that explained their better performance. The CEM Benchmarking representative explained that white circles on the graph were global funds that operate under different regulatory environments and at different scale; the orange circles were LGPS funds which operated at a different scale and had a different asset mix. She could share a piece of research 'a case for scale' which noted the importance of asset mix and implementation style and choices. Some of those characteristics were down to costs.
6. The Independent Advisor noted that it looked like the non-pooled private assets were less expensive than the pooled ones. The CEM Benchmarking representative explained that pooled assets were the BCPP managed private assets funds, the high percentages were due to many of the pooled investments having recently started drawing down capital or were in the commitment phase.

RESOLVED:

Noted the content of the report by CEM Benchmarking.

Actions/further information to be provided:

1. 11/24 - The CEM Benchmarking representative will share 'a case for scale' which noted the importance of asset mix and implementation style and choices.

64/24 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

65/24 INVESTMENT BENCHMARKING [Item 19]

RESOLVED:

Noted the Part 2 Annexe 2 to item 17 (Minute item 63/24).

66/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 20]

RESOLVED:

Noted the Part 2 Annexes 1 and 2 to item 11 (Minute item 57/24).

67/24 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 21]

Speakers:

Neil Mason, Assistant Director – LGPS Senior Officer

Key points raised in the discussion:

1. The Assistant Director – LGPS Senior Officer noted that in its capacity as shareholder representative, Surrey County Council approved the Border to Coast 2030 Strategy on 30 July 2024. He noted that the strategy has anticipated much of what might happen in terms of future legislation.

RESOLVED:

1. Noted the shareholder approval of the Border to Coast 2030 Strategy.
2. Noted the minutes of the Border to Coast Joint Committee meeting of 20 June 2024, included in the background papers.

Actions/further information to be provided:

None.

68/24 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.

69/24 DATE OF NEXT MEETING [Item 23]

The date of the next meeting of the Committee was noted as 13 December 2024.

The Chairman reminded Committee members of the Board and Committee residential off site training on 23 and 24 October 2024, full details had been circulated.

Meeting ended at: 14.24 pm

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Chairman

50/24 QUESTIONS AND PETITIONS [Item 4]

Surrey Pension Fund Committee – 13 September 2024

Item 4b - Public Questions

Written Response to supplementary question(s)

Extract from the minutes:

SQ4 - Lucianna Cole - on Lucianna's behalf Jackie Macey: Welcomed that ocean biodiversity was the next theme, asked for the names of the companies that Robeco were engaging with on the issue.

The Border to Coast (BCPP) representative explained that once the engagement theme was finalised, the target companies would be identified; and a written response could be provided.

RESPONSE:

To follow.

SQ5 - Lindsey Coeur-Belle: Asked the Committee to demonstrate that its portfolio meets the Paris Agreement objectives of increasing funding for green solutions and reducing funding for polluting businesses and that fossil fuel producers in the portfolio have credible transition plans to achieve that. The Chairman noted that a written response would be provided.

A Committee member noted that BP did not have a credible transition plan and backtracked from previous plans, so the Fund voted against it but continued its investment.

RESPONSE:

Below is the level of net zero pathway alignment of the Fund's investments held through Border to Coast Pensions Partnership, BCPP.

Net Zero Pathway Alignment of % Financed Emissions of in-scope AUM by sub-fund 31 March 2024

	Net Zero	Aligned	Aligning	Committed to Aligning	Not aligned
UK Equity Alpha	0%	0%	34%	54%	12%
Emerging Markets Alpha	0%	0%	18%	54%	28%
Global Equity Alpha	0%	0%	49%	34%	17%
Listed Alts	0%	0%	37%	33%	30%

2 BCPP use forward-looking metrics, including the Transition Pathway Initiative (TPI) tool, CA100+ Net Zero Company Benchmark and the IIGCC's Net Zero Investment Framework (NZIF) Paris Alignment metric to assess companies' transition progress. They also consider the International Energy Agency (IEA) recommendations on key activities, by sector, needed to meet global Net Zero 2050 objectives and have real-world impact.

In August 2024, the TPI published Net Zero Standard for Oil & Gas Assessment Framework, developed by IIGCC. The aim of the assessment framework is to inform investors' corporate engagement priorities by developing metrics specific to the oil and gas sector that can be mapped to the IIGCC's Net Zero Investment Framework (NZIF) Paris Alignment metric to assess companies' transition progress. The new framework offers a sector-specific tool to assess the comprehensiveness and alignment of corporate transition plans, investigating aspects of transition planning disclosure that were historically not possible to assess due to low data availability such as corporate strategy and capital allocation disclosures.

The TPI's Management Quality score helps with their assessment of the quality of individual company climate governance, comparison with market peers across different geographies and identify areas where they are lagging to use as discussion points during engagement with the companies. TPI's Carbon Assessment scores helps with assessment of detailed aspects of each company's transition strategy, such as production plans and methane commitments. It separately assesses the level of company climate disclosure, the alignment of that disclosure with the IEA's NZE climate scenario, as well as strategies to diversify into low carbon activities along with capital allocation.

Currently the TPI has assessed 10 of the world's largest, publicly listed oil and gas companies against the Standard, five from Europe and five from North America.

The assessed oil and gas holdings relevant to Surrey are:

1. BP
2. ConocoPhillips
3. Shell

Under the NZIF alignment criteria, BP and Shell are classified as 'aligning to a net zero pathway' while ConocoPhillips is classified as 'committed to aligning'.

BCPP are incorporating the new assessment framework into our Carbon Risk Assessment for oil and gas companies and will monitor progress going forward.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 DECEMBER 2024**

LEAD OFFICER: **NEIL MASON, LGPS SENIOR OFFICER**

SUBJECT: **GLOSSARY, ACTION TRACKER & FORWARD PROGRAMME OF WORK**

SUMMARY OF ISSUE:

For Members to consider and comment on the Pension Fund Committee's (Committee) actions tracker and forward programme of work.

RECOMMENDATIONS:

It is recommended that the Committee is asked to:

1. Note the content of this report and

2. Make any recommendations to the Local Pension Board if appropriate.

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

4. Review and note any changes on the Forward Programme of Work 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 programme of work is attached as Annexe 3 for noting.

Contact Officer: Neil Mason, LGPS Senior Officer

Annexes:

1. Glossary – Annexe 1
2. Action Tracker – Annexe 2
3. Forward Programme of Work – Annexe 3

Sources/background papers:

1. None

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Glossary

FOR SURREY LOCAL PENSION BOARD REPORTS & SURREY PENSION FUND COMMITTEE

Surrey Pension Team

Surrey Pension Team

Providing our customers with a better tomorrow

Glossary

Explanation of Abbreviations and Acronyms

The following is a list of abbreviations and acronyms that have occurred in reports to the Surrey Local Pension Board or Surrey Pension Fund Committee, It is not intended to be an exhaustive list of those used throughout the Surrey Pension Fund, however it will be reviewed prior each Meeting and updated should new examples occur.

Definition - A to Z

A B C D E F G H I J

K L M N O P Q R S T

U V W X Y Z

Index	Definition
A	**Back to Index**
AAF	Audit and Assurance Faculty
ABS	Annual Benefit Statement
ACGA	Asian Corporate Governance Association
ACS	Authorised Contractual Scheme, the collective investment scheme used by Border to Coast for asset pooling
AI	Artificial intelligence
AICPA	American Institute of Certified Public Accountants
AIFM	Alternative Investment Fund Manager
APR	Annual Percentage Rate

ARE	Asia Research Engagements
ASB	**Accounting Standards Board:** UK body that sets accounting standards. A subsidiary body of the Financial Reporting Council
AUM	Assets Under Management
AVC	Additional Voluntary Contributions
B	**Back to Index**
B of E	Bank of England
BAU	Business as usual
BBB	British Business Bank
BCE	Benefit Crystallisation Events
BCP	Business Continuity Plan
BCPP	Border to Coast Pensions Partnership
BIA	Business Impact Assessments
C	**Back to Index**
CARE	Career Average Revalued Earnings
CAY	Compensatory Added Years
CBRE	Coldwell Banker Richard Ellis
CCB	China Construction Bank
CDP	Climate Disclosure Projects
CETV	Cash Equivalent Transfer Value
CI	Continuous Improvements
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy

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CLG	Communities and Local Government (former name of MHCLG)
CMA	Competition and Markets Authority
COD	Contracted Out Deduction
COO	Chief Operating Officer
COP	Conference of Parties, A UN conference on climate change
CPI	Consumer Price Index
CRC	Compliance and Reporting Committee
CRT	Customer Relationship Team
CRRF	Council Risk and Resilience Forum
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental, and ethical performance

D

[Back to Index]

DAA	Dynamic Asset Allocation
DCU	Deferred choice underpin
DGF	Diversified Growth Fund
~~DLUHC~~	~~Department for Levelling up, Housing and Communities~~ (see MHCLG)
DWP	Department for Work and Pensions

E

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ECB	European Central Bank
ELT	Extended Leadership Team
EM	Emerging Markets
EMEA	Europe, The Middle East & Africa
EMT	Emergency Management Team

ESG	Environmental, Social and Governance – factors in assessing an investments sustainability
ESOG	Effective System of Governance
EU	European Union
EY	Ernst and Young
F	**Back to Index**
FAIRR	Farm Animal Investment Risk and Return
FCA	Financial Conduct Authority
FED	Federal Reserve
FOI	Freedom of Information
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
FX	Foreign Exchange
G	**Back to Index**
GAAP	Generally Accepted Accounting Practice
GAD	Government Actuary’s Department
GCOP	General Code of Practice
GDP	Gross Domestic Product
GEM	Global Emerging Markets
GMP	Guaranteed Minimum Pension
GRESB	Global ESG Benchmark for Real Assets

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H	Back to Index
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury
I	Back to Index
IAASB	International Auditing and Assurance Standards Board
ICARA	Internal Capital and Risk Assessment
ICGN	International Corporate Governance Network
IDRP	Internal Dispute Resolution Procedure
IFAC	International Federation of Accountants
IIGCC	Institutional Investor Group on Climate Change
INFRA.	Infrastructure
IPDD	Investor Policy Dialogue on Deforestation
IRR	Internal Rate of Return
ISAE3402	The International Standard on Assurance Engagements (ISAE) number 3402 supersedes SAS70, "Assurance Reports on Controls at a Service Organisation", was introduced in December 2009 by the International Auditing and Assurance Standards Board (IAASB), which is part of the International Federation of Accountants (IFAC).
ISS	Investment Strategy Statement
ISSB	International Sustainability Standards Board
ISP	integrated service providers
J	Back to Index
JC	Joint Committee

K	[Back to Index](#)
KOSPI	Korea Composite Stock Price Index
KPIs	Key Performance Indicators
KRX	Korea Exchange
L	[Back to Index](#)
LAC	Lifetime Allowance Charge
LAEF	Lifetime Allowance Enhancement Factor
LAPFF	Local Authority Pension Fund Forum
LGA	Local Government Association
LGE	Local Government Employers
LGIM	Legal and General Investment Management
LGPS	Local Government Pension Scheme
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LOLA	Local Government Pension (LGPS) Scheme Online Learning Academy
LPB	Local Pension Board
LSA	Lump Sum Allowance
LSDBA	Lump Sum and Death Benefit Allowance
LSE	London Stock Exchange
LTA	Lifetime Allowance
M	[Back to Index](#)
MAC	Multi Asset Credit
MaPS	Money and Pensions Service

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MHCLG	Ministry of Housing, Communities and Local Government
MI	Management Information
MSCI	Formerly Morgan Stanley Capital International, publisher of global indexes
N	**Back to Index**
NED	Non-Executive Director
NRA	Normal Retirement Age
NT	Northern Trust, Global Custodian
O	**Back to Index**
OECD	Organisation for Economic Co-operation and Development
OOG	Officer Operations Group
ORA	Own Risk Assessment
OTA	Overseas Transfer Allowance
P	**Back to Index**
PASA	Pension Administration Standards Association
PCLS	Pension Commencement Lump Sum
PDP	Pensions Dashboard Programme
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PMI	Purchasing Managers' Index
PRI	The UN-supported Principles for Responsible Investment
PSLT	Pension Senior Leadership Team

PSPS	Public Service Pension Scheme
Q	**Back to Index**
QROPS	Qualifying Recognised Overseas Pension Schemes
R	**Back to Index**
RBCE	Relevant Benefit Crystallisation Events
RI	Responsible Investment
RPI	Retail Price Index
S	**Back to Index**
S&P	Standard and Poors, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972.
SAB	Scheme Advisory Board
SAS70	Statement on Auditing Standards (SAS) No. 70 – relating to service organisation control reports – successor reports include information about a service organisation’s controls and risk management procedures relating to financial reporting (SSAE16/ISAE3402) or to security, availability, processing integrity, confidentiality and privacy (SOC2)
SCAPE	Superannuation Contributions Adjusted for Past Experience
SCC	Surrey County Council
SDG	Sustainable Development Goals
SEC	Security and Exchange Commission
SILB	Sterling Index Linked Bonds
SLA	Service Level Agreements
SLA	Standard Lifetime Allowance

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SOC2	System and Organisation Controls type 2 - SOC 2, aka Service Organization Control Type 2, is a cybersecurity compliance framework developed by the American Institute of Certified Public Accountants (AICPA). The primary purpose of SOC 2 is to ensure that third-party service providers store and process client data in a secure manner.
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
SPA	State Pension Age
SPT	Surrey Pension Team
SSA16	SSAE 16, or the Statement on Standards for Attestation Engagements No. 16, is a set of auditing standards and guidance on using the standards published by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) for redefining and updating how service companies report on compliance control
T	**Back to Index**
TCFD	Taskforce on Climate Related Financial Disclosures
TPAS	The Pension Advisory Service (formerly OPAS)
TPO	The Pension Ombudsman
tPR	The Pensions Regulator
TPS	Teachers’ Pension Scheme
TV	Transfer Value
U	**Back to Index**
UFPLS	Uncrystallised Funds Pension Lump Sum
UNSDGs	United Nations Sustainable Development Goals
W	**Back to Index**
WBA	World Benchmarking Alliance

WCA	Web Content Accessibility
WDI	Workforce Disclosure Initiative

Accounting Terms

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Definition - A to Z

A	B	C	D	E	F	G	H	I	J
K	L	M	N	O	P	Q	R	S	T
U	V	W	X	Y	Z				

A Back to Accounting Definitions

Accounting Period
The length of time covered by the accounts. In the case of these accounts, it is the year from 1 April to 31 March.

Accrual Basis
The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

Accrued Expense
Expenses that have been incurred but not yet paid.

Accrued Revenues
Revenues that have been earned but not yet received.

Actuarial Gains and Losses
Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

Actuarial Valuation
A three yearly valuation of the Fund undertaken by the Actuary to ensure that the Pension Fund is sufficiently well managed and that its assets meet its liabilities. Employer contribution rates are set as part of the valuation process.

Actuary
A professionally qualified independent person appointed by the administering authority in order to value the Pension Fund and therefore set contribution rates.

Amortisation
A measure of the cost of economic benefits derived from intangible assets that are consumed during the period.

Asset
Any resource owned by an entity that has economic value and is expected to provide future benefits.

Audit
An independent examination of an organisation's financial statements and related operations to ensure accuracy and compliance with applicable laws and regulations.

B Back to Accounting Definitions

Balance Sheet
A financial statement that shows an organisation's assets, liabilities, and equity at a specific point in time.

Balances
These represent the accumulated surplus of revenue income over expenditure.

Book Value
The value of an asset as it appears on the balance sheet, calculated as the asset's original cost minus accumulated depreciation.

Budget
An expression, mainly in financial terms, of the Authority's intended income and expenditure to carry out its objectives.

C Back to Accounting Definitions

Capital Adjustment Account
The Account accumulates (on the debit side) the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance Capital expenditure. The balance on the account thus represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital
Financial assets or the financial value of assets such as cash, equipment, and property.

Capital Expenditure

Payments for the acquisition, construction, enhancement, or replacement of non-current assets that will be of use or benefit to the Authority in providing its services for more than one year.

Cash Equivalents

Short term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Cash Flow Statement

A financial statement that shows the cash inflows and outflows from operating, investing, and financing activities.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the main professional body for accountants working in public services.

Contingent Liability

A contingent liability is either:

- A possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Authority; or
- A present obligation arising from past events where it is not probable that there will be an associated cost, or the amount of the obligation cannot be accurately measured.

Creditors

Amounts owed by the Authority for work done, goods received, or services rendered, for which payment has not been made at the balance sheet date.

Current Service Cost

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

D

Back to Accounting Definitions

Debit

An entry that represents an increase in assets and a decrease in liabilities or equity. It represents the ownership interest.

Debtors

Amounts due to the Authority that have not been received at the balance sheet date.

Depreciation
The measure of the consumption, wearing out or other reduction in the useful economic life of non-current assets that has been consumed in the period.

E Back to Accounting Definitions

Employee Benefits
Amounts due to employees including salaries, paid annual leave, paid sick leave, and bonuses. These also include the cost of employer's national insurance contributions paid on these benefits, and the cost of post-employment benefits, i.e. pensions.

Equity
The residual interest in the assets of an entity after deducting liabilities. It represents the ownership interest.

Expected Rate of Return on Pensions Assets
The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the pension scheme.

F Back to Accounting Definitions

Fair Value
The amount for which an asset could be exchanged, or a liability settled, in an orderly transaction between market participants at the measurement date.

Fair Value Hierarchy and Inputs
In measuring fair value of assets and liabilities, the valuation technique used is categorised according to the extent of observable data that is available to estimate the fair value – this is known as the fair value hierarchy. Observable inputs refers to publicly available information about actual transactions and events in the market. Unobservable inputs are used where no market data is available and are developed using the best information available. The fair value hierarchy has three levels of inputs: Level 1: Quoted prices for identical items in an active market – i.e. the actual price for which the asset or liability is sold; Level 2: Other significant observable inputs – i.e. actual prices for which similar assets or liabilities have been sold; Level 3: Unobservable inputs – i.e. where market data is not available and other information is used in order to arrive at a best estimate of fair value.

Financial Accounting
The branch of accounting focused on recording summarizing and reporting an organisation's financial transactions to external users.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities, from straightforward trade receivables (invoices owing) and trade payables (invoices owed) to complex derivatives and embedded derivatives.

Financial Ratios

Metrics used to evaluate a company's financial performance and Liquidity such as current ration, debt to equity ratio, and return on equity.

G Back to Accounting Definitions

General Fund

The main revenue fund of the Authority which is used to meet the cost of services paid for from the Pension Fund for which the Authority is the administering authority.

General Ledger

A complete record of all financial transactions of a business organised by accounts.

Goodwill

The excess of the purchase price of a business over the fair value if its identifiable assets and liabilities.

I Back to Accounting Definitions

Income Statement

A financial statement that shows an organisation revenues, expenses and net income or loss over a specific period.

Intangible Assets

Assets that do not have physical substance but are identifiable and controlled by the Authority. Examples include software and licences.

Interest Cost

For defined benefit pension schemes, the interest cost is the present value of the liabilities during the year as a result of moving one year closer to being paid.

J Back to Accounting Definitions

Journal Entry

The recording of a financial transaction in the accounting system.

Journal

The record where all financial transactions are initially recorded before they are posted to ledger accounts.

L Back to Accounting Definitionss

Leasing
A method of acquiring the use of capital assets for a specified period for which a rental charge is paid.

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Liability
An amount due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are those that are payable within one year of the balance sheet date.

N Back to Accounting Definitions

Net Book Value
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value, less the cumulative amount provided for depreciation.

Non-Current Asset
An item that yields benefit to the Authority for a period of more than one year.

O Back to Accounting Definitions

Operating Expenses
Expenses incurred in the ordinary course of business such as rent, salaries and utilities.

Overhead
The indirect costs of running a business such as administrative expense and utilities.

P Back to Accounting Definitions

Past Service Cost
Past service costs arise from decisions taken in the current year but whose financial effect is derived from service earned in earlier years.

Prepaid Expenses
Expenses paid in advance which will be recognised as expense in future accounting periods.

R Back to Accounting Definitions

Reserves
The residual interest in the assets of the Authority after deducting all of its liabilities. These are split into two categories, usable and unusable. Usable reserves are those reserves that contain resources that an authority can apply to fund expenditure of either a revenue or capital nature (as defined). Unusable reserves are those that an

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authority is not able to utilise to provide services. They hold timing differences between expenditure being incurred and its financing e.g. Capital Adjustment Account.

Retained Earnings

The cumulative earnings of a company that have not been distributed to shareholders as dividends.

Revenue Expenditure

Spending incurred on the day-to-day running of the Authority. This mainly includes employee costs and general running expenses.

S Back to Accounting Definitions

Statement of Retained Earnings

A financial statement that shows the changes in retained earnings over a specific period, including net income, dividends and prior period adjustments.

T Back to Accounting Definitions

Tax Accounting

The branch of accounting focused on calculating and managing taxes owned by an organisation to governmental agencies.

Trial Balance

A list of all the account balance s in the ledger to check the accuracy of the debits and credits

U Back to Accounting Definitions

Useful Economic Life

The period over which the Authority expects to derive benefit from non-current assets.

W Back to Accounting Definitions

Write off

The difference between current assets and current liabilities representing the short-term financial health of a business.

Working Capital

The difference between current assets and current liabilities, representing the short-term financial health of a business.

Further definitions A- Z glossary of pension terms and abbreviations and what they mean can be found on the Surrey Pension website

Annexe 2

Surrey Pension Fund Committee - Action Tracker
13 December 2024

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
5/24	21 June	Responsible Investment Update	That the issue of divestment be raised at future meetings on the subcommittee and Committee.	Head of Investment & stewardship	To be further considered at Session 3 of the investment beliefs training series.
6/24	13 September	Questions And Petitions	The suggestion to provide a graphic such as a pie chart or explanation when Fund members are next sent letters about their pension showing the amount of money invested in fossil fuels, animal farms, the community-built environment will be taken on board.	LGPS Senior Officer	Consideration as part of the review of the Communications policy.
7/24	13 September	Summary of the Local Pension Board	The Chairman will jointly with the Chairman of the Board, follow-up the previous letter calling for adequate resources to meet the March 2025 deadline to resolve Unit4/MySurrey issues.	Surrey PFC and Surrey LPB Chairmen	MySurrey update circulated by email to staff and Councillors by the CEO on 23/09/24. A further update and system downtime circulated by email to staff and Councillors by Section 151 Officer on 22/11/2024. Chairs of both Board and Committee continue to be regularly updated, on MySurrey (Unit4).

Annexe 2

Surrey Pension Fund Committee - Action Tracker
13 December 2024

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
8/24	13 September	Company Engagement & Voting Update	The BCPP representative will provide examples of organisations BCPP invests in and the engagement outcomes.	BCPP representative	Email Circulated to members of the Board on 25/10/2024 Border to Coast publish quarterly and annual stewardship reports detailing engagement efforts as an organisation. The annual stewardship report, published in July 2024, includes a number of engagement examples that demonstrate their approach to escalation and the successful outcomes from activities. COMPLETE
3/24	21 June	Surrey Pension Team Overview	That the Head of Change Management provide monthly snapshots of the data to Committee and Board Members.	Head of Change Management	Circulated to members of Board & Committee on 04/12/2024, as part of the weekly update from the LGPS Senior Officer W/C 2/12/2024. COMPLETE
9/24	13 September	Company Engagement & Voting Update	The Deputy Head of Investment & Stewardship will raise the matter of AI as a future theme with the advisors.	Deputy Head of Investment & Stewardship	To be reviewed with Border to Coast as part of the RI review. Request sent to BCPP. COMPLETE
10/24	13 September	Recent Developments in LGPS (Background Paper)	The Assistant Director – LGPS Senior Officer will share the letter responding to the call for evidence with Committee and Board members.	LGPS Senior Officer	Email Circulated to the Board and Committee on 27 September 2024 with the response from SCC and Border to Coast Pensions Partnership in respect of the Call for Evidence in support of the first phase of the Pensions Review.

Annexe 2

Surrey Pension Fund Committee - Action Tracker
13 December 2024

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
8/24	13 September	Company Engagement & Voting Update	The BCPP representative will provide examples of organisations BCPP invests in and the engagement outcomes.	BCPP representative	Email Circulated to members of the Board on 25/10/2024 Border to Coast publish quarterly and annual stewardship reports detailing engagement efforts as an organisation. The annual stewardship report, published in July 2024, includes a number of engagement examples that demonstrate their approach to escalation and the successful outcomes from activities. COMPLETE
11/24	13 September	Investment Benchmarking	The CEM Benchmarking representative will share 'a case for scale' which noted the importance of asset mix and implementation style and choices	CEM Benchmarking representative	Scale report from CEM Benchmarking sent to Committee members November 2024. COMPLETE

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Standing Item for each meeting

Item Number	Report Title	Responsible Service within Pensions
1.	Glossary, Action Tracker, Forward Programme of work	A&G
2.	Surrey Pension Team Overview – Dashboard update	All – A&G, I&S, CM,SD
3.	Change Programme Update	CM
4.	Surrey Local Pension Board Summary	A&G
5.	Border to Coast Pension Partnership update (BCPP)	LGPS, Senior Officer
6.	Investment and Funding Update	I&S
7.	Engagement and Voting Update	I&S
8.	Asset Class Focus	I&S
9.	Responsible Investment Update	I&S
10.	LGPS – Background report	A&G

Key

Accounting & Governance (A&G)

Investment & Stewardship (I&S)

Change Management (CM)

Service Delivery (SD)

Pension Fund Committee Forward Programme of Work

Annexe 3

Surrey Pension Team

25 November 2024 – Hymans Robertson Training - Session 1 Modelling Climate Risk, via Microsoft Teams.

Date:13 Dec 2024

Item Number	Report Title	Responsible Service within Pensions
11.	Investment Consultant CMA review	I&S
12.	Actuarial Update inc Valuation 2025 (included in Surrey Pension Board Summary)	A&G
13.	Investment Beliefs Update	I&S
14.	BCPP Global Equity Alpha Review	I&S
15.	The Government's Pension Review	LGPS Senior Officer

6 or 7 January 2025 (TBC) meeting online to discuss Pensions Review and the Local Government Pension Scheme consultation response

15 January 2025 Hymans Robertson Training - Session 2 via Microsoft Teams

21 March 2025 Hymans Roberton Training – Session 3 In person in Committee Room, Woodhatch Place, Reigate

Date: 21 March 2025

Item Number	Report Title	Responsible Service within Pensions
16.	Communication Policy	CM
17.	Training Policy	CM
18.	Conflicts of Interest Review	A&G
19.	Consider findings of the investment beliefs	I&S

20.	General Code of Practice update	A&G
21.	External Audit Update	A&G
22.	Actuarial Update inc Valuation 2025	A&G
23.	Progress of the 2023/24 Business Plan	A&G

Date: 30 June 2025

Item Number	Report Title	Responsible Service within Pensions
24.	Surrey Pension Team Strategic Outturn Report 2024/25	All – A&G, I&S, CM,SD

Date: 15 September 2025

Item Number	Report Title	Responsible Service within Pensions
25.	Draft Annual Report	A&G
26.	Investment Benchmarking	I&S

October 2025 TBC Residential Board and Committee Training

Date: 15 December 2025

Item Number	Report Title	Responsible Service within Pensions
27.	Investment Consultant CMA review	I&S
28.	Actuarial Update inc Valuation	A&G

Surrey Pension Team

Pension Fund Committee Forward Programme of Work

Annexe 3

Date: 23 March 2026

Item Number	Report Title	Responsible Service within Pensions
29.	Communication Policy	CM
30.	Training Policy	CM
31.		

SURREY PENSION FUND COMMITTEE REPORT

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: SUMMARY OF THE LOCAL PENSION BOARD

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 (15 November 2024) for noting or actioning by the Pension Fund Committee (the Committee).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the content of this report.
2. Makes any recommendations to the Local Pension Board if required.

REASON 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:

1. The Chair welcomed new Board member Lisa Fogerty-Scott and advised the Board that David Lewis – Vice Chair has stepped down from Council duties due to ill health. Therefore, steps to appoint a new Vice Chair, along with seeking a nomination for a new Board member are in progress.

2. The Chair expressed his thanks to David Lewis,for the work he has done while being a member of the Board.

Glossary, Actions Tracker, & Forward Programme of Work

3. The Board considered the Action Tracker, Forward Programme of Work and Glossary.

4. The LGPS Senior Officer advised Members of the Board other areas for discussion will be informed by next year’s SPT Strategic Plan.

Summary of the Pension Fund Committee Meeting on 13 September 2024

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5. The Chair of the Pension Fund Committee presented a summary of the Committee meeting held in September 2024. The Chair emphasised how well funded the Fund is and that the Fund performance is good, although a little behind the benchmark.

Improving the Governance of the Surrey Pension Fund Update

6. The Board received an update from the LGPS Senior Officer on the changes to the governance of the Surrey Pension Fund. This report detailed an issue that was discussed previously at the Board and was endorsed by the Committee, defining and understanding the relationship between the Pension Fund and the County Council.

7. The proposed changes to the governance structure were approved at full Council on 8 October 2024.

Surrey Pension Team Overview – Dashboard Update

8. The LGPS Senior Officer presented a report on Surrey Pension Team Overview - Dashboard Update, highlighting a number of key areas:

    a) The current value of the fund
    b) The legacy reduction rate continues to perform strongly
    c) Accounting & Governance legacy work
    d) Progress against the audit plan for the current financial year
    e) A third pulse survey (Staff survey) closed on 30 June 2024 results indicate the team continues to be on track against the strategic plan.

9. The Head of Accounting & Governance provided an update on the legacy items in this area. This relates to old ledger entries transferred to the new system. Of the total legacy items identified, 61% of these have been cleared and work continues with external audit to identify and clear items in the current year.

Change Management Update - Quarter 2

10. The Board received an update on the activities of the Change Management Team during the period July to September 2024. This included communication and amplifying our presence, including video interviews on LinkedIn and a Lunch and Learn session that was presented on allyship. The Head of Change Management confirmed the Fund’s success of winning the Impact Investing Principles Adopter award at the Pensions for purpose awards.

Service Delivery Overview

11. The Head of Service Delivery provided an update on performance for quarter two. The following items were highlighted:

    a) Performance for the quarter has increased by 7% from 85% to 92% of case work; exceeding our performance target with transfers, refunds, deferred benefits and acknowledgement of members passing away, equally the same with retirements and ill health cases. 6

    b) GMP update – an agreement is now in place with Mercer, with work to update the deferred member cases imminently.

    c) McCloud update –Testing of the bulk interface tools and calculations has been undertaken. Capacity planning is taking place to ensure resource is available to cover both these projects

    d) Confirmed the number of annual benefits statements issued, active 94%, deferred 99.95%.

    e) Legacy case reduction now stands at 93%. The team are now dealing with the more challenging queries that are more time consuming to complete.

    f) Working with a third-party Crown Agents Bank using biometrics for existence checking of the overseas pensioners. There are 612 overseas pensioners of which 250 responses have been received. This work is to be completed by the end of December.

    g) Board Member Jeremy Webster visited Dakota to meet the Surrey Pension Team. He stated how useful and informative he had found the visit and recommends all Board Members spending time with the team. A proposal was put forward to have one meeting at Dakota of the Local Pension Board and meet the team.

12. The Board received four annexes to review and comment on: -

Title of Annexe	Summary of Annexe
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).
Annexe 2.	Provides a comparative quarterly performance trend analysis.
Annexe 3	A summary of the most common categories of cases being terminated.
Annexe 4	Provides details of ten complaints received during this period.

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13. The Chair of the Committee suggested looking at the KPI and benchmarking with industry standards. The Head of Service Delivery advised that a report has been received from CEM Benchmarking looking at administration, communication and digital services, in terms of value for money. The outcome of this will be summarised and brought to the Board meeting in February.

Risk Register Update 2024/25 Quarter 2

14. The Head of Accounting and Governance presented a report detailing the process in Annexe 1 that was followed to undertake the review of the risk register. This resulted in 51 sub ids being reviewed and re rated individually. Annexe 2 provides the detail of the approach and how the individual sub id rating had changed.

15. The next steps agreed through PSLT and the Extended Leadership Team (ELT) is to create individual team risk registers which will be reviewed monthly and to develop a service Risk Management Strategy.

16. Two Board Members made suggestions to the risk register one highlighting clearly reflecting in the risk register the work currently being addressed on the conflict of interest between Surrey County Council and Surrey Pension Team. The other suggesting adding some narrative for the five key risks identified.

17. The Head of Service Delivery provided an update on MySurrey as detailed in Annexe 3 and No 16 of the Risk Register. Members agreed that a MySurrey written update continue to be provided at future meetings.

The Pension regulator General Code of Practice (GCOP)

18. The Board received a report on the self-assessment against the GCOP undertaken by officers recently. The report highlights that eleven chapters have been completed of the fourteen.

19. The LGPS Senior Officer, advised the Board that the government is proposing to have biennial independent governance reviews in which compliance against the General Code of Practice will be included.

Actuarial Update 2025 Valuation Planning

20. The Board was provided with an update on the 2025 Triennial Valuation planning being undertaken by the Fund Actuary Hymans Robertson. Key milestones and further information can be found in the report presented to the Board.

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21. The Head of Accounting & Governance highlighted that Hymans Robertson are offering Board and Committee Members three training session connected to the valuation and invitations are being sent now. The first session took place online on 25 November 2024.

Surrey Pension Fund Internal Audit Progress Report – Quarter two

22. The Principal Auditor provided the Board with an update on the audit follow up on Banking controls. This audit has been delayed due to the implementation of MySurrey. As there has been limited progress at this time, no opinion was given rather a further review will be undertaken by March 2025.

23. The Board received a summary of an audit of Surrey County Council payroll which includes a sub section of pensions automatic enrolment and MySurrey issues. An opinion rating of minimal assurance has been issued, along with steps and agreed actions in place.

24. A number of audits are in progress including the SPT Business Continuity Plan, further details can be found in Annexes A & B.

External Audit Update

25. The Head of Accounting and Governance reported that a progress report from EY has been issued as a supplementary paper to this meeting providing an update as at 6 November. The progress update covers the six main areas of the audit and will be submitted to Audit and Governance Committee at its meeting on 20 November. Therefore, we are expecting sign off in conjunction with Council's audit in January 2025.

26. The Chair made an observation that this was first year that EY was completing the audit, resulting in a meticulous approach.

LGPS Update (Background Paper)

27. The Board received information on issues impacting the LGPS, the report highlighted four key points:

    a) Pension review letter from the Minister for Local Government
    b) Abolition of Lifetime Allowance (LTA)
    c) McCloud regulations
    d) Pension Dashboard

28. The LGPS Senior Officer provided an update on the Chancellor's Mansion House speech and will provide a briefing note on the Government

consultation to Members of the Board and Committee The link to the consultation can be found here.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

30. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

31. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS – MONITORING OFFICER:

32. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

33. There are no equality or diversity issues.

OTHER IMPLICATIONS:

34. There are no other implications.

NEXT STEPS:

35. The following steps are planned:

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

Contact Officer:

Colette Hollands, Head of Accounting & Governance

Annexes:

1. None

Sources/Background papers:

1. Quarterly Performance Summary– LPB 15 November 2024 – Annexe 1
2. Quarterly Performance Trend Analysis– LPB 15 November 2024 – Annexe 2
3. Terminated Case Summary – LPB 15 November 2024 – Annexe 3
4. Complaints Summary LPB 15 November 2024 - Annexe 4
5. Risk Register – Local Pension Board 15 November 2024 - Annexe 1 & Annexe 2
6. MySurrey Update -Local Pension Board 15 November 2024 - Annexe 3
7. Actuarial Update 2025 Valuation Planning – Milestones
8. Internal Audit Progress report – Annexe A&B

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: THE GOVERNMENT'S CONSULTATION ON THE FUTURE OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

SUMMARY OF ISSUE:

In November 2024, the government published a consultation entitled "Local Government Pension Scheme (England and Wales): Fit for the future". This paper explores the key implications for the Surrey Pension Fund of government proposals in this consultation.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report and proposed schedule of consultation.

REASON FOR RECOMMENDATIONS:

The proposals in the government consultation represent a significant evolution of asset pooling in the LGPS and the role of LGPS funds. The Pension Fund Committee require full engagement in the process of drafting the Surrey Pension Fund response to the consultation.

DETAILS:

Background

1. In July 2024 the government launched a Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS).

2. This was followed by a Call for Evidence issued by the government in September 2024 and responded to by Surrey on 24 September 2024.

3. The government published a consultation on 14 November 2024, entitled "Local Government Pension Scheme (England and Wales): Fit for the future" (shown as annexe 1). The consultation is for 9 weeks, closing on 16 January 2025.

Summary of the consultation

4. This consultation seeks views on proposals to strengthen the management of LGPS investments in three areas: Reforming LGPS Asset Pools, Boosting LGPS investment in their localities and regions in the UK and Strengthening the governance of both LGPS funds and LGPS pools. This report summarises these areas.

7 <u>Reforming LGPS Asset Pools</u>

5. The government is proposing to mandate certain minimum standards for funds deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:

   a) Funds would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool. The proposed separation of roles and responsibilities and sample template for strategic asset allocation are set as follows:

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

b) Pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies.

c) Funds would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK

6. The government proposed to require funds to:

a) Set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities.

b) Work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities; in Wales, Funds would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities.

c) Set out their local investment and its impact in their annual reports.

Strengthening the governance of both LGPS funds and LGPS pools

7. Building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review the government proposes the following:

a) That committee members be required to have the appropriate knowledge and skills.

b) That Funds be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.

c) That pool boards would be required to include representatives of their shareholders and to improve transparency.

7

Positioning of the Surrey Pension Fund response to the government consultation

8. As outlined in a briefing to members of the Pension Fund Committee and Local Pension Board by the LGPS Senior Officer (shown as Annexe 2). Surrey is well placed to respond positively to the consultation, due to the fact that Border to Coast already has many of the ingredients that the government sees as optimal (an FCA entity, internal management capability, an established private market program) and because of the significant progress the Fund has made in improving the governance of the Fund.

9. In addition, many of the government proposals for the pools to develop additional capabilities, including investment advisory, are consistent with the Border to Coast 2030 Strategy, which received shareholder consent after consultation with the Committee at its meetings of June and September 2024.

10. There are areas the Fund needs to explore further, particularly regarding the role of Border to Coast as its principal investment advisor. This will need to be supported by robust governance and oversight.

11. There is also further work to be done to understand how the Fund will capture local growth plans and local economic priorities in setting out its investment strategy.

12. The Fund will consult with senior stakeholders as well as pool partners, in forming a draft response. The proposed schedule of consultation is as follows:

Date	Activity
Week ending 22 November 2024	Officer sessions including Border to Coast partners, to map out indicative position on key points.
26 November 2024	Border to Coast Joint Committee briefing.
6 December 2024	Border to Coast Officer Operations Group and Senior Officer Group meetings.
20 December 2024	Draft response issued to members of the Pension Fund Committee, Local Pension Board and other senior stakeholders.
6/7 January 2025	Teams meeting with members of the Pension Fund Committee and Local

	Pension Board to discuss draft response.
13 January 2025	Final sign off of consultation response by Pension Fund Committee Chair, Section 151 Officer and Senior LGPS Officer.
16 January 2025	Submission of response to government.

7

CONSULTATION:

13. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

14. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

15. Any relevant financial and value for money implications will be considered in the response to the government consultation. The cost of the resources necessary for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS – MONITORING OFFICER:

16. The County Council has delegated responsibility to the Pension Fund Committee for its statutory functions as the Administering Authority for the SPF. Any legal implications or legislative requirements will be considered in the response to the government consultation, in consultation with the Monitoring Officer.

EQUALITIES AND DIVERSITY:

17. There are no equality or diversity issues.

OTHER IMPLICATIONS:

18. There are no other implications.

NEXT STEPS:

19. As outlined in paragraph 12.

7

Contact Officer: Neil Mason, LGPS Senior Officer

Annexes:

1. Government consultation: Local Government Pension Scheme (England and Wales): Fit for the future.
2. LGPS Senior Officer briefing note.

Sources/Background papers:

1. Border to Coast 2030 Strategy.

GOV.UK

Ministry of Housing, Communities & Local Government

7

Open consultation

Local Government Pension Scheme (England and Wales): Fit for the future

Published 14 November 2024

Applies to England and Wales

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future

Scope of the consultation

Topic of this consultation

This consultation seeks views on proposals relating to the investments of the Local Government Pensions Scheme (LGPS). It covers the areas of asset pooling, UK and local investment and governance.

7

Scope of this consultation

The Ministry of Housing, Communities and Local Government (MHCLG) is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope

This consultation applies to England and Wales.

Impact assessment

The proposed interventions affect the investment of assets by LGPS administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic information

Body responsible for the consultation

Ministry of Housing, Communities and Local Government

Duration

This consultation will last for 9 weeks from 14 November 2024 to 16 January 2025.

Enquiries

7 For any enquiries about the consultation please contact: LGPensions@communites.gov.uk

How to respond

Please respond by completing an online survey (https://consult.communities.gov.uk/local-government-pensions/fit-for-the-future). You can also access the online survey by scanning the following QR code:

Alternatively, please email your response to the consultation to LGPensions@communities.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Ministry of Housing, Communities and Local Government
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

1. Introduction

1. In July 2024 the government launched a landmark Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS). The UK has the third largest stock of pension assets in the world. It is crucial that those assets are invested effectively, to provide security in retirement. Pension funds are also critical as a major source of domestic investment. That is why the Pensions Review has been set up with the twin objectives of improving pension outcomes and increasing investment in the UK.

2. The LGPS is fully funded with good investment returns and has achieved many successes in recent years. These include the establishment of LGPS asset pools as strong regional investment managers, thanks to the commitment and hard work of people across the scheme. But few in the scheme would disagree that pooling has not delivered to its full potential and that change is needed to ensure that the scheme continues to perform in the long term in the best interests of members, employers, local communities and the wider UK economy.

3. The focus of the review for the LGPS is to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through further consolidation. The government is now consulting on proposals to put the LGPS on a clearer, firmer trajectory to scale and consolidation, as well as measures to improve scheme governance and investment. Together these proposals seek to provide long-term clarity and sustainability, putting the scheme on the strongest possible footing for the future.

4. The LGPS is one of the world's largest funded pension schemes, managing the pensions of 6.7m members and investing £392 billion worldwide, as at March 2024. Its scale makes it a significant investor with the potential to boost growth across the country, while delivering its core duty to make long-term stable returns to pay the pensions of those who have delivered vital local services. At present, however, the scheme does

not reach its full potential as an investor and engine of growth due to the fragmented nature of the scheme, and inconsistent standards of governance.

5. Since 2015, the 86 administering authorities (AAs) have come together in 8 groups of their own choosing to move towards managing their investments through 8 LGPS asset pools. The previous Government consulted on proposals to accelerate and expand the pooling of LGPS assets, to increase investment in local projects , and ambitions to grow investment in unlisted equity. The responses to that consultation, along with
7 responses to the recent Pensions Review Call for Evidence and engagement undertaken with LGPS stakeholders have informed the proposals in this consultation. The government is grateful to those who have contributed their views.

6. In August 2024 the Chancellor of the Exchequer met with leaders of Canadian pension schemes. The Canadian model has key strengths including the integration of investment advice, consistent delegation and in-house investment management, which enhance control over investments and reduce reliance on external managers. The model's governance structures ensure accountability and strategic alignment with long-term goals. Importantly, the consolidation of multiple pension funds under a unified governance framework has proven effective in achieving economies of scale and optimising resource allocation. Their model has demonstrated robust performance, setting an example globally. In developing proposals the Pensions Review has taken valuable learnings from the Canadian model.

7. The proposals will complement key Government growth programmes aimed at creating an attractive pipeline of investment opportunities such as the National Wealth Fund and the British Growth Partnership. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth.

8. This consultation seeks views on proposals to strengthen the management of LGPS investments in 3 areas:

Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:

- AAs would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;

- pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:

- set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local 7 growth plans and priorities,
- to work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities; in Wales, AAs would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities.
- to set out their local investment and its impact in their annual reports.

Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

Strengthening the governance of both LGPS AAs and LGPS pools in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review:

- committee members would be required to have the appropriate knowledge and skills.
- AAs would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
- pool boards would be required to include representatives of their shareholders and to improve transparency.

9. The following chapters describe the government's proposals in more detail and provide the rationale behind them. Chapter 2 sets out proposals regarding asset pooling, Chapter 3 sets out proposals regarding UK and local investment, and Chapter 4 sets out proposals on governance. Finally, Chapter 5 sets out our initial assessment of potential equalities impacts and invites views.

10. Government has received representations on the issue of LGPS fund mergers. The government recognises that fund mergers can incur significant costs and risk. Nonetheless, a number of LGPS funds have successfully merged on a voluntary basis and the government encourages

administering authorities to consider whether there would be benefit in merging with another fund, taking into account final decisions on the reforms proposed in this consultation.

11. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

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2. LGPS pooling

Background

12. Following the publication of guidance on the pooling of LGPS assets in 2015, the 86 AAs came together in groups of their own choosing to establish 8 asset pools. As of 31 March 2024, £178 billion (45%) of LGPS assets were invested through these pools, with a further £107 billion (27%) of assets managed by the pools outside of pool investment vehicles.

13. The scale and expertise of the asset pools have delivered a step change in the expertise, capacity and resilience of the LGPS. This has enabled AAs to diversify their portfolios significantly, and to manage assets more efficiently, at reduced risk. AAs have been able to use the pools to invest in asset classes they would previously not have had the expertise or capacity to invest in, particularly in private markets. The pools have supported their partner funds by delivering investments, reporting and engagement that meets the AA's requirements on responsible investment, and which individual funds may not have had capacity to pursue by themselves. As a result, since their inception the pools have reported that they have delivered net savings of £870 million, against total costs of £675 million.

14. Examples of the benefits of scale since the inception of asset pooling in the LGPS in 2015 have included:

- Lower fees: pooling has allowed for access to complex asset classes at lower rates of management fees. For example, the cumulative net savings of Local Pension Partnership (LPP) to 31 March 2024 amounted to over £200 million. A significant proportion of these savings derives from their use of direct internal management including private market mandates such as the GLIL direct infrastructure vehicle, which is able to provide access to the asset class at a lower fee rate than comparable private sector asset managers.

- Enhanced investment opportunities: pooling allows for more sophisticated investment in diverse and large-scale projects that individual funds might not be able to access. For example, Border to Coast have launched a UK Opportunities private markets programme, which has recently committed £48.5 million to build onshore solar and wind farms as well as battery storage. The investment will develop 4 wind farms in Scotland with further sites in the pipeline. LGPS Central has introduced substantial growth funds with a focus on sustainable investing, including an internally managed £5.2 billion climate factor fund which invests in publicly listed companies targeting lower carbon emissions.
- Improved efficiencies and resilience: pooling has allowed for expertise and capacity to be shared including on reporting, and the development of in-house management of assets ('internal management') with associated lower costs, by LPP, LGPS Central and Border to Coast. 7

15. Most respondents to the Pensions Review Call for Evidence were positive about LGPS pooling as a concept, and thought that it was delivering scale, diversification of assets and cost savings. More than half of responses also recognised greater collaboration between funds in the same pool since pooling's introduction.

16. In addition to the evidence from LGPS pooling to date, the Pensions Review has established a broader evidence base on the benefits of investing at scale, including through analysis of international comparators such as Canadian pension schemes. The Pensions and Lifetime Savings Association found that schemes between £25 billion and £50 billion assets under management (AUM) had strong governance and could more easily invest in productive finance directly. Going further, a report by JP Morgan analysing Australian superfunds showed how funds of more than £50 billion AUM were able to drive down costs through internal management. A report by NMG consulting, which compared seven LGPS pools to eleven international comparators, also showed the benefits of economies of scale materialising once a pool reaches more than £80 billion AUM.

17. These analyses are consistent with the responses to the recent Call for Evidence which demonstrated wide support and agreement that scale leads to greater economies, efficiencies and reduced risks, as well as enabling greater expertise and diversification in investments which can importantly deliver better long-term returns for scheme members. Academic research (https://www.top1000funds.com/wp-content/uploads/2024/05/CEM-BBFS_JPM2021_CanadianModelQuantitativePortrait.pdf) also suggests the model deployed by Canadian pensions schemes, including the integration of advice, consistent delegation and in-house investment management, is able to generate 0.4% a year of additional returns vs their international competitors. Taken together, the findings of the analytical work of Phase 1 of the review suggest a clear link between scale and both asset diversification and lower costs. This is set out in further detail in the Pension fund investment and the UK economy paper

(https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy) published alongside the Pensions Review Interim Report (https://www.gov.uk/government/publications/pensions-investment-review-interim-report).

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18. In the light of the evidence set out above the government has considered the current position of LGPS pooling. The 8 pools each have different models: 5 are standalone FCA-authorised investment management companies (‘LGPS pool companies’), 2 have an outsourced model that relies on external providers, and one has a model in which a joint committee provides oversight, but the partner funds retain management of most assets. As shown in Table 1 below the pools vary in their capability to provide advice and/or internally manage assets, in their number of partner funds, the total assets held by those partner funds, and the degree to which those assets have been pooled. The table below distinguishes between assets that are invested in pooled vehicles, and those that are managed by the pool but have not been transferred to a pooled vehicle. Assets invested via the pool are distributed across a number of separate sub-funds designed to meet different investment objectives, each with one or more investment managers, and the pools also vary in the number of sub-funds that have been established.

19. As Table 1 shows, some of the pools have made very limited progress transferring assets from partner funds to the pool. Others have created large numbers of sub-funds, often with multiple sub-funds for the same asset class, which reduces the potential benefits of scale. Although each of these models has reported successes to date, they are not equal in their ability to continue to develop to meet future challenges.

Table 1: Overview of existing LGPS pooling models.

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Tota Ass mar by p (£bı (ii)
ACCESS	Joint Committee management Fully outsourced investment management provider	11	64.6	32.7 (51%)	44.7 (69

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Tota Ass mar by p (£br (ii)
Border to Coast	Partner/shareholder FCA regulated Internal management Developing advisory	11	63.7	37 (58%)	45.3 (71
Brunel	Partner/shareholder FCA regulated External management only	10	40.3	32.2 (80%)	34.7 (86
LGPS Central	Partner/shareholder FCA regulated Internal management Developing advisory	8	61.4	19.7 (32%)	27.5 (45
Local Pensions Partnership (LPP) (iv)	Partner/shareholder Advisory FCA regulated Internal management Administrator	3	23	21.9 (95%)	23 (100
London CIV	Partner/shareholder FCA regulated External management only Developing advisory	32	50.8	17.2 (34%)	31.6 (62
Northern LGPS (v)	Joint Committee management Two pooled investment vehicles – GLIL infrastructure and	3	61.4	3.7 (6%)	59 (96

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Tota Ass mar by p (£br (ii)
	NPEP private equity				
Wales	Joint Committee management Fully outsourced investment management provider	8	25	13.3 (53%)	18.5 (74%

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(i) Assets invested in pooled vehicles reflects those assets that are managed via the pool's sub-funds, which are shared investment vehicles across the partner LGPS funds.
(ii) Assets managed by the pool also includes additional investments specific to an individual partner fund, including legacy investments in closed-end fund vehicles being managed to maturity on the fund's balance sheet by the asset pool.
(iii) This treats multiple vintages as the same sub-fund.
(iv) These figures are in respect of LPPI's three partner funds only.
(v) Although Northern LGPS report 96% of partner funds' assets as being under pool management, the Government's understanding is that this refers to oversight by the pool committee of investment management and decisions made by the pension committees of the individual AAs.

20. The government's view is that pools with outsourced models, or pooling of some private markets assets only, have delivered significant savings and diversification to date but are not well placed to deliver for the future while retaining their current model. They lack the substantial in-house expertise, capacity and resilience provided on a non-profit basis by the LGPS pool companies. In addition, the pool companies that have - or are in a position to develop - in-house investment management capabilities should benefit from significantly lower costs compared to the use of external private sector investment managers, given existing experience within the LGPS. Some existing expertise formerly within larger funds has already been transferred to the pools, and other AAs have capacity and expertise that could be more widely shared.

21. The government believes that, to deliver successfully for members and employers, all the pools will need to develop further as powerful global and

local investors, able to deliver strong performance, value for money and resilience over the long term. The proposals set out below draw on the evidence and experience of the advantages and disadvantages of the range of models built up over the 5 years since all the pools became operational.

Proposals - Optimising pooling for the future

22. For the LGPS to adapt to future challenges and maximise its success the government believes that all funds and pools need to adopt an operating model that meets the following minimum standards: 7

- AAs would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool;
- AAs would be required to take principal advice on their investment strategy from the pool;
- Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool;
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

23. The first 4 proposals are set out in more detail below, with the final proposal covered in Chapter 3. These measures build on the strengths of the asset pools established over the last decade and would allow for funds and pools to operate with clarity and efficiency over the long-term.

Requirement that implementation of the investment strategy is fully delegated to the pool

24. At present, AAs set the investment strategy for their fund including setting the strategic asset allocation to meet requirements on diversification and suitability of investments to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance. This gives AAs the most significant influence on returns, as the strategy is the key factor in the difference in net returns between portfolios, while implementation decisions such as manager selection play a much smaller role.

25. Since AAs were invited to form pools in 2016, guidance has set out that the selection of external fund managers and the implementation of the investment strategy should be delegated to the pool, in order to streamline decision making, reduce the number of external managers and deliver

reduced fees. In practice, AAs have adopted a range of approaches as shown by the table above, ranging from full delegation to no or very limited delegation, and from significant alignment of investment strategies to no alignment. Many AAs continue to set tactical asset allocation and select investment managers.

26. Limited delegation to the pool has prevented the delivery of the full benefits of scale and resulted in continuing duplication of effort across funds in the same pool. Pension committees may focus on manager selection and detailed asset allocation, when they may not have the skills and experience
7 to be discerning and challenging clients of advice. A more efficient model would be for these decisions to be delegated to the asset pool with the capability and expertise to assess options and make robust decisions on behalf of the pension committee. Further, if funds are unable to reach agreement on manager selection, this can result in multiple similar sub-funds being created in a single pool for a similar purpose, and a consequent reduction in scale.

27. The government's view is that full, effective and consistent delegation of strategy implementation is needed to ensure the benefits of scale and ensure that decisions are taken at the appropriate level by people best placed to make those decisions. This would require clarity on the roles and responsibilities of the AA and their pool as further set out below.

28. The government is proposing that AAs retain responsibility for setting a high-level investment strategy for their fund, defined as an investment strategy consisting of:

- the high-level investment objectives including on:
- funding, for example funding level, return, risk, income and stability of contributions
- environmental, social and governance (ESG) matters and responsible investment
- local investments, with a target range (further discussed in chapter 3)
- If the AA wishes to do so, a high-level strategic asset allocation – although the government believes that expertise in the pools makes them best placed to set the strategic asset allocation and that funds may wish to delegate this to the pool.

29. This proposal draws on good practice in board-level governance, as found in overseas comparators and closer to home, the balance of responsibilities of the Universities Superannuation Scheme trustee and in house investment manager. The key is that decision-makers focus their efforts where these will have greatest impact. This approach has become widespread across trust-based pension schemes, where fiduciary management employs those best equipped to make the strategic and implementation decisions.

30. Setting the investment objectives and determining the strategic asset allocation are the most impactful investment decisions for a pension fund as they have the greatest bearing on the investment return achieved by the fund overall. These decisions lay the foundation for the entire investment strategy, guiding how capital is allocated across different asset classes to balance risk and return. By clearly defining the financial goals and establishing a long-term asset mix, these steps ensure that the portfolio is aligned with the fund's objectives, ultimately driving its sustainability and stability. The government considers that this proposal would allow the AA to ensure that the investment strategy is appropriate to deliver its funding requirements and to pay pensions over the long term, and is therefore sufficient to satisfy its fiduciary duty. 7

31. Implementation of this high-level investment strategy would be fully delegated to the pool to ensure that decisions are made by experienced investment professionals, and to give the pools flexibility to set tactical asset allocation, define sub-funds, manager selection, cashflow management, and decisions to buy sell or hold individual holdings, as required to meet the high-level objectives and strategic asset allocation set by the strategy. To achieve the full benefits of scale it would be important for AAs and their pools to work together on alignment of their approaches to ESG and responsible investment matters, to achieve a common approach.

32. The proposed roles and responsibilities of the pool and AA are summarised in Figure 1 below:

Figure 1: The roles and responsibilities of the Administering Authority versus the pool

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	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Figure 1: The role and responsibilities of the Administering Authority versus the pool - accessible version

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Investment objectives	Strategy	High	Decide	Advise

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Strategic asset allocation	Strategy	High	Decide or Monitor	Advise or Decide
Tactical asset allocation	Implementation	Med	Monitor	Decide
Investment manager selection	Implementation	Med	Monitor	Decide
Stock selection	Implementation	Med	Monitor	Decide

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Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Investment stewardship	Implementation	Low	Monitor	Decide
Cashflow management	Implementation	Low	Monitor	Decide

33. Where AAs choose to set a strategic asset allocation, the government's view is that this should be limited to either setting target ranges either for growth and income assets, or for a small number of broad asset classes. There are differences between funds in their membership, proportion of non-statutory employers, maturity, cashflow and funding, and the government expects the pools to consider these features in their operation. But the government does not consider that these justify or require asset allocation below this level, in addition to the investment objectives. In response to feedback during engagement on the need for clarity and consistency, the government proposes stipulating in guidance that funds would need to record their strategic asset allocation in the Investment Strategy Statement, based on a template. This would support pension committees in establishing a strategic asset allocation and also provide a coherent and consistent framework for pools to implement at scale.

34. The government has considered a range of options for the level of involvement AAs should have in any strategic asset allocation, from full delegation to the pool, to setting ranges for growth and income assets, to setting allocations to a wide range of detailed asset classes. Government recognises the range of approaches currently in place within the LGPS, and in other comparable schemes, which may include fewer asset classes and wider asset class definitions than those listed below. This includes dividing the allocation into 2 categories – growth and matching assets.

35. The proposed template aims to strike a balance between on the one hand, ensuring investment decisions are made by those with appropriate professional expertise and avoiding loss of scale that can arise from AAs requiring a detailed asset allocation, and on the other hand, allowing AAs to take local decisions on high level asset allocation and recognising their fiduciary duty.

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36. AAs would have the option of completing the template themselves or allowing the pool to choose an appropriate allocation in line with their investment strategy. The AA's objectives for local investment would be captured in the high-level investment objectives. Any strategic asset allocation set by the AA would therefore not include an explicit asset class for local investment, which in practice may be invested across private equity, credit, property or other asset classes. The asset classes in the template are and would be expected to remain, different from the requirements of national data collection, which are set and collected for a different purpose.

37. The government invites views on templates which best meet the objectives described above noting the range in possible approaches, and particularly invites views on the following template:

Table 2: template for strategic asset allocation

Asset class	Strategic asset allocation (%)	Tolerance range (± %)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		

Asset class	Strategic asset allocation (%)	Tolerance range (± %)
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds
(ii)For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

Requirement for principal advice on investment strategy to be taken from or through the pool

38. Under these proposals, the AA's responsibility in respect of investments is to set the investment strategy. At present investment advice may be sought from investment consultants, with each AA using their own. Whilst it is recognised advice needs to be bespoke, there may be duplication and inefficiency across a pool and AAs may receive divergent advice from the same providers without clear justification, which inhibits asset pooling.

39. The government proposes that AAs should be required to take principal advice on their investment strategy from their pool. This would ensure that advice is provided on a consistent basis, tailored to individual AA's requirements, and free from competing interests given that the pools exist solely to serve the AAs. The requirement for AAs to have an independent adviser or committee member would equip them to challenge the pool's advice in the majority of circumstances, however it is recognised that in exceptional circumstances AAs may wish to seek additional advice from external investment advisers to help them test the advice given to them by the pool.

40. Not all pools have the existing capability to provide advice to the AAs. Full advisory capability, or the means to share advisory capability across pools, would need to be developed over time. In the meantime, the government expects that pools would seek to procure advice on behalf of their partner funds. The government's intention would be to set out a timeline for this, subject to the outcome of this consultation.

Requirement that LGPS pools are established as investment management companies, regulated and authorised by the FCA

41. Currently, 5 of the 8 pools are established as FCA authorised investment management companies, with their partner AAs as their sole shareholders and clients. As set out above the government's view is that this model has clear advantages over other approaches. It provides in-house expertise, capacity and resilience on a non-profit basis and the ability to provide, share or develop in-house investment management to reduce costs. FCA authorisation and supervision provides vital assurance to members and employers that very large pools of capital will be properly managed. It also provides a basis for the development of capabilities to provide advice to AAs on investment strategies and to assess and manage the local investments that the government's proposals envisage. 7

42. The government therefore proposes that all pools should be established as investment management companies, with the full range of expertise and capacity to deliver the following requirements as envisaged by our proposals:

- Implementation of the investment strategies of their partner AAs, including any strategic asset allocation
- Provision of advice on investment strategies
- Management of legacy assets
- Due diligence on local opportunities and management of such investments.

All such companies would require FCA authorisation for regulated activities. They would need to meet the threshold conditions for authorisation and demonstrate that staff have relevant skills and competence.

43. Government's expectation is that pools will develop capabilities to deliver the implementation of investment strategies through in-house investment management in time. This approach has been demonstrated to have favourable outcomes when also combined with asset pooling at scale. Where it is thought to be inefficient to deliver a mandate in-house, pools should consider partnering with other LGPS asset pools or third-party investment managers to deliver select mandates.

44. The government recognises that this proposal would represent a substantial challenge for all pools whatever their starting point. For the 5 pools which already constitute investment management companies, most will need to develop new capabilities to deliver in all these areas, in particular building capacity on local investment and providing advice on investment strategies to funds. There will be costs involved in building capacity and expertise, offset by reduced costs for AAs.

45. This will be a substantial undertaking for all pools, especially those 3 which have adopted other models. The government believes that this step

change in the investment framework of the LGPS creates an opportunity for increasing effective scale and encourages all pools to carefully consider all options in that light. These may include establishing a new pool company, merging with another pool, or becoming a client of another pool company for some or all services required. Depending on the approach chosen, there will be set up and ongoing costs. But as has been demonstrated by existing asset pools using a pooling company model, these costs should be recouped through savings in reduced investment management fees. Pools will need to consider which route is most viable and efficient over the expected timescale (discussed below).

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46. The government encourages pool mergers and sharing of services where this provides a more efficient route to the required standard. As part of their proposal, each pool will be expected to demonstrate why a merger with another pool, or use of existing capability in an established pool company, would not be a more cost effective or otherwise more preferable approach to achieving compliance with the reform proposals. For the avoidance of doubt, Government is not seeking to use this process to move to a single pool for all AAs.

Requirement to transfer legacy assets to the management of the pool

47. In November 2023 the previous government set out its expectation (https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response) that AAs should pool all listed assets as a minimum, by March 2025, on a comply or explain basis. Transition of all assets was expected to be considered in this timeframe given pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

48. The present government, alongside its announcement of the Pensions Review (https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings), signalled that it would consider legislating to mandate pooling if insufficient progress towards the March 2025 deadline was made. Many AAs have made significant progress on pooling assets, but there remains significant variation with the percentage invested in pooled vehicles ranging from 6% to 95% as of March 2024, and total assets under pool management ranging from 45% to 100%. The government is aware that AAs have been considering how they can transition further assets by the deadline, and will take progress into account when making final decisions on reforms.

49. The government's view remains that in order to deliver the full benefits of scale AAs would need to transfer 100% of their invested assets to their pool with no new investments being made outside the pool, including local assets. However, the government recognises that transferring legacy assets

into pooled vehicles may incur unnecessary costs in the short term, including for termination of long-term contracts.

50. For these reasons legacy assets are already managed by some pools with the assets remaining in the ownership of the AA rather than in pooled vehicles. This ensures that:

- staff with the appropriate specialist skill sets are only required at the pool level, where their expertise can be shared across the pool and free up capacity at the AA;
- reporting across an AA's entire portfolio can be consolidated;
- pools can assess the merits and risks of all investments, with AAs able to hold them to account for all outcomes; and
- decisions on whether to hold to investments to maturity, rollover long-term contracts or invest elsewhere would rest with the pool - taking account of the objectives of the AA's investment strategy - rather than with the AA which may be influenced by the legacy investment manager or investment consultant.

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51. The government therefore proposes that, in line with previous communications, AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool, and further, to transfer legacy illiquid investments to the management of their pool.

52. The pools would be required to develop and maintain capacity and expertise to manage all legacy assets which will often be unlisted illiquid investments. This would include management of risk and asset valuations. As pools vary in the capacity and expertise that they currently have to take on this role, the government seeks views on what steps would need to be taken to develop this capacity.

Question 1
Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Question 2
Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

Question 3
Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Question 4

What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

Question 5

Do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

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Question 6

Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Question 7

Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Question 8

Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Question 9

What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

Implementation

53. The government believes that reforming pooling in this way would deliver the full benefits of scale to the benefit of members employers and taxpayers. Subject to the outcomes of this consultation, the government will consider legislating to require in law the pool minimum standards set out above, including transition or management of all assets.

54. [The King's Speech (https://www.gov.uk/government/speeches/the-kings-speech-2024)](https://www.gov.uk/government/speeches/the-kings-speech-2024) set out plans for a Pension Schemes Bill in this session of Parliament. The Bill provides an opportunity to introduce any primary legislation required to implement outcomes from the Pensions Review, with

any necessary secondary legislation and guidance updated when parliamentary time allows.

55. In advance of this, asset pools, working with their partner AAs, are invited to submit a separate proposal, in addition to their response to this consultation, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of the costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted, and expects pools to be working closely and collaboratively in doing so. 7

56. The government is proposing an indicative timeline to move to the new model of March 2026. Government expects each pool to consider and provide submissions on the viability of meeting this timescale. This is broadly aligned with the point at which reviews of investment strategy would be completed following the 2025 actuarial valuations, and takes account of the timescale over which the Financial Conduct Authority (FCA) may consider applications for investment management companies and authorisation to provide investment advice. Pools working with their partner AAs are invited to comment on the viability of meeting this timeline.

57. Each pool is invited to demonstrate a clear path to meeting the requirements outlined in this consultation document. In these reports pools will be expected to provide clear evidence that they are able to capture the advantages of managing investments at very large scale, such as by being able to invest cost effectively or directly, and at scale, in alternative asset classes such as unlisted infrastructure and private equity.

58. We will expect proposals to be submitted by 1 March 2025. This will provide 15 weeks for pools and AAs to consider how these could be delivered if required.

Question 10

Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

Other developments

Collaboration and specialisation

59. Some pools are already developing significant investment specialisms and share expertise between pools. This would be expected to increase as

the pools mature and adapt to the model outlined above. The government encourages pools to consider how they could collaborate with each other in areas where they have specialisms – for example through joint investment vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern).

60. Government understands that many asset pooling companies were established under the vertical exemption to public procurement as within the 2023 Procurement Act, previously known as the ‘Teckal’ exemption as set out in regulation 12 of the Public Contracts Regulations 2015. Engagement
7 has indicated that there are differing views in AAs and pools on the degree to which this is a barrier to greater collaboration between pool. Government welcomes views on this issue and any other barriers to collaboration between pools.

61. Collaboration between pools could deliver many of the benefits of additional scale and avoid duplication. In addition, collaboration could avoid competition between pools driving up costs for investments in the same specialist asset classes. Areas where specialisation or collaboration may be particularly attractive include alternative investments including private equity, private debt and venture capital, as well as infrastructure and investment in specific local or regional investments.

Scale and regional alignment

62. The government has considered whether any additional reforms are needed to the existing pools to redraw them along regional lines. It is recognised that there are factors at play, other than eventual pool size, when considering which funds should collaborate together in a pool. In particular, the Wales Pension Partnership operates within a devolved nation and has separate partnerships with the Welsh Corporate Joint Committees. It may therefore make sense for Welsh LGPS funds to continue in a separate pool.

63. The existing pools differ in that some bring together AAs from geographically contiguous areas, whereas elsewhere the partner AAs are geographically scattered but share other similarities. This reflects their origins, developing out of existing collaborations or through AAs collaborating with other like-minded partners. There are benefits to regionally defined pools in that the partner funds have a mutual interest in local investment and can typically build on existing strong working relationships, for example in Wales. However, other pools have demonstrated that shared geography is not the only determinant of success, provided there are strong partnerships and a shared commitment to collaborate and compromise to deliver shared goals. Chapter 3 sets out proposals to strengthen the role of the pools in local investment. For these reasons, the government does not consider it necessary to redraw pooling arrangements along geographic lines where this alignment does not already exist.

Role in administration

64. In the longer-term, the government is interested to hear views as to whether there is a role for the pools in the administration of the LGPS, or whether there could be greater collaboration and cooperation between funds on administration issues, for example shared service arrangements and the training of officers, councillors, and pension board members.

Question 11

What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

Question 12

What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

3. Local investment

65. Growth is the number one mission of this government. Through the growth mission, the government is restoring economic stability, increasing investment and reforming the economy to drive up prosperity and living standards across the UK. The government will invest in transport, including schemes like East West Rail, kickstart the delivery of 1.5 million homes, support new industries and job creation, and back innovation through research and development funding. In total, the government will spend 2.6% of GDP on public sector net investment on average over the Parliament, with an increase of over £100 billion in capital investment over the next 5 years.

66. In addition to the Pensions Review, the government is supporting UK investment in several ways. It has created the National Wealth Fund, which is expected to catalyse over £70 billion of private investment, and has set out plans for a modern Industrial Strategy to support investment in growth sectors. The British Business Bank will create a new vehicle, the British Growth Partnership, to crowd-in UK pension fund and other institutional investment into venture capital funds and innovative businesses, supported by a cornerstone government investment. The Budget outlined plans to reform how the government delivers infrastructure, including the planned publication of a 10-year infrastructure strategy, the establishment of the National Infrastructure and Service Transformation Authority and ambitious planning reform.

67. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth.
Investing in local communities

68. The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK
7 and local growth, building on its local role and networks, through increasing its long-term investment in local communities. Many AAs have already deeply embedded these wider considerations into their investments. It is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities, just as members did through their working lives. LGPS investments can both pay pensions and unlock growth in local communities.

69. There are other aims which AAs may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance (ESG) issues. These may contribute to the government's key missions including making Britain a clean energy superpower and accelerating to net zero is one of the key missions of the government. This consultation focusses on local investment by LGPS funds.

The roles of AAs and pools

70. AAs are already committed investors in projects which support growth in their local areas. These are investments which, in addition to being suitable pensions investments and generate good returns, have external benefits which support the AA's local area. But it is recognised that identifying and assessing the suitability of local investments requires resource intensive due diligence, and AAs may not have the capacity to undertake this work. AAs may also be concerned about reputational and concentration risks. Funds must also navigate conflicts of interest if there is a link between the employer authorities and the investments selected. These factors may limit local investments unnecessarily.

71. The pools can address many of the specific factors which make local investment harder for AAs to consider. Pools are in a position to provide central source of investment expertise to assess, commit to and manage local investments and do not face the same potential conflict of interests, as their role is serving the AAs. Pools create a degree of separation between AAs and their investments, reducing any reputational risk. For example, Border to Coast and Local Pensions Partnership have facilitated pool investment in local opportunities and worked closely with their partner AAs

to identify local opportunities. The government recognises that pools currently have different approaches to local investment and vary in the extent to which they have the capability to assess and manage local investments, but it is the government's view that it is the pool which is in the best position to provide the central capability to carry out due diligence and manage local investments.

72. In addition, pools invest over a wider geographical area than AAs, reducing risks from under performing assets. But pools and AAs may both lack a comprehensive view of investment requirements and opportunities across a wider regional area, as set out in local growth plans. When fully implemented, local growth plans will act as a guide to investors seeking opportunities which support local growth and contribute to the National Industrial Strategy.

7

Proposals

73. With these considerations in mind, Government's view is that the right approach to increasing local investment brings together the distinctive strengths of AAs and pools and takes account of the role of Combined Authorities (CAs), Mayoral Combined Authorities (MCAs), Combined County Authorities (CCAs) and the Greater London Authority (GLA) in regional growth and development. The government wishes to see greater collaboration between AAs, pools and combined authorities of all types on local investment, for the long-term benefit of local areas, and believes that scheme members support the LGPS in making local investments.

74. For the purposes of this consultation, the term 'local investment' is used to include investments local to any of a pool's partner AAs, or investments in their region (or in Wales, for Welsh AAs). The government invites views on the appropriate definition of the term 'local investment' for reporting purposes.

Requirement to set out approach to local investment in the Investment Strategy Statement

75. AAs normally review their Investment Strategy Statements every 3 years following the triennial valuation of the fund. To ensure that local and wider investment priorities are fully considered by AAs as part of deciding their investment strategy, the government proposes a requirement in regulations for AAs to set out their high-level objective on local investment in their Investment Strategy Statement, including a target range for local investment as a proportion of the fund.

76. AAs would also be required to take account of local growth plans, including local economic priorities and specific investment requirements, in

setting their investment strategies. For areas where there is no local growth plan, we would expect AAs to work closely with local authorities in their areas to identify local opportunities. In Wales, AAs would be required to take account of the economic development priorities and plans of the relevant Corporate Joint Committee (CJC) or Committees.

77. Our intention would be to include guidance on the new requirement in statutory guidance on investment strategy statements. This would include guidance on government's expectations on working with CAs, MCAs, CCAs, CJCs and other local authorities and Local Growth Plans to identify
7 opportunities.

Requirement to work with combined authorities and similar bodies

78. AAs are well placed to draw on their knowledge of the local area and its changing circumstances, in identifying potential investment opportunities which may align with their investment strategies and with local growth plans or equivalent. The government therefore proposes setting new requirements for AAs to work with CAs, MCAs, CCAs or the GLA, or local authorities in other areas, with a view to identifying potential local investment opportunities for consideration by their pool. In Wales, AAs would be required to work with the relevant Corporate Joint Committee or Committees and with local authorities more broadly to identify investment opportunities. AAs would be expected to put forward opportunities they have identified to their pool at any time in the valuation period as they arise.

79. In line with the proposals set out in chapter 2, it would then be for the pools to make the final decision on whether to invest, and to manage all assets on behalf of their partner AAs including legacy and new local investments. Requirement for pools to carry out due diligence on potential local investments

80. The proposal above to require AAs to identify local investment opportunities to put forward to their pool means pools would need to have arrangements to receive proposals and conduct due diligence on projects. Pools may also be able to assist in developing some proposals into investable opportunities. For some pools this would be a significant development. But as set out above, it is the government's view that pools are in the best position to provide the necessary expertise and capacity.

81. The government therefore proposes a new requirement for pools to develop the capability to carry out due diligence on local investment opportunities. Pools would be expected to collaborate as necessary with their partner AAs, CAs, MCAs or CCAs, and other relevant authorities (including the GLA in London and Corporate Joint Committees in Wales) to support local investment. Some projects for which LGPS support would be considered may be inappropriate for pensions investment, or require disproportionate resources to assess and manage, but many should benefit from collaboration across AAs, pools and CAs.

Requirement to report annually on local investment

82. To ensure funds are accountable, the government is proposing that funds include in their annual report, as part of the report on the fund's investments, a report on the extent and impact of their local investments. This will increase transparency and allow members to see the locally important projects delivered thanks to LGPS investment.

83. Our intention would be to work with the SAB to include guidance on reporting of local investment reporting in statutory guidance on annual reports, and to consider how to reflect this new requirement in the Scheme Annual Report.

Question 13

What are your views on the appropriate definition of 'local investment' for reporting purposes?

Question 14

Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Question 15

Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Question 16

Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Question 17

Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Implementation

84. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to include in new statutory guidance on pooling, and updated guidance on investment strategy statements and annual reports.

7

4. Governance of funds and pools

85. LGPS assets have more than doubled in the last decade, membership has increased by almost 50%, and there are now nearly 20,000 employers, so it is more important than ever that the scheme is effectively governed. Members and employers have a right to expect consistently high standards across the scheme with robust and resilient governance and administration in every AA.

86. There is evidence to suggest that good governance also has financial and wider benefits through a governance premium for well governed pension schemes which benefit from sustained and resilient returns compared to less well governed schemes. Well governed schemes are likely to be more effective and agile, and therefore better managing risk and picking up opportunities. Research from the Pensions Policy Institute (https://www.pensionspolicyinstitute.org.uk/media/t2djkxca/201702-bn89-db-the-role-of-governance.pdf) suggests that this premium could be as high as 2% greater returns a year. This benefit would be much greater than the cost of investment in improved governance.

87. The proposals set out below aim to enhance the capability of the LGPS as a well-governed institutional investor on a global scale, ensure it continues to deliver for members and employers.

Fund governance and reporting

88. The government's aim is to encourage continuous improvement across the scheme, combined with consistent standards on knowledge and understanding and improved reporting. The majority of our proposals are based on the recommendations submitted to MHCLG by the SAB in 2021 at the conclusion of their Good Governance project, which were strongly supported by respondents to the Call for Evidence.

89. In summary the government's proposals are:

- New requirements on AAs to:
  - appoint a senior LGPS officer who has overall delegated responsibility for the management and administration of the fund
  - participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.
  - prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy, and
  - prepare and publish an administration strategy
  - improve accessibility of annual reports
- New requirements on knowledge and training for those involved in the management of LGPS funds

90. In addition to these proposals, the government is considering one further change, to require AAs to appoint an independent adviser.

Requirement to prepare a governance and training strategy

91. The government proposes that AAs should be required to prepare and publish a governance and training strategy to replace the governance and compliance statement. This new strategy would set out the AA's approach to governance, knowledge and training, representation, and conflicts of interest; and set out objectives and planned actions in these areas, to be reviewed at least once every valuation period. It would replace the governance compliance statement. Such actions could include a plan on how the AA aims to address gaps in knowledge and skills for committee members over a certain period, and how it might manage potential conflicts of interest between the local authority as administering authority and as an employer within the pension fund.

92. It is the government's view that the requirement to review this strategy at least once in each valuation period provides AAs with the flexibility to update it as required and will ensure the strategy is a live document. We are also proposing that as with the other strategies which AAs are required to prepare, AAs must have regard to statutory guidance on governance.

93. The government proposes that a conflict of interest policy must be included in this strategy. There is no current requirement for conflicts of interest policies to consider conflicts of interest for members serving on pension committees, or to cover conflicts between the AA and the employer. There may be specific conflicts that arise in managing a pension fund within the local authority environment and this may become more common as pools and partner AAs consider further local investment.

94. It is important that in a conflict of interest policy, AAs consider how they will recognise, manage, and mitigate all conflicts of interest. Requiring each AA to have a specific conflicts of interest policy within its governance and

training strategy should ensure that AAs are taking proactive steps to mitigate the risks of conflicts not being addressed appropriately; by setting out how actual, potential, and perceived conflicts are addressed within the governance of the fund.

Requirement to identify a senior LGPS officer

95. The government's proposal is that every AA must have a single named officer (the senior LGPS officer) who has overall delegated responsibility for the management, strategy and administration of the fund. The senior officer
7 would be identified within the AA's Governance and Training Strategy. The government recognises that management structures differ but expects that the role would be carried out by a Director, Assistant Director or Head of Service, i.e. at a level that is either already part of the senior leadership team or is comfortable operating in that environment. The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority's budget-setting process.

96. The senior officer would be a substantial role that will require significant time and energy. The expectation would be that the LGPS role would be the main priority for the senior officer. Senior officers should have authority and be able to set strategic direction. Officers reporting to the senior officer should be responsible for all LGPS functions.

97. The senior officer's role would be to lead delivery of the LGPS function under the direction of the AA or pensions committee. The government expects the senior officer's role to include the areas below, although this list is not intended to be exhaustive:

- providing advice to the pension committee and local pensions board
- developing the fund's strategic approach to funding, investment, administration, governance and communication;
- ensuring that risk management arrangements effectively identify and manage risks
- ensuring the fund is organised and managed to deliver statutory responsibilities and regulatory compliance, and meet service level agreements including timely and accurate pension payments
- ensuring that the role of the pension fund and LGPS matters are understood and represented by the AA's senior leadership
- working with other partner AAs and the pool company as appropriate

Requirement to prepare an administration strategy

98. Currently AAs may prepare an administration strategy but are not required to do so. Administration strategies must set out procedures relating to employer communication, administrative procedures, and administrative performance. There is currently no statutory guidance to assist fund in the

preparation of this strategy, and while AAs must keep any administration strategy under review, there is no specific timeframe required.

99. The government believes that if AAs were required to prepare and maintain this strategy and have regard to guidance, this would increase consistency on how administrative matters are approached across the scheme (including in working with employers) and drive improvement in administration of pensions.

100. The government is therefore proposing that AAs should be required to prepare and publish an administration strategy and to have regard to statutory guidance in its preparation. The government is also proposing that 7
AAs review this strategy at least once in every 3 years in line with the proposed requirement for other strategies; and that AAs should no longer be required to send the administration strategy to the Secretary of State upon publication, as this is no longer considered to be necessary.

Improving readability of annual reports

101. Each year AAs publish an annual report on management and financial performance, which includes fund accounts. It is a key document for members, employers and other stakeholders with an interest in the fund. The SAB uses the annual reports to compile the scheme annual report.

102. Currently the annual report is required to include the funding strategy, investment strategy and governance compliance statements in full. The readability and accessibility of the reports is reduced by the size and complexity of the combined document.

103. The government is therefore proposing that, in line with the LGPS in Scotland, funds should no longer be required to include the full texts of any strategy, including the governance and administration strategies we are proposing. It is the government's intention to work with the SAB to update guidance on annual reports to set out how funds should ensure accessibility and transparency for members, employers and others.

Requirement to participate in a biennial independent governance review

104. Under this requirement, each AA would participate in an independent governance review every 2 years, in order for administering authorities to receive assurance that they are meeting governance requirements. The review would need to be carried out by independent experts in the field with good understanding of the LGPS. The Secretary of State for MHCLG would reserve the right to commission reviews of specific funds where there is reason to believe the fund may not be equipped or resourced to fulfil its responsibilities.

105. Once complete, the draft report on the review would go to the senior LGPS officer, pensions committee and local pensions board. The pension committee would be required to add commentary and an action plan in the final report. This could include a range of actions including to seek peer support to address problems or to disseminate good practice. Administering authorities would be required to publish a summary of the final report and submit it to MHCLG.

7

106. The Scheme Advisory Board is developing a peer support offer including identifying experts already associated with the LGPS to be available to conduct the independent governance review and assess the report and action plan. In cases where the process was not successful at delivering change or peer support was not deemed a realistic way to address issues, it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund.

107. Government will be working closely with the Scheme Advisory Board and the Pensions Regulator on further detail of the review process and welcomes views on the format and assessment criteria that could be applied.

Requirements on knowledge and skills for those involved in the management of LGPS funds

108. There is an expectation that those responsible for making key decisions within LGPS funds, which provide benefits to millions and manage significant amounts of money, should have the right level of knowledge and training to carry out the functions of their role. In most cases in the LGPS, the role of scheme manager held by the AA is delegated to a pension committee, who are responsible for all key decisions related to the pension fund. Pension committees are composed largely of councillors, with a SAB survey (https://lgpsboard.org/images/CRC/12022024_Item6PaperD_Workstream_update.pdf) showing that 66% possess little or no knowledge of the LGPS prior to appointment. High turnover of committee members can in some cases compound the problem.

109. Currently, there are no statutory requirements for committee members and officers to maintain appropriate knowledge and skills specific to the LGPS or to undertake training of any kind. By contrast, members of the local pension board (which brings together union and employer representatives to assist the AA and committee), have a statutory duty to have appropriate knowledge and skills under s.248A of the Pensions Act 2004. Committees are required to take proper advice, but where there are gaps in the knowledge of and skills of committee members and officers, it may be difficult to ensure that this advice is tested and challenged appropriately.

110. The SAB survey showed strong support for higher standards of knowledge and understanding for pension committee members. A very large majority (90%) of respondents supported new guidance on minimum training requirements, and 67% agreed that requirements for pension committee members should be the same as for local pension board members.

111. The government therefore proposes to require that committee members, the senior officer and officers should have the appropriate level of knowledge and understanding for their roles, and that the requirements for pension committee members and local pension board members should be aligned. This change aims to ensure that those involved in the management of LGPS funds have the capability to carry out their duties as needed and can exercise the correct level of oversight on investments, governance, and administrative matters. This will include the knowledge and skills, for both officers and committee members, to challenge and test advisers and hold their pool to account. 7

112. The government is also proposing to require AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements. The government expects AAs to include their policy on training and assessment to meet this requirement. It is recognised that committee members and officers on appointment will possess different levels of relevant prior knowledge. The government therefore also proposes that the requirement on knowledge and understanding will apply to individuals within a reasonable period from taking up the role or appointment.

Role of independent adviser

113. In addition to requiring pension committee members to have appropriate knowledge and skills, the government is also considering how best to bring professional and independent expertise to pension committees to improve governance, improve scrutiny and challenge of advice and delivery, and advise on improvements.

114. One way in which this could be achieved would be to require pension committees to appoint an independent person who is a pensions professional, whether as a voting member of the pensions committee or as an adviser. The role would encompass supporting the committee on investment strategy, governance and administration. Those who were or might be involved in recommending specific investment products to the committee would not be eligible. We expect that suitable pensions professionals would have one or more of the following qualifications and experience:

- Qualifications from Pensions Management Institute (PMI) – the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustees

- Member of, and accredited by, the Association of Professional Pension Trustees (APPT)
- Significant experience of pensions and/or investments

115. The small number of administering authorities with no pension committee could be required to have an independent person as adviser to the senior officer.

116. The government recognises that the aim may be achieved in a range of ways and invites views on the best approach.

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Question 18

Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Question 19

Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Question 20

Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Question 21

Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Question 22

Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Question 23

Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

Question 24

Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Question 25
Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Question 26
What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Pool governance and reporting

117. Under the government's proposed reforms, all pools would need to move to the new minimum standards for pooling set out in chapter 2. Consistent high standards of governance for all the pools would be essential in delivering the full benefits to members and employers, providing assurance for the partner AAs that the pool is properly managed and ensuring that the AAs are able to hold the pools to account.

118. In summary the government proposes to require:

- Boards to include a representative or representatives of the group of partner AAs
- Requirement for pools to publish asset performance and transaction costs

Requirements on pool company board membership

119. The minimum standards on pooling set out in Chapter 2 would require boards of all pool companies to have the skills and experience appropriate to the leadership of an investment management company. Boards would meet the requirements for FCA authorisation including independent directors.

120. To ensure that shareholder AAs can hold the pool to account, it is important to include shareholder representation on the board. The government's proposal is that in addition to meeting the requirements of the FCA, boards should also include one or two representatives for the group of shareholder AAs, such as the chair of the shareholder committee or equivalent. These representatives would require the appropriate skills and training.

121. It will also be important to ensure that scheme members' views and interests are properly understood and taken into account by the pools. The

government therefore invites views on the best way to achieve this.

Requirement to meet transparency and reporting standards

122. The government also wishes to introduce a greater level of consistency and transparency through reporting standards for pools. Currently, all pools publish annual reports and financial statements, while some go further and publish regular in-depth reports on responsible investment or separate reports which detail breakdowns of performance by sector, such as private markets. In order to achieve a greater level of accountability and to
7 encourage greater efficiency, the government is proposing to add requirements for pools to improve transparency and reporting, including publication of performance and transaction costs.

123. The government is exploring what this could look like for pools, and welcome views on what data and reporting would be most useful for increasing transparency. It is our intention to set out in new pooling guidance how pools should ensure transparency and accountability to members, employers and others.

Question 27

Do you agree that pool company boards should include one or two shareholder representatives ?

Question 28

What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Question 29

Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

Implementation

124. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to provide new statutory guidance on governance and training, on administration and on pooling and updated guidance on annual reports.

5. Equality impacts

Public sector equality duty

125. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010. 7

126. We have made an initial assessment and we believe our proposals on the LGPS in chapters 2 and 4 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in disadvantaged areas which benefit from local investments.

Question 30

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.

Annex A: List of consultation proposals

Chapter 2: LGPS pooling

Proposal 1: Requirement on AAs to fully delegate the implementation of their investment strategy to their pool.

Proposal 2: Requirement on AAs to take their principal investment advice from the pool.

Proposal 3: Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.

Proposal 4: Requirement for AAs to transfer legacy assets to the management of their pool.

Chapter 3: Local investment

Proposal 5: Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment
7 Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.

Proposal 6: Requirement on AAs to work with CAs, MCAs, CCAs, and local authorities in other areas to identify suitable local investment opportunities,

Proposal 7: Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities.

Proposal 8: Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

Chapter 4: Governance of funds and pools

Proposal 9: Requirement to prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy.

Proposal 10: Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.

Proposal 11: Requirement to prepare and publish an administration strategy.

Proposal 12: Changes to the way in which strategies on governance and training, funding, administration and investments are published

Proposal 13: Requirement for AAs to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

Proposal 14: Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.

Proposal 15: Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.

Proposal 16: Requirement for pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

Proposal 17: Requirement for boards to include one or two representatives of shareholder AAs, such as the chair of the shareholder committee or equivalent.

Proposal 18: Requirement for pools to publish asset performance and transaction costs

Annex B: List of consultation questions

Chapter 2: LGPS pooling

Proposals

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Question 9: What capacity and expertise would the pools need to develop
7 to take on management of legacy assets of the partner funds and when
could this be delivered? Implementation

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

Other developments

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

Chapter 3: Local investment

Proposals

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes ?

Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

7

Chapter 4: Governance of funds and pools

Fund governance

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Pool governance

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

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Chapter 5: Equality impacts

Question 30: 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.

About this consultation

This consultation document and consultation process have been planned to adhere to the consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation). In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing Communities and Local Government will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

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Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not, or you have any other observations about how we can improve the process please contact us via the complaints procedure (https://www.gov.uk/guidance/contact-the-ministry-of-housing-communities-and-local-government).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk or by writing to the following address:

> Data Protection Officer
> Ministry of Housing Communities and Local Government
> Fry Building

2 Marsham Street
London
SW1P 4DF

2. Why we are collecting your personal data

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Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by MHCLG of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or ‘criminal offence’ data (terms explained under ‘Sensitive Types of Data’) which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR (‘substantial public interest’), and Schedule 1 paragraph 6 of the Data Protection Act 2018 (‘statutory etc and government purposes’). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

MHCLG may appoint a ‘data processor’, acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner
(ICO) if you think we are not handling your data fairly or in accordance with
7 the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or
telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@communities.gov.uk or

> Knowledge and Information Access Team
> Ministry of Housing Communities and Local Government
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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Briefing Note on the Pensions Review and the Local Government Pension Scheme

In her Mansion House Speech on 14 November the Chancellor of the Exchequer announced a series of significant changes affecting the Pensions industry intended to support greater investment by pension funds in assets which support the growth of the UK economy. A key element of these proposals is a series of further reforms to how the Local Government Pension Scheme (LGPS) manages and makes its investments and linked improvements to the governance of the scheme.

The Government has launched a consultation running until 16 January which is available at the link below. The remainder of this note sets out the headline proposals and tries to outline the potential implications for the Surrey Pension Fund (SPF).

It is also important what is not in this consultation is any proposal to force the merger of individual funds.

Local Government Pension Scheme (England and Wales): Fit for the future - GOV.UK

The Government intend to enact elements of their proposals through the Pension Schemes Bill which is scheduled to be introduced into Parliament in the Spring with other elements being dealt with through regulations and statutory guidance.

LGPS Investment Pooling
The current 8 LGPS investment pools became operational in 2018 and represent a number of different operating models and are perceived to have had significantly variable levels of success.

In summary the proposals are:

- Administering Authorities (AAs) to fully delegate implementation of their investment strategy to their pool.

  For the SPF this does not represent a major change in principle although the devil will be in the detail. The Government is clear that 100% of assets should be managed by the pool. The SPF will need to have active discussions with Border to Coast over how key aspects of our strategy will be addressed. This is supported by a much clearer definition of Strategic Asset Allocation (the AA role) which is helpful and broadly reflects existing SPF practice and/or the current direction of travel.

- AAs to take their principal investment advice from the pool.
  This is something which Border to Coast already plans to develop as a capability. The SPF will need to explore how this might work in practice and ensure it is supported by robust governance and oversight.

- Pools to be established as investment management companies authorised and regulated by the FCA with the expertise and capacity to implement investment strategies. This specifically includes having internal management capabilities.

  7

  Border to Coast pretty much meets these requirements. Pools will have to submit by the end of February 2025 plans setting out how they will meet the prescribed standards by March 2026. For the three pools that do not currently have an FCA registered entity this will be extremely challenging while for the two who do not have internal management capability there will be some considerable risks in the changes required. This may lead to proposals to either merge whole pools or break up some existing arrangements with underlying funds joining the remaining pools. There are potentially significant implications for pools like Border to Coast which can meet the required standards if additional partners are added as success to date has been driven by the strength of partnership which could be disrupted by adding in other funds who have not been on the same journey.

- AAs to transfer legacy assets to the management of their pool.

  This is the requirement to pool 100% of assets although it is accepted that at least initially some legacy assets may not be contained in pool vehicles but managed by the pool on the fund balance sheet for either technical or economic reasons. Consideration of the legacy portfolio is already on the agenda for SPF, however the proposed timescale of March 2026 for this could be challenging depending on what route is pursued. This also may have not inconsiderable associated costs (depending on how it is achieved) for no benefit in terms of performance.

Overall, the direction of travel here has been well telegraphed for some time and there are no real surprises.

Local Investment

Increasing investment in the UK is a clear focus of both this consultation and proposals consulted on but not implemented by the previous government. The Government's proposals go further than those previously consulted on and set clear expectations about how this sort of investment strategy should be developed with input from a range of stakeholders.
In summary the proposals are:

- AAs to set out their approach to local investment including a target range for investment in their Investment Strategy Statement and to have regard to local growth plans and local economic priorities in setting their investment strategy.

  The SPF has already made great progress in this area and made its first allocation to the Border to Coast UK Opportunities Fund this week, consistent with our strategic investment objectives.

- Pools to develop the capability to carry out due diligence on local investment opportunities.

  Border to Coast has already made progress in developing this new capability.
- AAs to include in their annual report a report on the extent and impact of their local investments.

Overall, this is an endorsement of the SPF direction of travel. Management of these investments by the pool is a logical outcome of the requirement for all assets to be pooled but the type of investments to be made will be dictated by the Fund with specific investments chosen by the pool who are seen as better placed to undertake stock selection.

Governance of Funds and Pools

The Scheme Advisory Board (SAB) made statutory recommendations to ministers in 2021 on proposals to improve governance across LGPS. These proposals are a comprehensive response to those recommendations set in the wider context of the other proposals being put forward by Government. 7

Locally the SPF has been working to meet the standards reflected in the SAB recommendations including the creation of a LGPS Senior Officer, Committee training and recent changes in pension fund governance regarding conflicts of interest and delegations of pension fund decision.

In summary the proposals are:

- AAs to prepare and publish a governance and training strategy (replacing the governance compliance statement) including a conflicts of interest policy.

  This does not represent a major change for the SPF bringing together a number of existing documents.

- AAs to appoint an LGPS officer with overall delegated responsibility for the management and administration of the scheme.

  The SPF have already initiated this. However, this could be more challenging for some funds particularly smaller ones which are tightly integrated into a host council.

- AAs to prepare and publish an administration strategy.

  This is something the SPF already does, as do many other funds. Some changes may be required to reflect any guidance that is issued on this.

- Changes to the way in which strategies on governance and training, funding administration and investments are published.

  This is simply bringing some arcane rules which require the whole text of documents to be included in annual reports up to date and will be widely welcomed.

- AAs required to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

  This is being framed as an assessment of whether or not an AA is fit for purpose. The detail provided indicates that the intention is to deliver this through an LGA Peer Support offer managed by the SAB, which would be broadly welcomed. The SPF has already reviews of this nature which have been valuable in helping frame plans for further improvement.

- Pension committee members, the senior officer and officers to have the appropriate level of knowledge and understanding of their roles with the requirements for pension committee members and local pension board members aligned.

The SPF currently operates on the basis that the requirements are aligned with identical mandatory training requirements although the ability to enforce such requirements is limited.

- AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirement within a reasonable period from appointment.

7 For members this is already written into the SPF Training Policy. For officers this would be looked at more on a case by case basis but a policy statement will need to be developed.

- Pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

This goes slightly beyond the role of the current independent advisers although more detail is necessary to determine whether any changes will be required. This could be seen as a move to inject "professional trustees" into the mix as has happened in private sector schemes. Certainly, the ability for members to call on independent advice as part of the overall system of checks and balances is something that SPF recognises as important and figures strongly in our current arrangements.

- Boards (of pool companies) to include one to two representatives of the shareholder AAs such as the chair of the shareholder committee or equivalent.

Border to Coast already has two shareholder nominated Non-Executive Directors.

- Pools to publish asset performance and transaction costs.

This is a move to increased transparency and standardization and should not be difficult to implement.

While these are significant changes in the regulatory framework these are things that the SPF has been anticipating for some time. The detail of the consultation gives the Independent Governance Review considerably more teeth than was previously anticipated and it is clear that this is seen as the vehicle to address issues and failings at Fund level whether caused by lack of scale or otherwise.

Conclusion

These proposals and the 30 consultation questions which accompany them are very much the continuation and fleshing out of the direction of travel for LGPS set by the previous government. The focus on FCA regulated entities for pools supports the decision made by Surrey members to support the Border to Coast pool and the investment of time and money devoted to creating one of the more successful pooling entities will not be lost, rather it is likely to be capitalised upon.

While the SPF has already taken steps in a number of areas that put it in a good place to address new requirements, as has the whole Border to Coast partnership it is important not to be complacent. There will be a substantial amount of work required to respond to this consultation in the timescale both as a fund and as part of the Partnership as well as to produce the plan which the pool will need to submit by the end of March setting out how it will meet the required standards by 2026. This will need to be accommodated alongside the Valuation and Investment Strategy Review processes.

A full report setting out a proposed line to take in the formal consultation response will be presented to the Committee at its December meeting. The final response, which will need to incorporate input from the collective Border to Coast response, will need to be agreed by senior stakeholders fairly close to the submission deadline of 16th January 2025.

Please contact Neil Mason (neil.mason@surreycc.gov.uk) with any queries.

Neil Mason
Senior LGPS Officer
15th November 2024

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: SURREY PENSION TEAM OVERVIEW – QUARTER 2

SUMMARY OF ISSUE:

This paper is an overview of the entire service at a macro level. The One Pensions Team Dashboard is the primary vehicle for providing this overview. The dashboard covers the period July - September 2024.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the content of this report.

REASON FOR RECOMMENDATIONS:

To provide an update to the Surrey Pension Fund Committee and stakeholders on the macro Surrey Pension Team activities.

DETAILS:

Background

The dashboard can be viewed on slide 2 of Annexe 1.

1. The Fund value has increased over 3 months, 1 year and 3 years. However, individual mandates have underperformed their specific benchmarks, leading to an underperformance of the Fund overall. The growth in asset value, to £6bn, and a decline in the discount rate have combined to drive the funding ratio up to 143%.

2. There are some fluctuations in the Service Delivery figures, but all are above target. The Legacy Reduction rate continues to perform strongly in Service Delivery.

3. The outstanding Accounting & Governance legacy work relates to identifying and allocating income and expenditure on the Debtors and Creditors accounts. These are items listed on the old accounting system, SAP, and have transferred to the new ledger on MySurrey. Of all the items identified as legacy in this area, 61% has been completed. Work is ongoing to complete the

remaining items, many of which will be completed as part of closing the 2023/24 Pension Fund account.

4. The Audit figures have been re-set for this current financial year based on the audit schedule. Three audits have commenced (A&G – SPT Business Continuity Plan; SD - overseas pensioners & death cases); three are still to commence (fund investments, admission agreements, and review of governance arrangements).

5. The third pulse staff survey closed on 30 June 2024. There are slight variations in the latest results, but they are still positive and show the team continues to be on track with its strategic plan.

8

CONSULTATION:

6. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

7. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

8. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

9. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

10. There are no equality or diversity issues.

OTHER IMPLICATIONS:

11. There are no other implications.

NEXT STEPS:

12. The following steps are planned:

    a) The dashboard will continue to be updated on a monthly basis.

    b) It will now be included in the LGPS Senior Officer's updates once every four weeks.

Contact Officer:

Neil Mason, Assistant Director – LGPS Senior Officer

Annexes:

1. Surrey Pension Team Dashboard – Annexe 1

Sources/Background papers:

1. None

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Surrey Pension Team Dashboard Metrics

1 October 2024

Surrey Pension Team Dashboard

[Surrey Pension Team Dashboard: Surrey Pension Team Dashboard - Tableau Server (surreycc.gov.uk)](surreycc.gov.uk)

Surrey Pension Team

Service Delivery

Last Update 01/10/2024

% Within SLA			Target Adherence	
Survivors Pension	92.0%	▲	7.0%	Above last KPI
LGPS Transfers In	90.6%	▼	-0.1%	Less than pre..
LGPS Transfers Out	97.8%	▼	-0.3%	Less than pre..
Retirements Comp..	94.1%	▲	5.5%	Above last KPI
Refunds	99.3%	▼	-0.7%	Less than pre..

Data Score		Pass Rate Adherence
Common Data Score	96.0%	No Change
Scheme Specific	98.0%	No Change

1st Point Fix: 92.0%

Fund Performance

Last Update 01/10/2024

Fund Value: £6.00bn

Funding Level: 143%

	3 Month	Rolling 1 Year Fund Performance	Rolling 3 Year Fund Performance
Fund Performance	1.8%	11.6%	4.2%
Performance Relative to Benchmark	-0.8%	-4.3%	-2.3%
Strategic Target Return			5.0%

People

Last Update 01/10/2024

Retention	100.0%	▲	1.4%
Diversity	81.7%	▲	1.2%
Health & Wellbeing	79.7%	▼	-2.3%
Engagement	76.8%	▲	2.9%

Accounting and Governance

Last Update 01/07/2024

Internal Audit Ratings

Substantial	0
Reasonable	0
Partial	0
Minimal	0
No Opinion	0

3 Not Yet Started

Admission Agreements		Contributions	
New Agreements	8	Contributions In	£55.40m
Pending	23	Contributions Out	£62.90m

Legacy Reduction

Last Update 01/10/2024

Accounting & Governance: 61.0%

Service Delivery: 87.8%

Strategy

Last Update 01/08/2024

Strategic Levers	73.0%	▲	0.4%
Strategic Enablers	68.5%	▼	-2.3%

Metrics Glossary

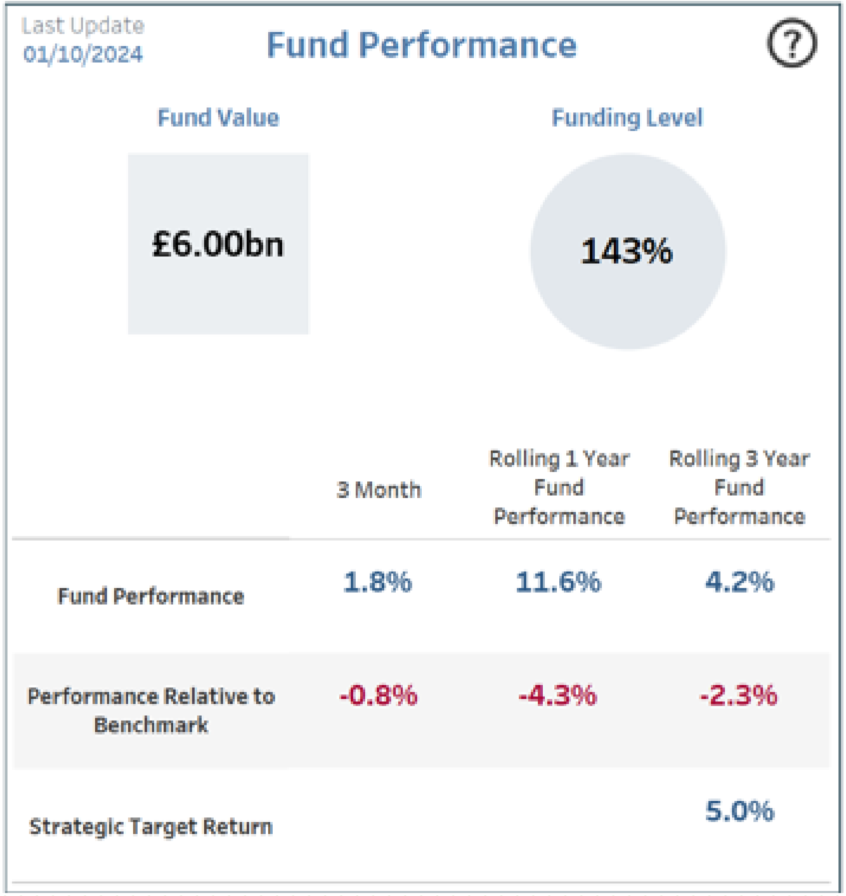
Fund Performance

Value of the pension fund up to the most recent quarterly update.

Measure of the previous quarter's fund performance percentage.

Indicates percentage difference between actual performance and the benchmark performance percentage

Positive numbers are indicated in blue and negative numbers in red.



	3 Month	Rolling 1 Year Fund Performance	Rolling 3 Year Fund Performance
Fund Performance	1.8%	11.6%	4.2%
Performance Relative to Benchmark	-0.8%	-4.3%	-2.3%
Strategic Target Return			5.0%

Compares Fund Value to Funds required to meet obligations (pay members)

100% + = Able to cover obligations

Measure a rolling 3-year fund performance percentage rate

Measure a rolling 1-year fund performance percentage rate.

The strategic target for return measured over a rolling 3-year period

Updated 08/10/24

Update Frequency:
Quarterly: All Measures

Accounting and Governance

Substantial is the highest rating available for internal audit, followed by reasonable, Partial and then Minimal.

No Opinion indicates further audit work required to produce rating.

Target is to have ratings fall within the Substantial & Reasonable categories.

The number of internal audit ratings by category.

Admission Agreements facilitate the joining of an Admission Body to the fund, a company performing certain functions for a scheme employer, and as a result of this is eligible to join the pension scheme.

Agreements are required to go through a signing and sealing process, the majority of which requiring wet-ink signatures until recently where an E-Signature & Sealing process was introduced. With the involvement of several parties, this made for a cumbersome exercise and has created a backlog of agreements to process. With the new electronic process, this has sped-up processing times

Last Update
01/07/2024

Accounting and Governance

Internal Audit Ratings

Substantial	0
Reasonable	0
Partial	0
Minimal	0
No Opinion	0

3
Not Yet Started

Admission Agreements

New Agreements	8
Pending	23

Contributions

Contributions In	£55.40m
Contributions Out	£62.90m

The number of Audits remaining on the Internal Audit schedule for the current year that have yet to commence.

Contributions In = Receipts from paying into the pension fund.

Contributions Out = Money paid to retired members of the pension fund.

The number of Admission Agreements Pending processing, and the number of Admission Agreements that have been added to the queue since the last update.

The goal is to reduce the number of agreements pending processing.

Update Frequency:
Quarterly: Admission Agreements; Contributions
Annually: External Audit
Quarterly: Internal Audit Ratings

Updated 08/10/24

Service Delivery

Surrey Pension Team
Providing our customers with a better tomorrow

Down/Up Arrow = Indicates Increase (Up arrow) / decrease (Down arrow) compared to the previous update of data

Indicates % increase / decrease compared to the previous update of data

Percentage completed within SLA. Red line to show target %

The percentage of Survivor Benefits processed within the Service Level Agreement (SLA)

The percentage of LGPS Transfers In processed within the SLA

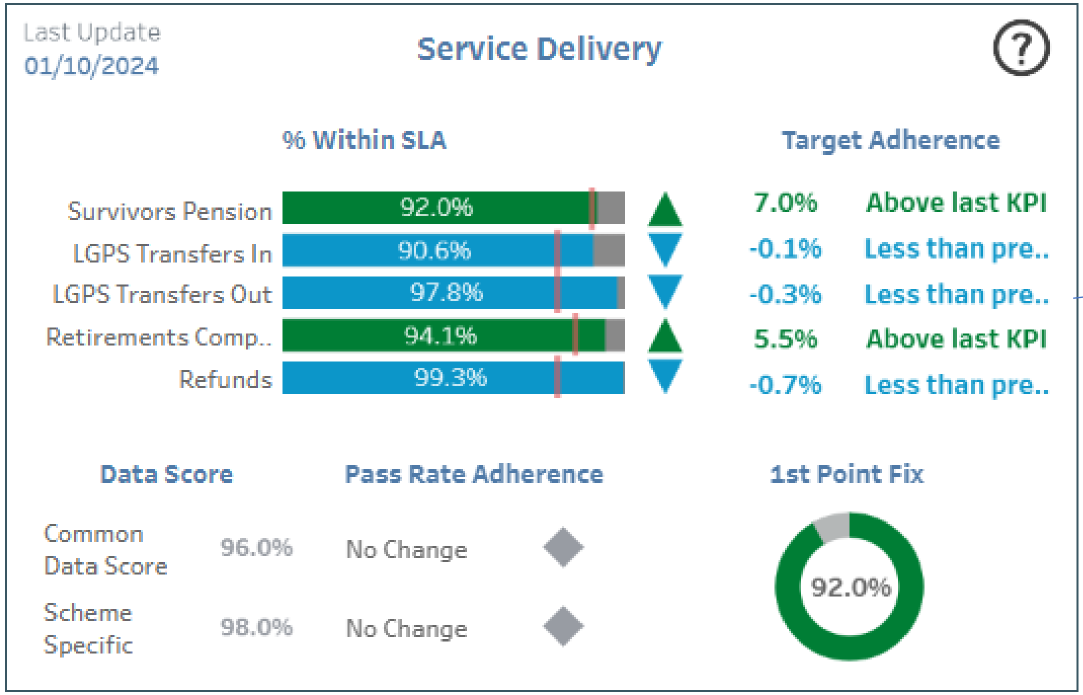
The percentage of LGPS Transfers Out processed within the SLA

Consists of the percentage of Retirements Complete within the SLA

The percentage of Refunds processed within the SLA

Data scoring for data including member NI Number , Name , Gender, DOB, Status, Commencement Date & Address

Data accuracy scoring for data including Member Details, Member Benefits, CARE, HMRC, and Contracting Out.



On Target = At or above 90%

On Target = At or above 80%

On Target = At or above 80%

On Target = At or above 85%

On Target = At or above 80%

Non-targeted percentage of cases resolved with the first point of contact in the Customer Relationship Team

Data Scores Achieved on report from Heywood Analytics run on our member data. The % of member data that passed the checks made.

Indicates whether the data set exceeded the Pass Rate (Pass) or was below the Pass Rate (Below Target)

Down/Up Arrow = Indicates less or more % Data Score achieved than the target % amount

Update Frequency :
- Annually: Data Scores
- -Monthly: All other Measures

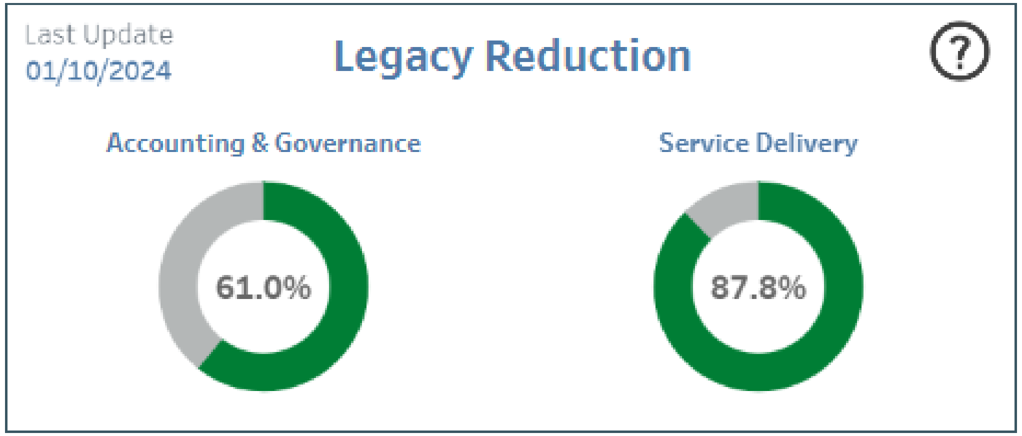
Updated 08/10/24

Legacy Reduction

Key project defined on Surrey Pension Fund strategic plan to reduce legacy backlog to Business-As-Usual levels

Both the Accounting & Governance and Service Delivery departments have legacy backlogs to reduce within the scope of this project

Percentage reduction of Accounting & Governance legacy cases to date



Percentage reduction of Service Delivery legacy cases to date

Update Frequency:
Monthly: Percentage Progress

Updated 08/10/24

Strategy

Surrey Pension Team
Providing our customers with a better tomorrow

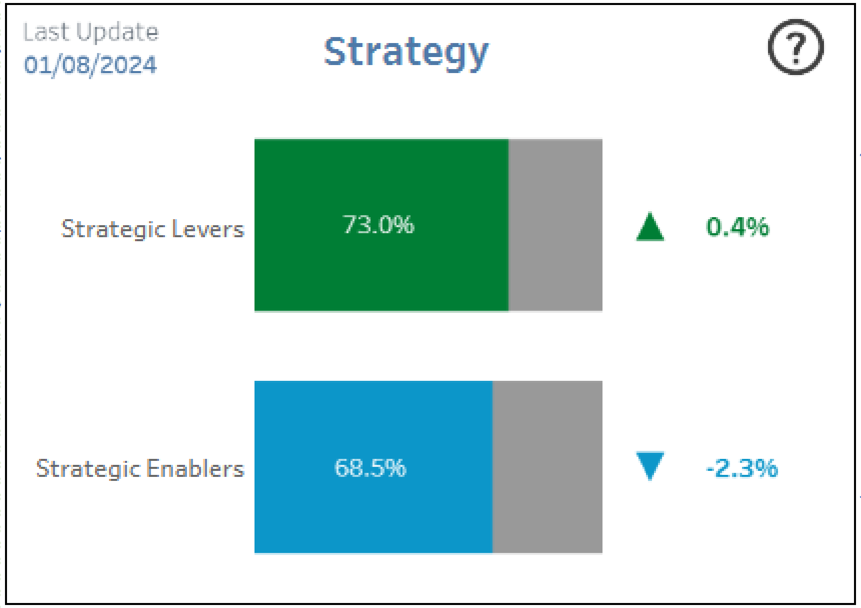
Communication:
Weighted percentage average based on responses to the following questions from the PULSE survey: 44*

Ready For Tomorrow:
Weighted percentage average based on responses to the following questions from the PULSE survey: 29,61*

Investment Expertise:
Weighted percentage average based on responses to the following questions from the PULSE survey:63*

Customer Focus:
Weighted percentage average based on responses to the following questions

The Strategic Plan introduced in 2023 is built around Strategic Levers and Strategic Enablers. Measures of these have been captured here via weighted percentage averages of the related PULSE survey responses.



Up Arrow = Above Previous Figure
Down Arrow= Below Previous Figure

Indicates percentage change since previous set of data.

Weighted percentage average of all questions per metric, based on the following:

Strongly Agree = 100%
Agree = 75%
Neither Agree nor Disagree = 50%
Disagree = 25%
Strongly Disagree = 0%

Yes = 100; No=0%

Produce average percentage based on numbers of responders divided by weighted responses.

Benchmark = 70% +

System & Processes:
Weighted percentage average based on responses to the following questions from the PULSE survey: 64*

Culture & Values:
Weighted percentage average based on responses to the following questions from the PULSE survey: 25,26*

Update Frequency:
Every 6 Months: All Measures

* PULSE Survey Questions on Page 8

Updated 08/10/24

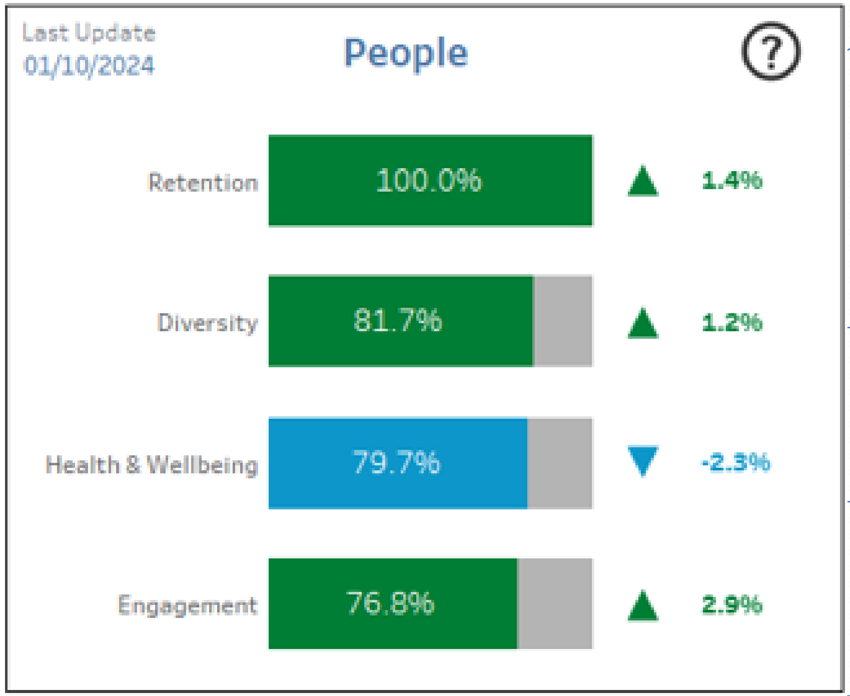
People

The retention rate is based on the headcount of permanent staff within the Surrey Pension Team. Benchmark = 90%

Employee retention rate for the most recent quarter.

Up Arrow = Above Previous Figure
Down Arrow = Below Previous Figure

Indicates percentage change since previous set of data



Weighted percentage average based on responses to the following questions from the PULSE survey: 32, 34, 35, 36 *

Weighted percentage average based on responses to the following questions from the PULSE survey: 37,38,39,40*

Weighted percentage average based on responses to the following questions from the PULSE survey:11,12,16, & 31*

Weighted percentage average of all questions per metric, based on the following:

Strongly Agree = 100%
Agree = 75%
Neither Agree nor Disagree = 50%
Disagree = 25%
Strongly Disagree = 0%

Yes = 100%; No = 0%

Produce average percentage based on number of responders divided by weighted response.

Benchmark =70% +

Update Frequency:
Every 6 months : PULSE Survey Measures
Monthly: Retention

* PULSE Questions listed on Page 6

Updated 08/10/24

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: CHANGE MANAGEMENT REPORT

SUMMARY OF ISSUE:

This paper details the Change Team Quarterly Report of activity for the period July – September 2024.

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RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

This report details the following areas of interest:

1. Communications

    a) 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 continued to implement the Amplifying our Presence plan.

2. During this period, the Surrey Pension Team won the 'Impact Investing Principles Adopter' at the Pensions for Purpose Awards.

    a) Delivered a suite of Pension Awareness Week material to Employers & utilised the Surrey Communication Working Group to share resources to members.

    b) Produced and launched the first in a suite of video interviews in line with the priorities set out in our Strategic Plan. Video describing Surrey Pension Team's plans for the future, our Workforce strategy and the importance of being ready for the future.

3. Learning & Development

    a) We have analysed the results of the Staff Pulse Survey and reported to Pensions Senior Leadership Team (PSLT). Generally, the results were positive and similar to that of the previous survey. However, Development showed a particular improvement. We have identified opportunities to further strengthen Development plans and in the area of Equality Diversity and Inclusion (EDI).

    b) A Lunch and Learn session was presented on Allyship, the practice of challenging thinking about privilege and working in solidarity with marginalised groups.

    c) Plans for the residential Board & Committee training event were finalised during this period. By now you will have completed this initial residential and feedback on the event has been taken and will be used
9 to improve next year's residential training.

    d) A comprehensive training programme for the Extended Leadership Team (ELT) has been launched.

    e) We have started work on the Continuous Improvement programme and ELT have committed to supporting the development of a mechanism to deliver this.

4. Project Management

    a) 1 project, Responsible Investment, has been completed.

    b) 6 projects are still ongoing and are on track. Further information is provided in Annexe 1.

    c) The most significant projects currently on the agenda are McCloud, GMP and evolving our governance and identity.

5. Transformation

    a) We are midway through the process of tendering for an external consultant to advise further on the Y2/3 plans for the digital transformation strategy. It is hoped that this consultant will also be able to help with the delivery of the Y1 plans.

    b) The Phase 1 Governance proposal was successfully submitted to the Council CEO, CLT, the Cabinet Member for Finance and the SPF Committee in September. It was then taken for ratification to Full Council on 8 October where it was approved.

    c) Initiatives that will continue to evolve the culture of the SPT were further rolled out during this period – including a dedicated session on 'The Journey of the Pound Coin' to help the team understand their connected role in delivering a pension service.

d) As part of our plans to improve the cohesion of the team, we have set up a successful Social Committee which has run a number of events over the summer.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

7. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

8. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009). 9

LEGAL IMPLICATIONS:

9. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

10. There are no equality or diversity issues.

OTHER IMPLICATIONS:

11. There are no other implications.

NEXT STEPS:

12. The following steps are planned:

a) We will be appointing the vendor to assist with the digital transformation strategy and confirmation of the plans for outer years.

b) The next steps for the Governance and Identity project will be to investigate all of the systems and services with SCC to ensure they are benchmarked and Service Level Agreements are in place.

c) The next Staff Pulse survey will take place in December.

d) A proposal to evolve our current Trainee programme with be taken to PSLT.

e) Further Lunch and Learn sessions will be delivered to support our work on Equality Diversity and Inclusion (EDI). We will also be commencing focused work with PSLT on EDI, drawing on the expertise of SCC's inclusion lead.

f) The delivery of our next short-form interview video with a member of PSLT covering the topic of Responsible Investment - in line with the strategic plan. It will be available to members via LinkedIn and the Surrey Pension Team website.

g) Our scheduled 6-monthly Talking Talent session where we review the development plans of the team will take place in October.

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Contact Officer:

Nicole Russell, Head of Change Management

Annexes:

1. Projects July - September 2024 Annexe 1

Sources/Background papers:

1. None

Projects July - September 2024

Projects completed:

1. **Responsible Investment:**
   Historically, there has been no responsible investment policy in place. The production of a policy was outsourced to Minerva, the new policy is now up for approval and following this a member consultation took place. The main fund focus currently is to focus on ESG investments, and the implementation of this new policy will enable this. The project relates to the implementation of the new policy. This will be an ongoing process with quarterly reviews and work plans to be put in place.
   Status: The Stewardship code application was successful and priorities for 2024/25 were agreed. There is no further requirement for project management involvement at this time.

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Ongoing projects:

2. **Internal Documents & Standards:**
   There was no standardisation of document storage location. With the removal of the G drive, it is an appropriate time to look at moving documents from the G drive to an agreed location moving forward, where standardisation can be developed. A new SharePoint site has been created and the majority of teams are now using this for document storage.
   Status: Final two teams will be moving to the new SharePoint site shortly. Then to liaise with IT to change the G Drive to read-only.

3. **Lunch & Learn programme**: Fortnightly sessions held virtually to cover both wellbeing topics alternated with more technical/topical work-related topics.
   Status: Lunch & Learn sessions still well attended and currently booked until December 2024.

4. **GMP:**
   There is a requirement to establish a guaranteed minimum pension for all members, recalculation and updating records required. This work is being carried out by Mercer alongside the Surrey Pension Team.
   Status: Working with Mercer on a plan for the works to be carried out by February 2025.

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5. **McCloud:**
   As a result of the McCloud case judgement, all public sector pension schemes must revisit their CARE schemes to revise underpinning calculations. There are two stages: the first to gather information from employers/payroll providers. This was validated using a third-party provider (ITM). The second stage will be the updating of records now that regulation has been finalised, with 2 years to correct records from that point.
   Status: Testing of the Altair interface currently underway. Once this is completed in November records will be updated in the live system.

6. **Consumer Insights**: Understand our current service provision and areas of improvement. Procure provider to undertake independent customer feedback across the whole one pensions team.
   Status: Feedback received from the Focus Groups has been analysed with work being carried out to improve the member experience.

7. **Digital Transformation:**
   Digital transformation is a key ingredient to our strategic plan to ensure that we continue to innovate and use our resources as efficiently and effectively as possible. The SCC Digital Design Team have completed their discovery process to understand the improvement areas and opportunities that will enable us to be innovative and fit for purpose with particular reference to those where a digital solution will have a beneficial impact.
   Status: To address key recommendations based on the outcomes of the SCC Digital Design Team discovery report.

8. **Governance:**
   It is crucial for the SPF to minimise conflicts of interests with its Local Authority and to ensure it is isolated from a changing political landscape to effectively enact its role as guardians and stewards of the pension fund in perpetuity. Additionally, the Fund wishes to have the autonomy to lead the fund in the best interests of its people and customers. This project seeks to understand how we can enact these aims by examining changes to our governance, people, systems, and infrastructure. The first phase will concentrate on identifying potential changes to our governance then conducting stakeholder engagement to get buy in to these principles.
   Status: The business case was presented to the Pension Fund Committee in September and approved. It has subsequently been noted and approved at SCC Corporate Leadership Team and Full Council.

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

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, as well as an update on investment performance and the values of assets and liabilities.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the findings of the report in relation to the Fund's valuation and funding level, performance returns and asset allocation.
2. Acknowledge the Fund winning the Pensions for Purpose Impact Investing Principles Adopter award.

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:

Fund award success

1. In October 2024, the Fund was short-listed for Best Investment Innovation award at the annual LAPF Investment Awards. This was due to process innovation for the Fund's increasingly complex private markets programme.
2. In October 2024, the Fund won the Impact Investing Principles Adopter award from Pensions for Purpose given the Fund's commitment to continuously improve its Responsible Investment approach and the setting of a Net Zero date.

Funding Level

3. 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.

4. 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.

5. 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.

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6. Results and assumptions when using a dynamic discount rate are in the table below.

Dynamic Discount Rate Table	**31 March 2022**	**30 June 2024**	**30 Sep 2024**
Assets (£bn)	5.36	5.98	6.00
Past Service Liabilities (£bn)	5.26	4.19	4.24
Surplus (£bn)	0.10	1.79	1.76
Funding Level	102%	143%	142%
Discount Rate	4.4%	6.5%	6.4%
Salary Increases	3.7%	3.3%	3.3%
Pension Increases	2.7%	2.3%	2.3%
Likelihood of success	70%	70%	70%
Required return to be 100% funded	4.3%	4.4%	4.4%

7. The liability values in the above table as at 30 June 2024 and 30 September 2024 make allowances for both the April 2023 Pension Increase Order of 10.1% and the April 2024 Pension Increase Order of 6.7%.

8. The funding level has remained stable over the quarter from 30 June 2024. Investment performance has been positive (with the Fund achieving a return of 1.17% over the quarter) and higher liabilities have broadly offset one another.

9. The net position has slightly decreased to a surplus of £1.76 at 30 September 2024.

10. 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. To illustrate this, the required return (the level of returns required to ensure the Fund remains 100% funded) is slightly higher as at 30 September 2024 (4.4%) 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%.

11. For comparison, the actuaries have also estimated the updated funding position of the Fund as 30 September 2024 based on the fixed discount rate of 4.4%, which was set at the 31 March 2022 valuation, results of which are shown in the table below.

Static Discount Rate Table	**30 Sept. 2024**
Assets (£bn)	6.00
Past Service Liabilities (£bn)	5.97
Surplus (£bn)	0.03
Funding Level	101%
Discount Rate	4.4%
Salary Increases	3.3%
Pension Increases	2.3%
Likelihood of success	88%

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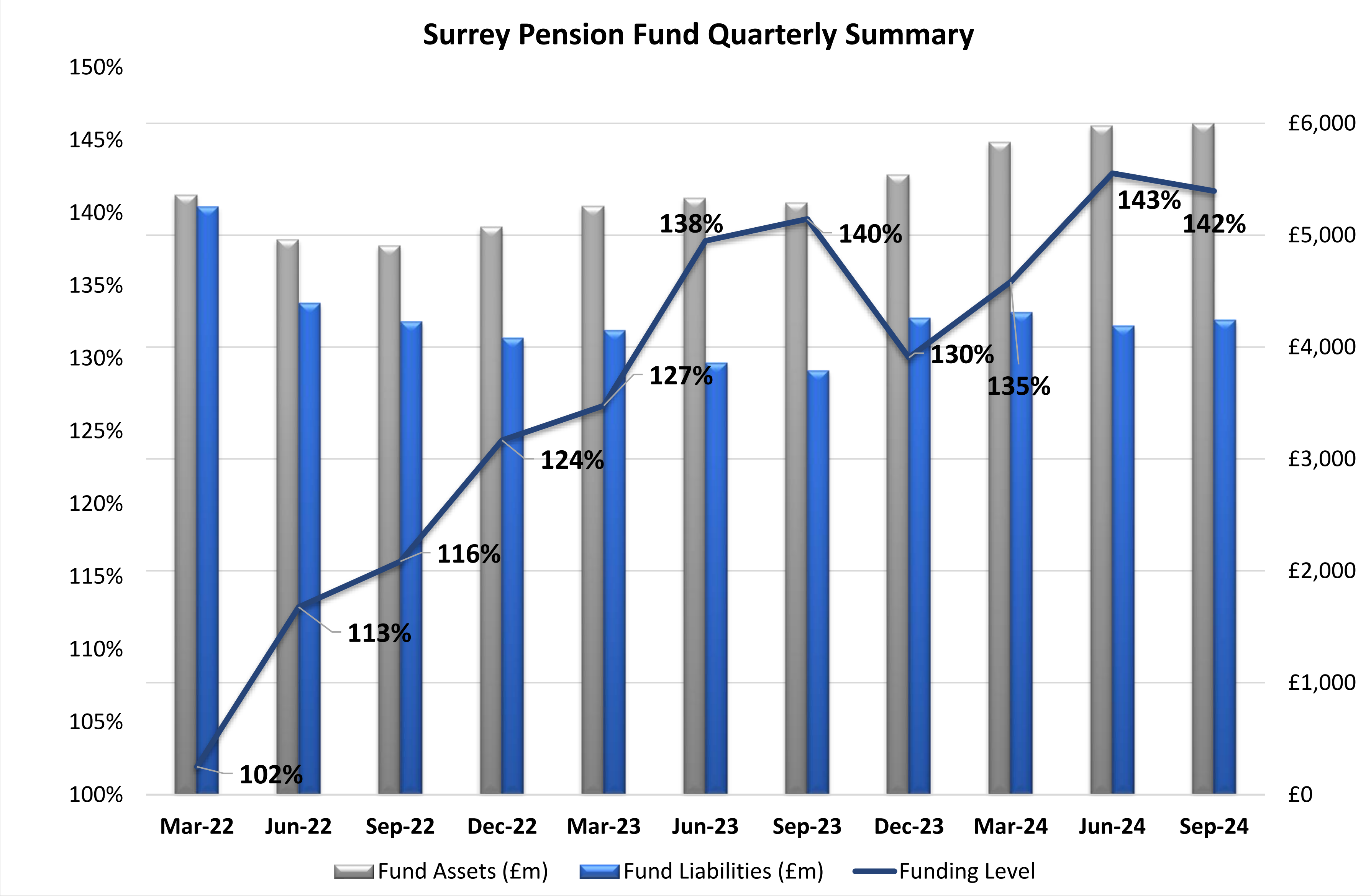
12. The graph below shows the development of the funding ratio since the last valuation.



Market Review

13. Global equity markets rose over the quarter, rallying to all-time highs by the end of September. The key drivers were easing inflation figures in the US, a 50-basis-point (bps) interest rate cut by the US Federal Reserve (Fed) and continued optimism over advancements in artificial intelligence (AI).

14. US equities rose, with the S&P 500 trading at new highs. US inflation eased, landing at 2.5% in August, down from 3.0% in June. The Fed was expected to cut interest rates but the scale was somewhat surprising, which contributed to the market's rally. Meanwhile, data suggested US growth was decelerating rather than contracting. The US economy added 142,000 jobs in August, more than the 89,000 in July. The US composite purchasing managers' index (PMI), which came in at 54.4 in September, showed business growth remaining robust (a figure above 50 indicates expansion).

15. European shares rose over the quarter, chiefly influenced by the outlook for the US's economy and interest rates. Euro area inflation fell to 2.2% in August, and the European Central Bank cut its deposit rate by 25bps in September in its second rate cut of the cycle. The composite PMI for the eurozone fell to 48.9 in September, compared with 51.0 in August, which represented the lowest reading since January and the first fall in private sector activity in seven months. Political turbulence took its toll on sentiment as hard-right and hard-left parties performed well in elections across the continent. 10

16. UK equities were marginally higher but underperformed global equities. Inflation was flat at 2.2% in August, as expected. Retail sales grew by 1.0% month-on-month in August. However, GfK's Consumer Confidence Index fell from -13 in August to a worse-than expected -20 in September reflecting negative comments from the new Government ahead of the Autumn Budget.

17. Asia Pacific ex Japan was the best-performing region; China's stock markets soared on the government announcement of a raft of stimulus measures intended to boost the economy. Japan was the worst performer. Tokyo's stock market was hit hard by the fallout of an unexpected interest rate rise by the Bank of Japan in July.

18. Government bond yields fell, and so prices rose, over the quarter. Benchmark 10-year yields in the US, the UK, Germany and Japan all ended the quarter lower.

19. Yields on 10-year US treasuries fell from 4.37% to 3.78%. Notably, the US yield curve ended its inversion towards the end of the period, with 10-year treasuries once again yielding more than two-year bonds.

20. Ten-year gilt yields fell from 4.17% to 4.01%. Spreads between shorter- and longer-dated gilts tightened. The Bank of England cut interest rates by 25bps in August and left rates unchanged at its September meeting.

21. The quarter saw yields on global credit fall in the US, the eurozone and the UK. Bond prices consequently rose. Credit spreads generally tightened, but widened in the UK.

22. The US dollar fell against sterling, the euro and the Japanese yen as the Fed made its larger than expected interest rate cut, leading some analysts to believe rates could move another 75bps lower by year end.

23. The Japanese yen rose against the US dollar, the euro and sterling after the unexpected rate rise. Elsewhere in Asia, the Chinese yuan strengthened versus the US dollar on the back of domestic Chinese stimulus.

Performance Review

24. Overall, the Fund slightly outperformed the benchmark, returning 1.17% in Q2 2024/25 (July-September 2024), compared to the benchmark of 1.04%.

25. On an absolute basis and relative to benchmark, BCPP Multi-Asset Credit (MAC) and BCPP Listed Alternatives were the best performing funds. Both funds reacted positively to rate cut expectations and growing confidence in a soft economic landing rather than a recessionary period, especially in the US. Credit yields fell and spreads tightened, supporting MAC investments and real estate and private market exposures in Listed Alternatives. BCPP UK Equity Alpha also outperformed over this period as smaller capitalisation companies outperformed, supported by a number of corporate takeovers approaches.

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26. This outperformance was offset by underperformance from private markets, BCPP Emerging Markets (EM) Alpha, CBRE Real Estate and BCPP Global Equity Alpha. Other than BCPP EM Alpha, these funds also saw absolute falls in value.

27. Private markets fell 4.9% over the period in absolute terms. The US dollar was down 5.8% versus the pound over the period and the majority of the private market allocations are in dollars. The euro was also down 1.5%.

28. BCPP EM Alpha underperformed primarily due to two impacts related to the Chinese exposure. First, BCPP sold the overweight position to China before the Chinese authorities initiated a stimulus package that drove the Chinese equity market higher. Second, the remaining Chinese exposure underperformed significantly as the market rally took the largest companies, especially those in the consumer sector, higher, whilst the fund’s exposure is more through smaller companies and away from this sector. The latter issue of company size has been a common theme across all BCPP funds, negatively impacting performance.

29. CBRE Real Estate underperformed the benchmark over the quarter. The most significant negative impact was currency as the US dollar weakened against sterling, reducing the value of some assets in sterling terms. The weakest underlying asset performance came from Nuveen UK Shopping

Centre Fund which realised a significantly lower asset value when it sold the Princesshay Shopping Centre in Exeter.

30. BCPP Global Equity Alpha continued its run of underperformance, underperforming the benchmark by 1.05%. The fund has underperformed the benchmark by -5.76% and its target by -7.76% over the last 12 months. Previously, the underperformance was due to an underweight position to the largest US technology companies that have performed very well. On this occasion that positioning was actually beneficial but the underlying managers and their style combinations still produced a negative outturn. A more detailed review of BCPP Global Alpha is contained in paper 14 – Global Alpha Equity Review (Part 2).

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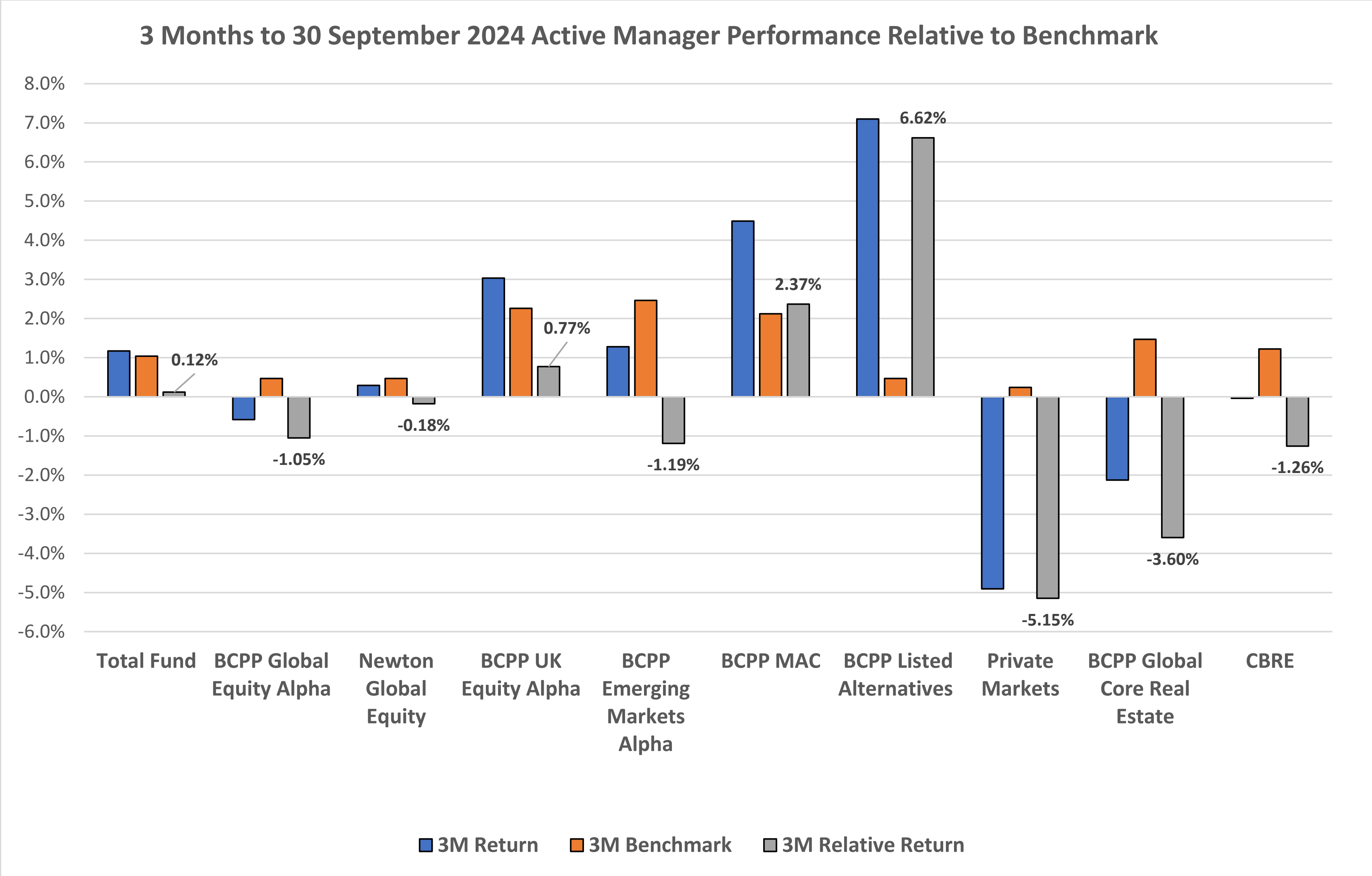
Fund Performance – Summary of Quarterly Results

31. The table below shows manager performance for Q2 2024/25 (June - September 2024), net of investment manager fees, against manager specific benchmarks using Northern Trust data.

As at 30 September 2024	£m	3M Return	3M Benchmark	3M Relative Return	1Y Return	1Y Benchmark	1Y Relative Return	3Y Return	3Y Benchmark	3Y Relative Return
Total Fund	**6,038.33**	1.17%	1.04%	0.12%	13.60%	16.47%	-2.87%	4.24%	6.48%	-2.24%
Active Global Equity	**1,339.3**	-	-	-	-	-	-	-	-	-
BCPP Global Equity Alpha	873.3	-0.58%	0.47%	-1.05%	14.13%	19.89%	-5.76%	6.89%	8.28%	-1.38%
Newton Global Equity	466.1	0.29%	0.47%	-0.18%	22.59%	19.89%	2.70%	9.39%	8.28%	1.11%
Active Regional Equity	**694.5**	-	-	-	-	-	-	-	-	-
BCPP UK Equity Alpha	393.9	3.03%	2.26%	0.77%	13.52%	13.40%	0.12%	2.82%	7.41%	-4.60%
BCPP Emerging Markets Alpha	300.6	1.28%	2.46%	-1.19%	12.49%	14.70%	-2.21%	-	-	-
Passive Global Equity	**1,391.7**	-	-	-	-	-	-	-	-	-
LGIM - Future World Global	1,391.7	0.81%	0.74%	0.08%	21.93%	21.57%	0.36%	-	-	-
Passive Regional Equity	**127.8**	-	-	-	-	-	-	-	-	-
LGIM - Europe Ex-UK	61.1	0.25%	0.22%	0.03%	12.14%	15.35%	-3.21%	5.16%	6.26%	-1.10%
LGIM - Japan	19.5	0.64%	0.68%	-0.03%	10.67%	10.67%	0.00%	3.18%	3.19%	-0.01%
LGIM - Asia Pacific ex-Japan	47.2	1.56%	1.48%	0.08%	10.59%	10.61%	-0.03%	1.84%	1.91%	-0.07%
Fixed Income	**1,011.0**	-	-	-	-	-	-	-	-	-
BCPP MAC	886.6	4.49%	2.12%	2.37%	13.67%	8.88%	4.79%	-	-	-
LGIM - 15 Yr+ Gilts Index Fund	124.3	2.65%	2.64%	0.01%	-	-	-	-	-	-
Private Markets Proxy	**57.7**	-	-	-	-	-	-	-	-	-
BCPP Listed Alternatives	57.7	7.10%	0.47%	6.62%	21.72%	19.89%	1.83%	-	-	-
Private Markets	**945.6**	-	-	-	-	-	-	-	-	-
Private Markets	945.6	-4.91%	0.24%	-5.15%	-3.43%	20.50%	-23.93%	4.73%	9.27%	-4.54%
Real Estate	**291.7**	-	-	-	-	-	-	-	-	-
BCPP Global Core Real Estate	2.9	-2.13%	1.47%	-3.60%	-	-	-	-	-	-
CBRE	288.8	-0.04%	1.22%	-1.26%	-3.00%	1.71%	-4.71%	-1.09%	-0.42%	-0.66%
LGIM Currency Overlay	22.5	-	-	-	-	-	-	-	-	-
LGIM Sterling Liquidity Fund	44.1	1.31%	1.30%	0.01%	5.45%	5.38%	0.08%	-	-	-
Liquidity*	112.5	-	-	-	-	-	-	-	-	-

*Includes £72.4m of money market funds

32. The chart below shows the performance, for the latest 3 months to 30 September 2024 for the actively managed portfolios.



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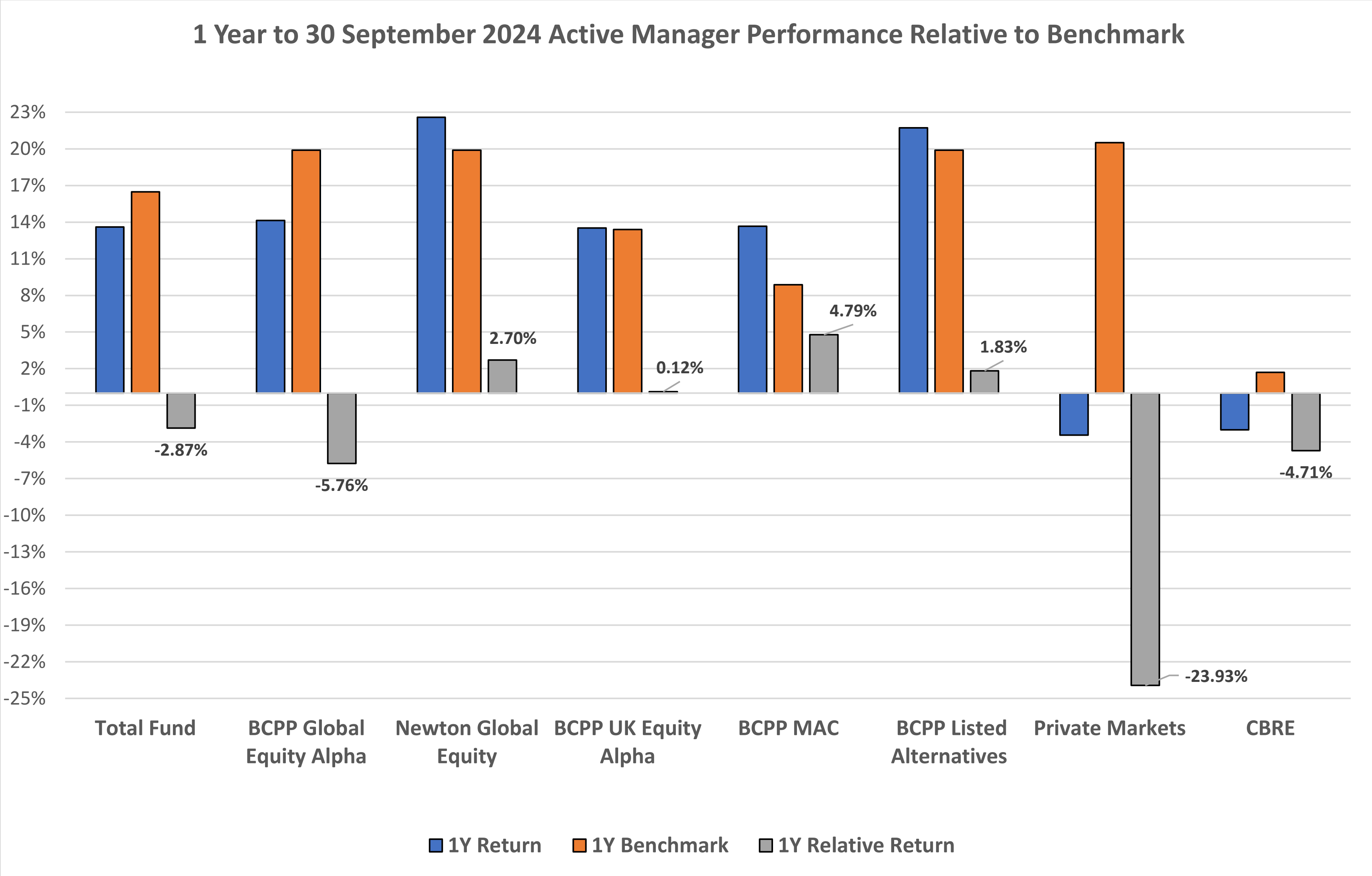
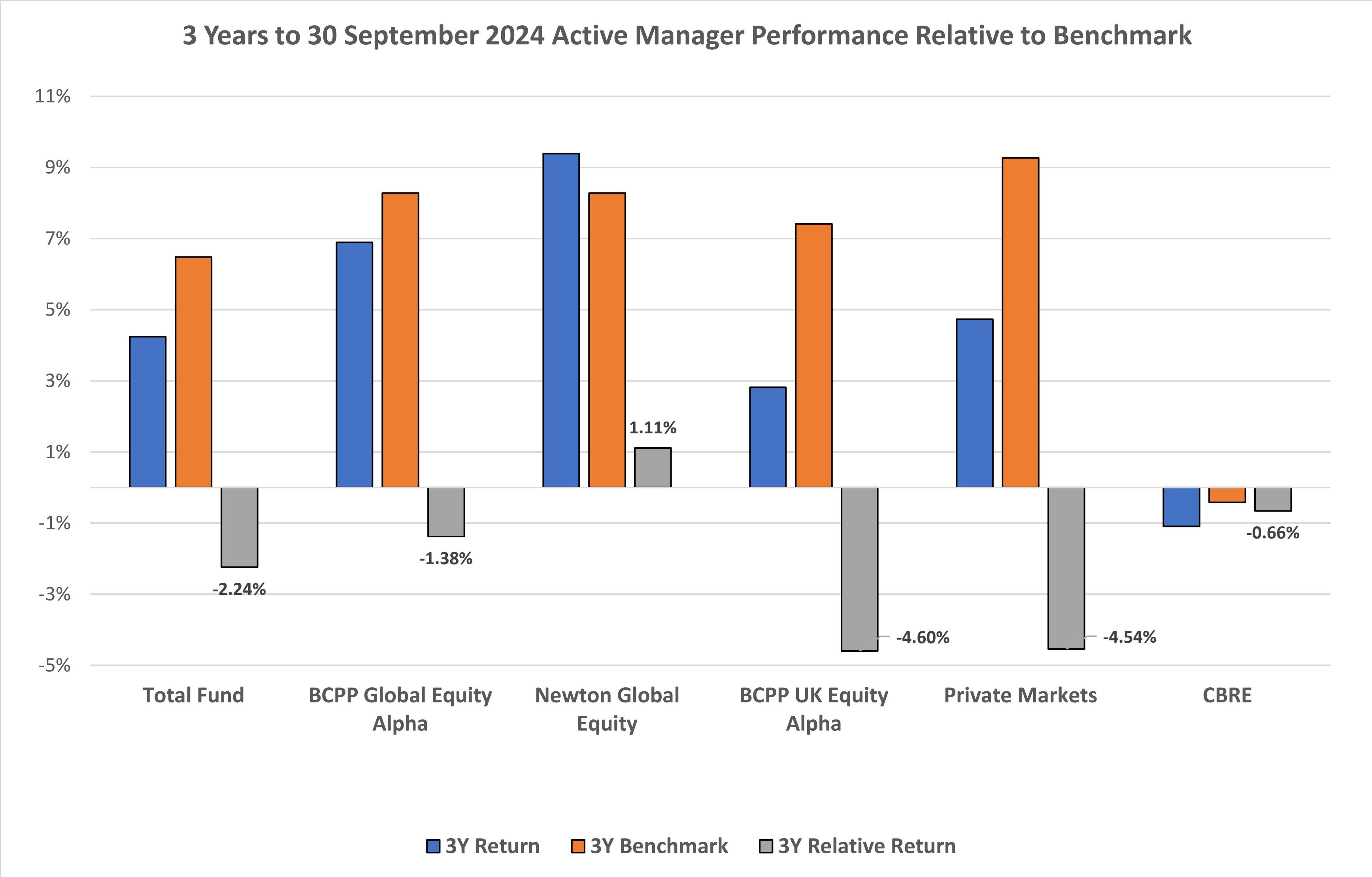
33. The chart below shows the performance for the latest 12 months to 30 September 2024 for the actively managed portfolio.



34. The chart below shows the performance for the latest 3 years to 30 September 2024 for the actively managed portfolio.



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Recent Transactions

35. The asset allocation agreed in the December 2022 Committee meeting resulted in a series of transactions taking place in 2023.

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

37. In July 2023, the Fund invested £267m into the BCPP Emerging Markets Equity Alpha Fund, which was funded by the full redemption of the Fund’s remaining holding in the LGIM Emerging Markets Fund.

38. 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.

39. 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.

40. To align the exposure to MAC to the Investment Strategy Statement (ISS), the final purchase was completed in January 2024. This amounted to a £60m purchase of MAC and takes the weighting to approximately 15%. There was a corresponding £60m sale of Newton Global Equity.

41. A sale of £20m in Listed Alternatives was completed in January 2024 to help fund ongoing private market capital commitments and drawdowns. Since December 2022, £317m has been redeemed from BCPP Listed Alternatives Fund to fund capital calls in private markets.

42. Capital calls have predominantly been funded by the BCPP Listed Alternatives Fund. Going forward, these calls may increasingly be funded by Newton Global Equity and LGIM Sterling Liquidity Fund assets.

43. The private market commitments to the BCPP programme for April 2024 are £50m to Climate Opportunities, £80 to Private Credit and £90m to UK Opportunities, as agreed at the Committee meeting in March 2024.

44. A sale of £20m in LGIM Sterling Liquidity Fund was completed in April 2024 and a redemption of £27m from Listed Alts in May 2024 to help fund ongoing private market capital commitments and drawdowns.

45. Funding of €2.3m was requested from BCPP in April 2024 for the first transaction in the BCPP Global Real Estate Fund.

46. Due to a build-up of money market funds, the Accounting & Governance team has requested that that regular transfer of income from the MAC and CBRE accounts should stop.

47. In August 2024, a £25m redemption from Newton provided funding for capital calls.

Stock Lending

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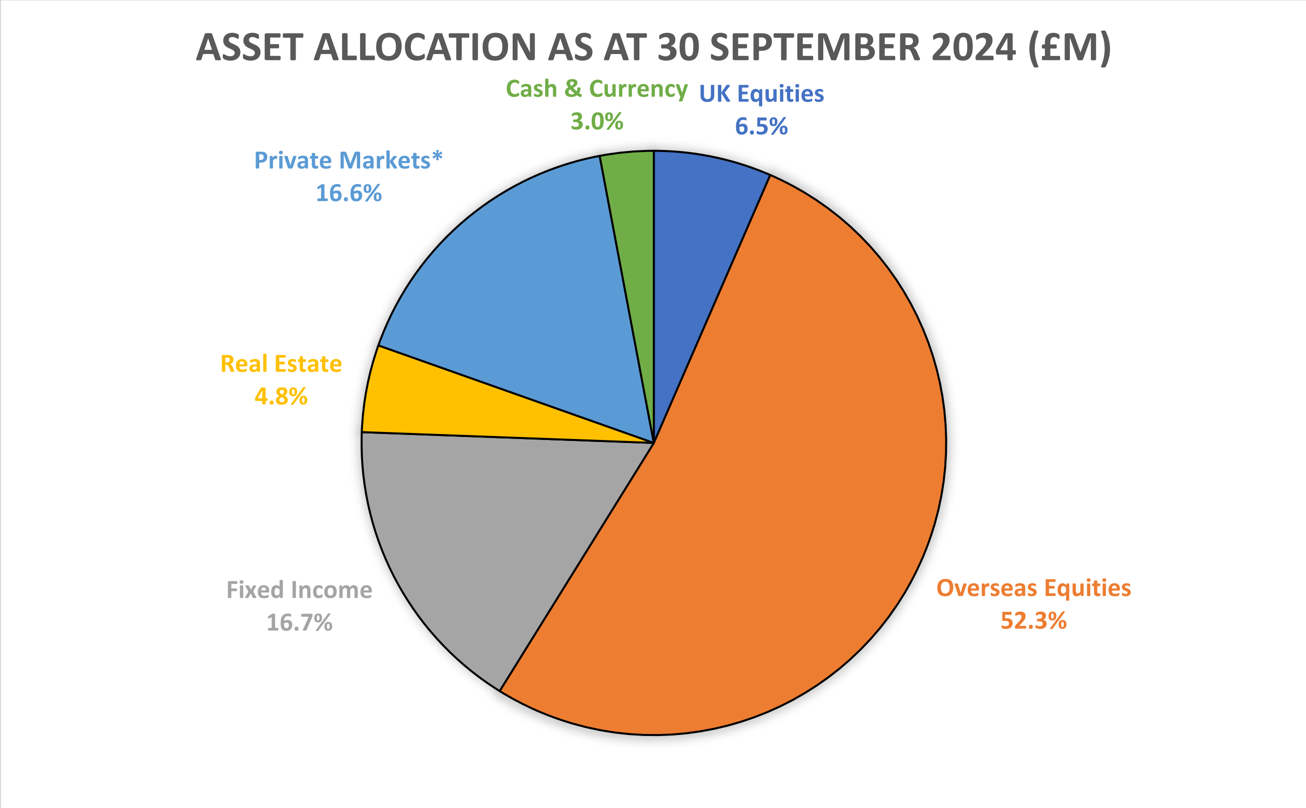
48. In the quarter to 30 September 2024, stock lending earned a net income for the Fund of £8,656 compared with £14,663 for the quarter ended 30 June 2024.

Asset Allocation

49. The table and the graph below show the target and actual asset allocations for the quarter ending 30 September 2024. These allocations were agreed by the Pension Fund Committee in the June 2023 meeting.

As at 30 September 2024	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	393.9	6.5%	6.7	-	-
Global Market Cap	1,339.3	22.2%	21.8	-	-
Global Regional	127.8	2.1%	2.2	-	-
Emerging Markets	300.6	5.0%	5.6	-	-
Global Sustainable	1,391.7	23.0%	19.5	-	-
Alternatives	**-**	**21.4%**	**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	317.9	5.3%	5	2.0-8.0	-
Infrastructure	367.8	6.1%	6	3.0-9.0	-
Private Debt	169.1	2.8%	6	2.0-8.0	-
Climate Opportunities	90.8	1.5%	3	0.0-6.0	-
Listed Alternatives	57.7	1.0%			-
Real Estate	291.7	4.8%	7.3	4.3–10.3	-
Credit	**-**	**16.7%**	**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	886.6	14.7%	15.1	12.1-18.1	-
Fixed Interest Gilts	124.3	2.1%	1.8	0.0-3.6	-
Cash & Currency Overlay	179.1	**3.0%**	-	-	-
Total	**6,038.3**	-	**100**	-	-

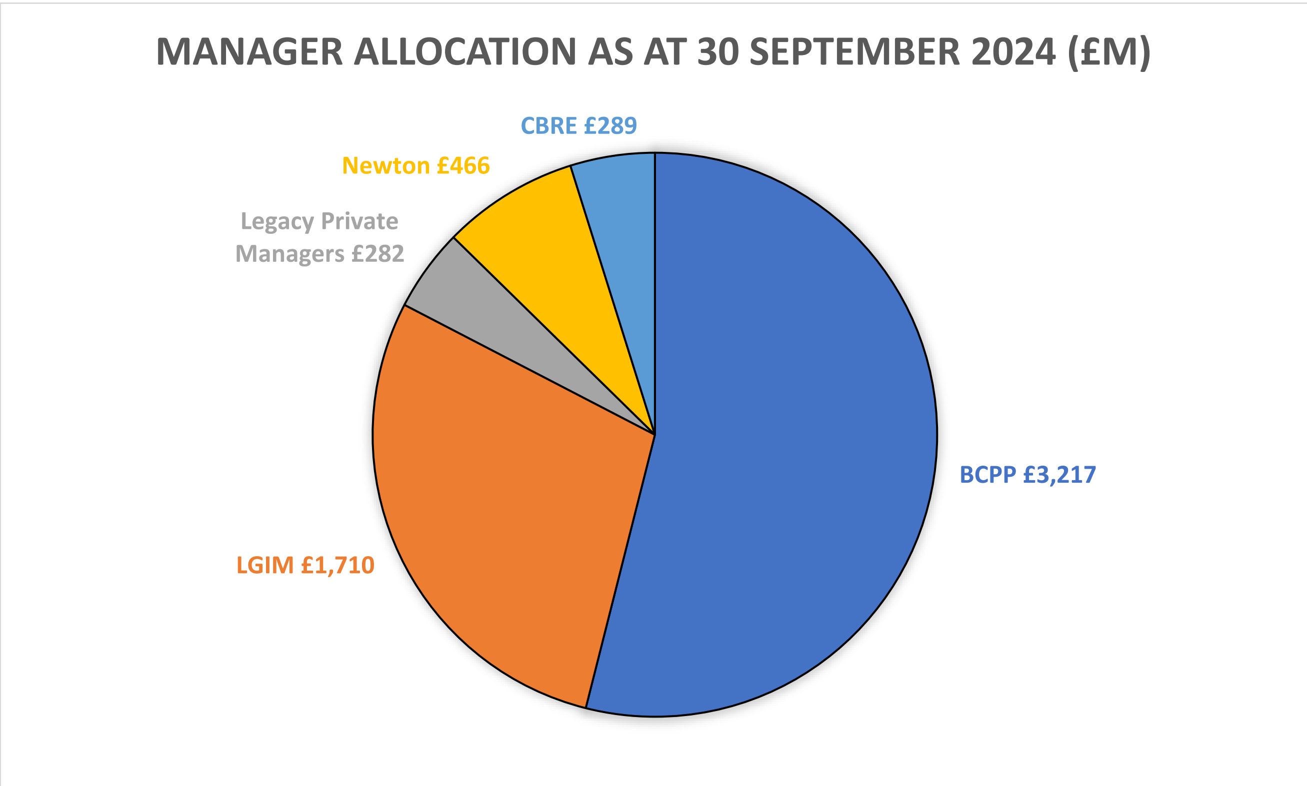
50. The graph below shows the asset allocation for the quarter ending 30 September 2024.



*Private investment in this chart includes Listed Alternatives.

Manager Allocation

51. The graph below shows the manager allocation for the quarter ending 30 September 2024.



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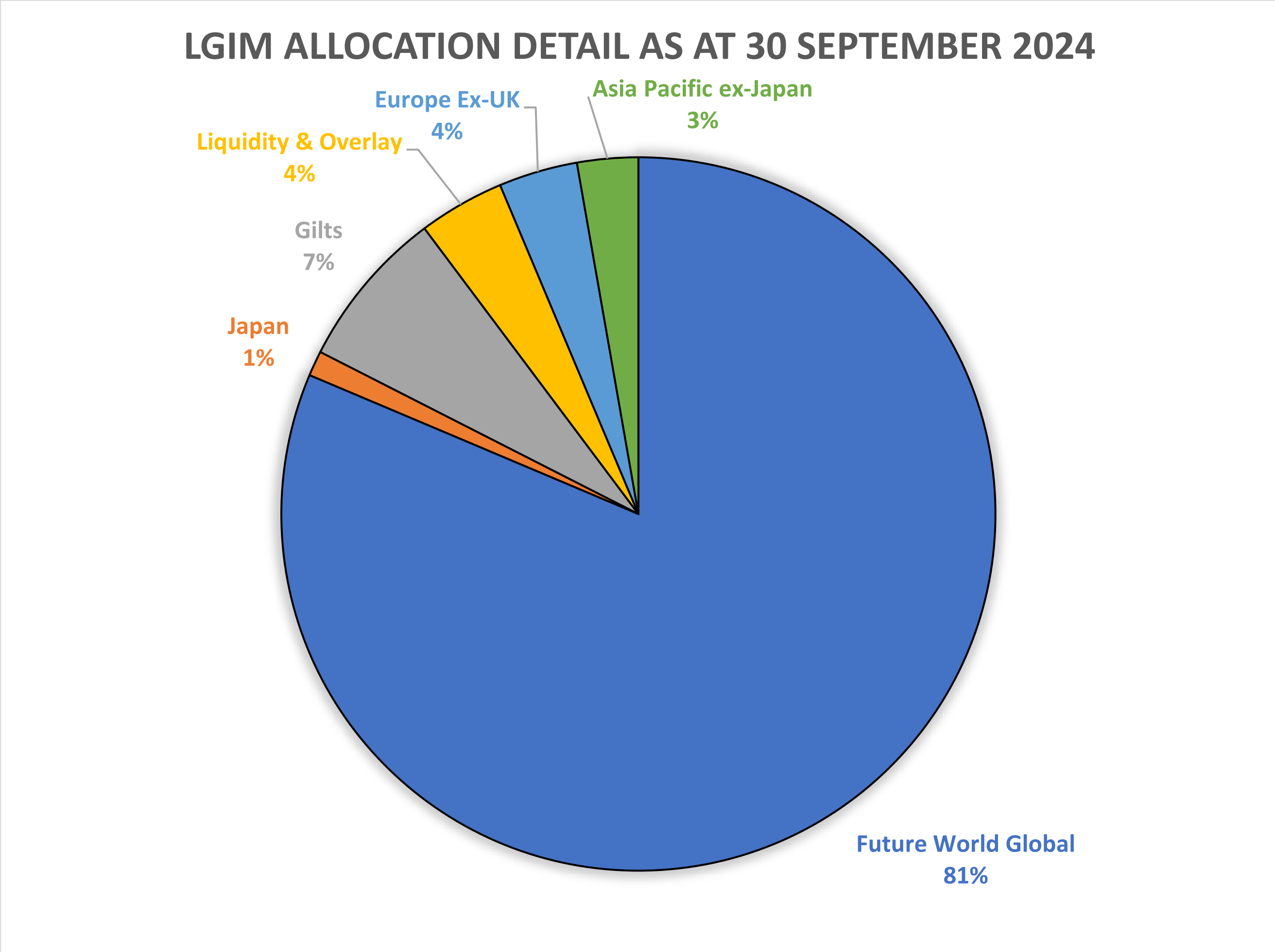
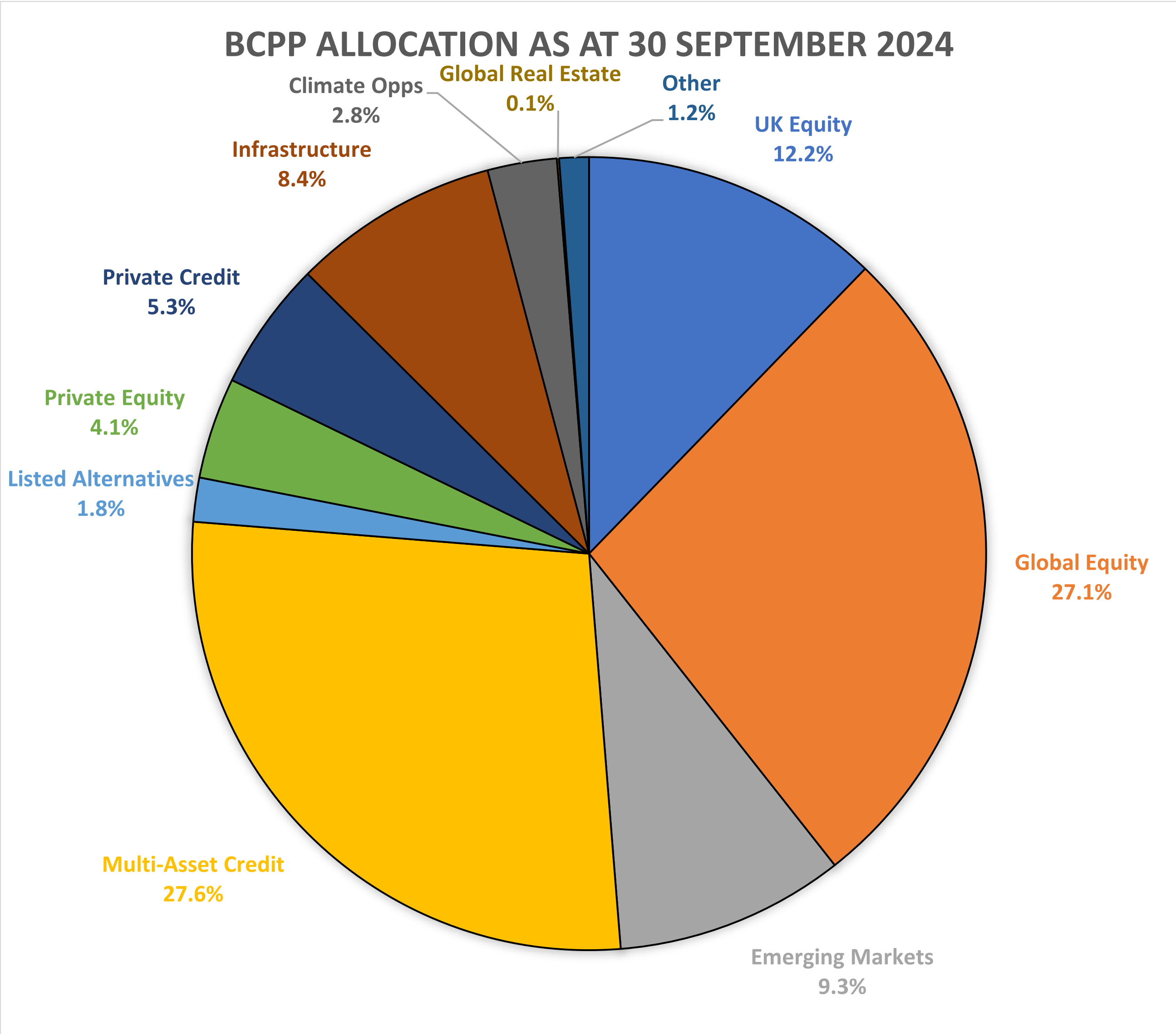
52. The graph below shows the asset allocation within LGIM as at 30 September 2024.



53. The graph below shows the asset allocation within BCPP as at 30 September 2024.



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Cashflow

54. 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. The table below shows the total contributions received, the total pension benefits paid and the net cashflow for the two most recent quarters to 30 September 2024.

Period	Total contributions received £m	Total pension benefits paid £m	Net cashflow £m
Quarter 1 2024/25 (1 Apr 2024 – 30 Jun 2024)	55.4	62.9	-7.5
Quarter 2 2024/25 (1 Jul 2024 – 30 Sep 2024)	85.7	66.7	19

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55. Quarterly cashflow information has been provided by the Accounting & Governance Team who reported that the total contributions are higher than previous quarter due to the Finance team allocating more contribution funds.

Membership Trends

56. An indication of the current membership trends is shown by movements in membership over Q1 and Q2. Member data for the last two quarters to 30 September 2024 as provided by the Accounting & Governance Team is listed below. Membership numbers include all status types.

Period	Active members	Deferred members	Pension members	Total members
Quarter 1 2024/25 (1 Apr 2024 – 30 Jun 2024)	36,000	62,195	31,360	129,555
Quarter 2 2024/25 (1 Jul 2024 – 30 Sep 2024)	34,994	62,109	31,635	128,738

Benchmark Table

57. The table below shows the fund managers, the mandate, the benchmark and performance target.

Manager	Mandate	Benchmark Index	Performance Target relative to Benchmark
All	Surrey Pension Fund	Weighted across Fund	+1.0
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)	+0.5%
LGIM	Europe ex-UK Equities Index	FTSE Developed Europe ex-UK Net Tax (UKPN)	-
LGIM	Future World Global Equity Index	Solactive L&G ESG Global Markets Net	-
LGIM	Japan Equity Index	FTSE Japan NetTax (UKPN)	-
LGIM	Asia Pacific ex-Japan Development Equity Index	FTSE Developed Asia Pacific ex-Japan NetTax (UKPN)	-
LGIM	Sterling Liquidity	SONIA	-
LGIM	15 Yr+ Gilts Index	FTA Over 15 Yr Total Return	-

10

CONSULTATION:

58. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

59. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

60. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

61. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

62. There are no equality or diversity issues.

OTHER IMPLICATIONS:

63. There are no other implications.

NEXT STEPS:

64. The following steps are planned:
    a) Continue to implement asset allocation shifts as agreed by the Committee.
    b) Continue to monitor performance and asset allocation.

10

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Annexe 1 – Manager Fee Rates (Part 2)

Sources/Background papers:

None

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, SENIOR LGPS OFFICER

SUBJECT: COMPANY ENGAGEMENT & VOTING UPDATE

SUMMARY OF ISSUE:

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting carried out on behalf of the Surrey Pension Fund (Fund) by Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP). Also included is the direct voting record for the Fund over the period.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Acknowledges the outcomes achieved for quarter ended 30 September 2024 by LAPFF and Robeco through their engagements.

2. Note the direct voting by the Fund in the quarter ended 30 September 2024.

REASON 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 Responsible Investment (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 an implicit fiduciary duty. Such a process is strengthened by the advice of a consultant skilled in this field and this has been provided to the Fund by Minerva Analytics covering voting and the whole spectrum of responsible investment.

2. 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 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, of which the Fund is a member, is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) funds and UK Pension Pools. Its aim is to engage with companies to promote the highest standards of corporate governance and responsibility. As a member the Fund enhances its own influence.

4. BCPP has appointed Robeco as its voting & engagement provider.

LAPFF Engagement

5. The LAPFF Quarterly Engagement Report for the quarter ended 30 September 2024 can be found at the link below. Highlights this quarter include sectoral engagements with key companies in aviation, steel, and cement to explore sustainable innovations, letters to FTSE 100 companies advocating for Paris-aligned climate transition plans and a 'say on climate' vote and initiating of engagement with companies on the use of zero-hour contracts.

   [LAPFF-QER-Q3-2024-1.pdf]

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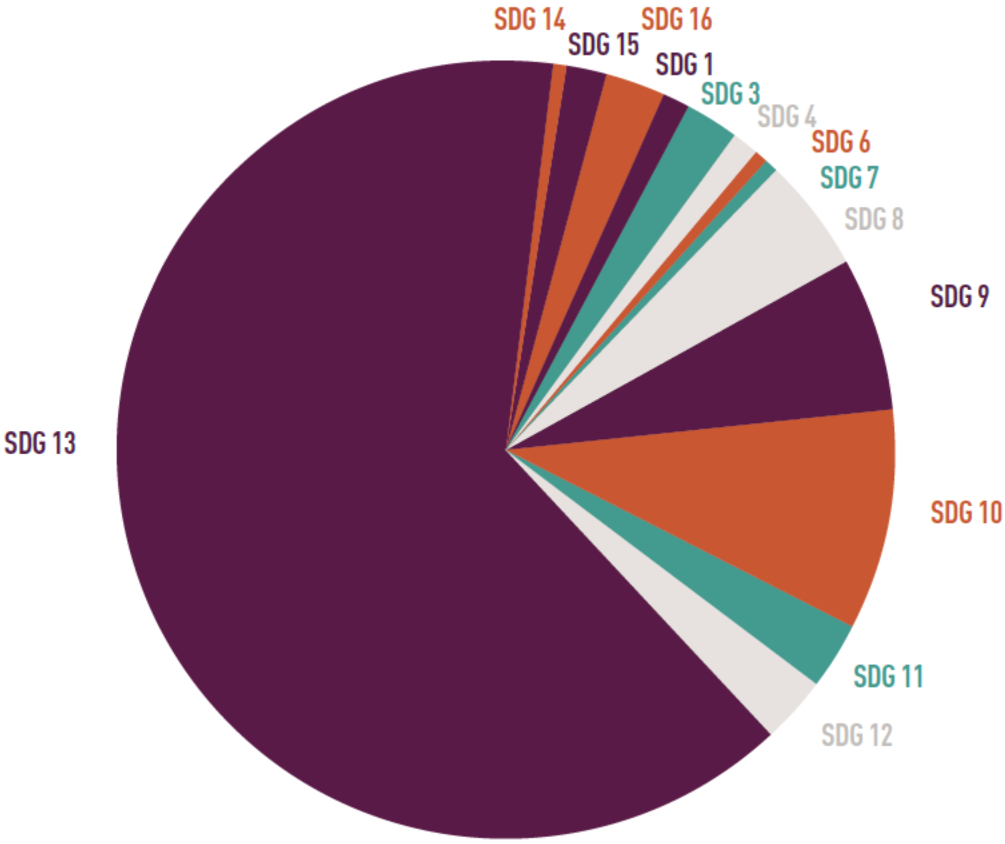
6. The chart below shows LAPFF engagement over the quarter in relation to the UN Sustainable Development Goals (SDGs). The most significant SDG addressed was 13, Climate Action, which included 76 letters from the Climate Transition Plan (CTP) initiative.



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	8
SDG 9: Industry, Innovation, and Infrastructure	11
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	5
SDG 13: Climate Action	111
SDG 14: Life Below Water	1
SDG 15: Life on Land	3
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

11

Steel company engagement

7. Insight into the steel sector was provided by engagements with SSAB and ThyssenKrupp. Ahead of the meetings it was noted that SSAB has a low Carbon Disclosure Project (CDP) rating of D, and ThyssenKrupp an A.

8. SSAB's plans demonstrate its desire to improve its rating with commitments to green steel and recycled steel for which the melting is done using an electric arc furnace with fossil fuel free electricity.

9. ThyssenKrupp also has plans to produce "green steel" by Direct Reduction of Iron (DRI) from green hydrogen, which will be sourced externally. Initially the DRI will run from unabated methane and will then switch to green hydrogen.

10. More steel company engagements are planned and LAPFF intends to explore why less strategically credible (i.e. fossil fuel dependent) routes to net zero still seem to achieve a higher CDP rating than SSAB.

Airline engagement

11. Airlines account for approximately 2% of global CO2 emissions and this
11 quarter LAPFF met with Ryanair. Ryanair's emissions are 99% from fuel.

12. The Ryanair team were knowledgeable on methods and options for decarbonisation with a lot of supporting detail. Ryanair has a target of using 12% Sustainable Aviation Fuel (SAF) by 2030, which compares to a UK Government target of 10% and EU target of 5%. That is in addition to emissions reduction from newer aircraft and engines, which are more fuel efficient.

13. Biomass derived SAF has limits around land-use and crop displacement and hydrogen-based fuels are not expected to be widely available until after 2050, requiring a redesign of aircraft. Hydrogen-based fuels have much less mass per unit of energy, but require much larger volume than kerosene, and thus a larger wing space. The International Air Transport Association (IATA) has chosen Trinity College Dublin as the certification body for all new SAF pathways. Engagements will continue with other airlines and fuel providers.

Robeco Engagement

14. This quarter Robeco voted at 169 shareholder meetings, voting against at least one agenda item in 52% of cases. The Robeco report for Q3 2024 can found by following the link below.

    Robeco-Public-Engagement-Report-2024-Q3.pdf

15. The themes covered this quarter by Robeco engagement include hazardous chemicals and sovereign engagement with Australia, along with the usual section for proxy voting.

16. A new engagement theme on ‘Hazardous chemicals’ was launched this quarter. It will focus on addressing the pollution caused by the production and use of per- and polyfluoroalkyl substances (PFAS), the ‘forever chemicals’ which are extremely hazardous for human health and stay in the biosphere forever.

17. in 2021, Robeco initiated a collaborative engagement with the government of Australia to support its climate policy transition away from coal. As a part of the Paris Agreement, each country must submit emissions reduction targets known as Nationally Determined Contributions (NDCs). Australia’s second NDCs are due in 2025, and the target-setting process for 2035 is in discussion. All countries will pledge new targets ahead of COP30 in Brazil in 2025.

Border to Coast Engagement

18. In collaboration with Royal London Asset Management (RLAM) and with the support of the London School of Economics, BCPP is engaging four UK banks on the integration of Just Transition into their net zero plans. During the quarter meetings with NatWest Bank, HSBC Bank and Barclays Bank were held to discuss their new ‘Investor expectations on Just Transition for Banks’. These expectations are being used to direct the engagement and will form the basis of their assessment of emerging Bank plans. HSBC and Barclays are making good progress. 11

19. BCPP is chairing the IIGCC’s new Working Group on Just Transition, which launched in October. The working group will look at integrating just transition into the IIGCC’s Net Zero Investment Framework (NZIF), a popular resource that investors use to develop strategies and plans to achieve net zero emissions, including BCPP. The group will also pilot engagement with an Indian bank to explore just transition integration in an emerging markets context. BCPP will be joined by LGPS Central, Robeco, RLAM and Schroders to pilot the engagement.

20. In partnership with RLAM, BCPP has also been engaging UK water utilities to improve practice and encourage a faster pace of change. Specific areas of focus include sewage pollution, water leakage, climate change mitigation and adaption, nature-based solutions and biodiversity, affordability, and antimicrobial resistance.

21. Border to Coast is leading the engagement with Yorkshire Water and Northumbrian Water on behalf of the collaboration and is supporting the engagement with United Utilities. They have written to Yorkshire Water and Northumbrian Water to share their assessments, areas of improvement since 2023, and continued weakness, and have requested a meeting to discuss. They also joined a meeting with United Utilities to discuss its reassessment

and raise place-based concerns, including sewage discharge and infrastructure investment at Lake Windermere.

22. BCPP has joined two of the engagement programmes within the Good Work Coalition of investors. 1) Living Wage, engaging with retail companies to pay the real living wage to directly employed and third-party staff, and 2) Racial Inequity - engaging with food companies to publish their ethnicity pay gap and strategies to address such gaps.

Surrey Share Voting

23. The full voting report produced by Minerva is included in Annexe 1. In a quiet quarter the Fund was entitled to vote at 5 meetings on 91 resolutions, with the majority of these in Europe. The table below shows the resolution category, and contentious resolutions voted during the quarter as produced by Minerva.

Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% Against Management	% All Votes Against Management
Audit & Reporting	12	2	16.67%	12.50%
Board	63	10	15.87%	62.50%
Capital	7	0	0.00%	0.00%
Remuneration	6	4	66.67%	25.00%
Shareholder Rights	2	0	0.00%	0.00%
Sustainability	1	0	0.00%	0.00%
Total	**91**	**16**	**17.58%**	**100.00%**

24. Surrey voted against management on 17.58% of the resolutions for which votes were cast during 2024 Q3 compared with general shareholder dissent of 4.34%. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings.

25. During Q3 2024, all 91 resolutions voted on were filed by management with no shareholder-proposed resolutions available. This compares to 58 shareholder-proposed resolutions voted on during the previous quarter.

26. The UK Corporate Governance Code recommends boards take action where 20% or more of votes are cast against the board recommendation on a resolution. One resolution where Surrey voted against management concerned remuneration at Richemont and received shareholder dissent of 23.65%.

BCPP Responsible Investment

27. Annexes 2, 3, 4 & 5 provide a high-level overview of ESG performance for Global Equity Alpha, UK Equity Alpha, EM 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:

28. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

29. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

30. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

31. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

32. There are no equality or diversity issues.

OTHER IMPLICATIONS:

33. There are no other implications.

NEXT STEPS:

34. The following steps are planned:

    a) 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.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Surrey Voting Report (Minerva) Q3 2024 - Annexe 1
2. BCPP ESG Global Equity Alpha Q3 2024 - Annexe 2
3. BCPP ESG UK Equity Alpha Q3 2024 - Annexe 3
4. BCPP ESG Emerging Markets Equity Alpha Q3 2024 - Annexe 4
5. BCPP ESG Listed Alternatives Q3 2024 – Annexe 5

Sources/Background papers:

None

Annexe 1

MINERVA ANALYTICS

The Surrey Pension Fund

Voting Report: Q3 2024

11

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 five during the Quarter under review.

Table 1: Meetings Voted

Region	Meeting Type							
	AGM	Class	Court	EGM	GM	OGM	SGM	Total
Asia & Oceania: Emerging	1	0	0	0	0	0	0	1
Asia & Oceania: Developed	1	0	0	0	0	0	0	1
Europe: Developed	2	0	0	0	0	0	0	2
UK & Ireland	1	0	0	0	0	0	0	1
Total	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**5**

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In all tables:

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 extraordinary nature. Such business may require a special quorum or approval level.
GM	A General Meeting, a term often used interchangeably with the terms EGM and OGM depending on the term used by the company in question.
OGM	An Ordinary General Meeting, a term often used interchangeably with the terms EGM, and GM 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 91 resolutions, with the majority (57.75%) of these in Europe.

Table 2: Resolutions Voted

Region	Meeting Type							
	AGM	Class	Court	EGM	OGM	GM	SGM	Total
Asia & Oceania: Emerging	16	0	0	0	0	0	0	16
Asia & Oceania: Developed	8	0	0	0	0	0	0	8
Europe: Developed	48	0	0	0	0	0	0	48
UK & Ireland	19	0	0	0	0	0	0	19
Total	**91**	**0**	**0**	**0**	**0**	**0**	**0**	**91**

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1.3 MEETINGS BY MONTH

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

Table 3: Meetings Voted Per Month

Event	July	August	September	Total
AGM	2	1	2	5
Class	0	0	0	0
Court	0	0	0	0
EGM	0	0	0	0
GM	0	0	0	0
OGM	0	0	0	0
SGM	0	0	0	0
Total	**2**	**1**	**2**	**5**

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 which surrey is entitled to vote along with the number of contentious resolutions voted during the quarter. Surrey voted against management on 17.58% of the resolution for which votes were cast during 2024 Q3 which is a lower dissent rate than the proportion opposed in the previous quarter (2024: Q2: 27.49%, Q1: 26.85%, 2023: Q4: 26.98%, Q3: 18.37%).

In the Audit & Reporting category, Surrey voted against management on two resolutions (16.67%). The dissenting votes concerned the re-appointment of an external auditor where concerns were held with audit tenure and the lack of disclosure regarding a recent tender and/or planned tender of the audit contract.

Board resolutions accounted for 62.50% of all resolutions voted on during the Quarter and 15.87% of the total resolutions voted against management. The majority of Surrey's dissenting votes on board-related resolutions related to votes cast against management proposed director candidates due to independence concerns.

Four Remuneration resolutions were voted against management (66.67%). Of the four resolutions opposed, two were remuneration report approvals and two related to approvals of the total aggregate remuneration payable to directors.

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The Fund voted in line with management on all resolutions in the Capital, Shareholder Rights 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	12	2	16.67%	12.50%
Board	63	10	15.87%	62.50%
Capital	7	0	0.00%	0.00%
Remuneration	6	4	66.67%	25.00%
Shareholder Rights	2	0	0.00%	0.00%
Sustainability	1	0	0.00%	0.00%
Total	**91**	**16**	**17.58%**	**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 4.34% Surrey opposed management on 17.58% of resolutions.

Resolutions opposed by Surrey received average general shareholder dissent of 7.21%, a much higher level than the dissent received on resolutions that Surrey supported 3.71%. 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	12	16.67%	3.01%
Board	63	15.58%	4.52%
Capital	7	0.00%	3.60%
Remuneration	6	66.67%	8.04%
Shareholder Rights	2	0.00%	0.02%
Sustainability	1	0.00%	0.30%
Total	**91**	**17.58%**	**4.34%**

Poll data was collected for 100% 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, Surrey voted against management on one resolution that received shareholder dissent of more than 20%. This compares to 30 resolutions opposed with high dissent in the previous quarter.

During 2024 Q3, no resolutions proposed by management were defeated and no resolutions proposed by shareholders were voted on. This compares to no defeated management-proposed resolutions and two successful shareholder-proposed resolutions in the previous quarter.

During the Quarter, a resolution at Compagnie Financiere Richemont SA seeking shareholder approval of the total variable remuneration payable to members of the Executive Committee for the reporting year received 23.65% shareholder dissent. Surrey voted against the resolution as there was no consultative vote on the remuneration report on the meeting agenda. Surrey considers it good practice for companies in the Switzerland market to submit its remuneration report for shareholder approval on an annual basis and will vote against resolutions seeking approval of the total remuneration payable to directors where no such vote is proposed.

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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.

During the Quarter, all 91 resolutions voted on were filed by management with no shareholder-proposed resolutions voted on. This compares to 58 shareholder-proposed resolutions voted on during the previous quarter.

2.3.2 REMUNERATION

Votes against remuneration resolutions in 2024 Q3 reflected the principles advocated in Surrey's voting policy. seven distinct concerns informed Surrey's remuneration voting during the Quarter:

- **Alignment:** There was an insufficient link between the performance measures used in the incentive pay elements and a company's reported key performance indicators.
- **Disclosure:** There was incomplete forward-looking disclosure on the performance conditions applicable to long-term incentive awards to be granted in the coming year.
- **Below Median Vesting**: A long-term incentive plan utilised a relative performance condition that allowed for the partial vesting of awards for below-median performance.
- **ESG Metrics:** There was no disclosures to indicate that the Remuneration Committee considered ESG issues when setting performance targets for incentive remuneration.
- **LTIP Vesting:** The performance period and /or vesting was considered too short.
- **Severance Provisions**: Accelerated vesting of long-term incentive awards on termination was permitted for executive directors (i.e. vesting of awards not pro-rated down on termination following a change of control).
- **Lack of Say on Pay:** Shareholder approval was sought for prospective remuneration and there was no consultative vote on the remuneration report included on the meeting agenda.

Table 6: Remuneration Votes Against Management

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration - Report	2	2	100.00%
Remuneration – Amount (Total, Individual)	0	0	0
Remuneration – Amount (Total, Collective)	3	2	66.66%
Remuneration Other	1	0	0.00%
Total	**6**	**4**	**66.66%**

Annexe 2

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

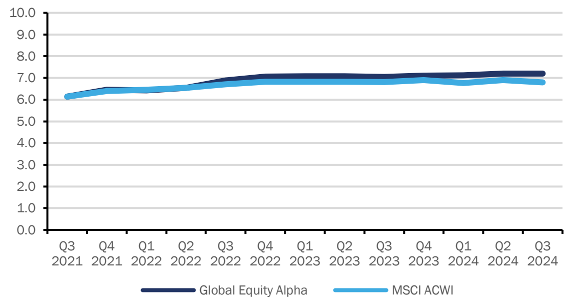
Q3 2024

MSCI ESG RATING

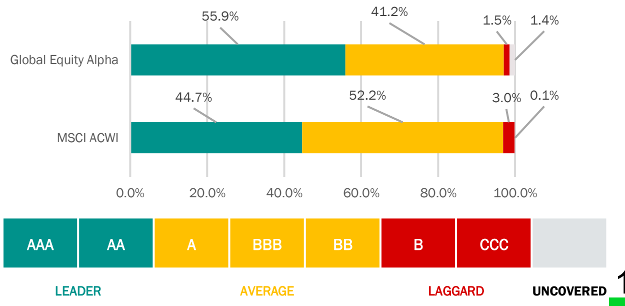
A

	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]	7.2 [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	1.9%	+1.5%	AAA [1]	Jiangsu Hengli Hydraulic	0.1%	+0.1%	CCC [1]
Intuit	1.6%	+1.4%	AAA [1]	Hyundai Motor Company	<0.1%	-<0.1%	CCC [1]
Taiwan Semiconductor	1.4%	+0.4%	AAA [1]	Amber Enterprises	<0.1%	+<0.1%	CCC [1]
Nvidia	1.4%	-2.5%	AAA [1]	Meta Platforms	0.8%	-0.9%	B [1]
Kering	1.1%	+1.0%	AAA [1]	PetroChina	0.1%	+0.1%	B [1]

Quarterly ESG Commentary

- No change in the Fund's overall ESG score. The Fund holds large active positions in several ESG Leaders contributing to the higher relative overall ESG score.
- The number of CCC companies held by the Fund portfolio is broadly consistent with last quarter. A reduced holding in Joint Stock Company Kaspi saw it replaced by PetroChina as the fifth lowest ESG rated issuer held by the Fund. PetroChina is the feature stock for the quarter.

Feature Stock: PetroChina

PetroChina is the listed arm of one of China's two integrated oil majors and is China's largest oil and gas producer. The company has monopolistic rights to produce oil and gas within its operating area, mainly onshore China, due to China's regulation on oil production. PetroChina is well positioned to benefit from an upcycle in the global oil market.

The company has set a 'near-zero' net emissions target by 2050. The company's rich natural gas resources are an essential part of China's carbon neutral roadmap. The company is also targeting US$0.4–0.7 billion per year investment in geothermal, solar, wind and hydrogen between 2020 and 2025; rising to US$1.5 billion per year following.

China's carbon capture, utilization and storage ("CCUS") capacity was 3.5mn tons in 2023, only 6% of global capacity. PetroChina is leading China's CCUS construction and application. The company's largest CCUS project is in the Jilin province with 0.8mn tons capacity and it is planned to expand to 3mn tons in the next 5 years and 30mn tons by 2035. The CCUS project will not only reduce carbon emissions but will also increase its oil recovery rate.

PetroChina has been identified as potentially being in breach of UN Global Compact (UNGC) by MSCI because of alleged links to coercive state sponsored labour transfer schemes. We are working with our China-based manager to further understand the circumstances of this.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

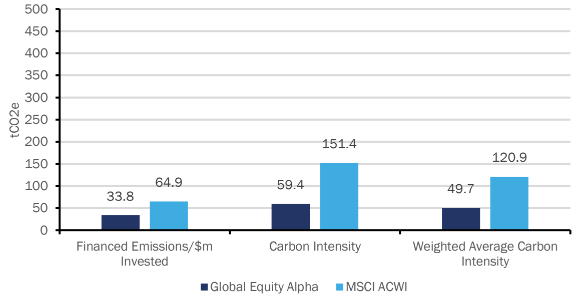
Q3 2024

MSCI ESG RATING

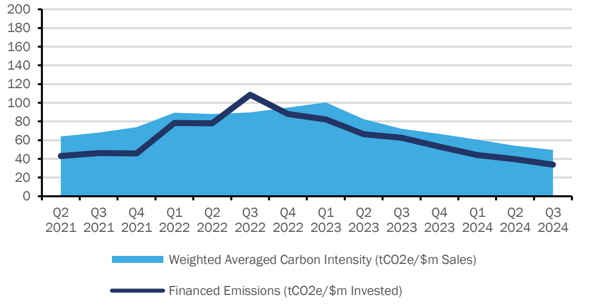
A

PENSIONS PARTNERSHIP

Carbon Emissions and Intensity[1]



Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]

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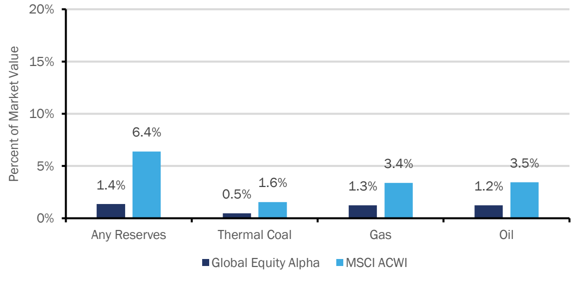
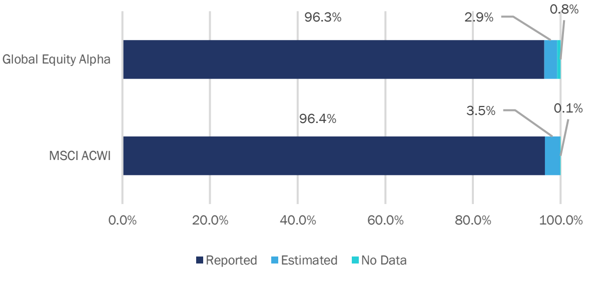


Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Heidelberg Materials	0.2%	+0.2%	23.7% [1]	Yes	4
Phillips 66	0.4%	+0.3%	9.7% [1]	Yes	3
Jet2 plc	0.4%	+0.4%	8.5% [1]	No	N/A
Linde	1.0%	+0.7%	5.7% [1]	No	4
Glencore	0.5%	+0.4%	5.2% [1]	Yes	4

Quarterly Carbon Commentary

- The Fund saw a 14% reduction in financed emissions, and continues to be materially below the benchmark on all emissions metrics. A reduced position in Heidelberg Materials is a significant factor in the drop in financed emissions. Heidelberg accounted for 33% of the Fund's financed emissions in the previous quarter.
- An increase in the Fund's position in Glencore saw the company enter the Fund's top 5 highest emission contributors. Glencore is this quarter's feature stock.

Feature Stock: Glencore

Glencore is considered an attractive investment for a number of reasons. The company differentiates itself from other miners with its trading business that provides high returns and cash flow with low cyclicality and significant barriers to entry. Glencore exhibits strong governance, with a capable management team focused on improving asset returns. The company holds leading market positions in attractive commodities and the company's existing mining operations are expected to benefit from normalised prices, higher volumes, lower costs and the move towards a low carbon economy.

As a coal producer, Glencore had set out a plan to navigate the transition away from fossil fuels including a phased withdrawal from thermal coal operations. However, in August 2024, Glencore reversed its decision to spin out the coal arm of its business. The company had set out an ambitious pathway to completely transform its business and reach net zero emissions by 2050. These emissions targets placed it significantly under the IEA's Announced Pledges Scenario, which is aligned with a global temperature increase of 1.7C. Given Glencore's recent strategic shift on coal we are monitoring future climate strategy updates to understand the feasibility of its emissions targets.

[1]Source: MSCI ESG Research 30/06/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	1.4%	0.8%
Investment Trust/ Funds	0.0%	0.0%

Important Information

The material in this report has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is designed for the use of professional investors and provides investor information about this Fund. The MSCI ESG Fund Ratings and material in this document are for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. There is no assurance that any socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Border to Coast accepts no liability for any loss or damage arising from any use of, or reliance on, any information provided in this document. Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).

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[1]Source: MSCI ESG Research 30/09/2024

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Annexe 3

BORDER TO COAST UK LISTED EQUITY ALPHA FUND

ESG & CARBON REPORT

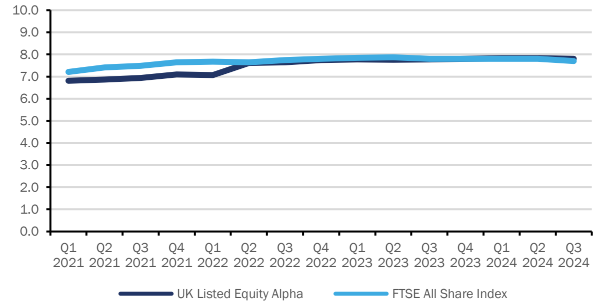
Q3 2024

MSCI ESG RATING

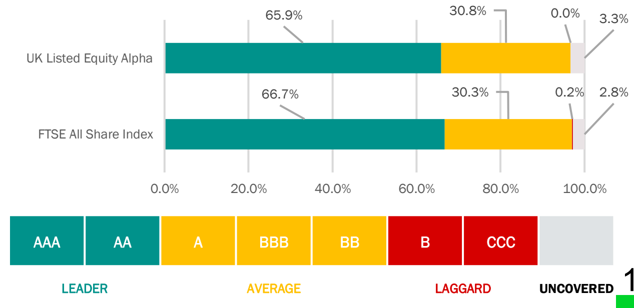
AA

	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]	(green)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE All Share Index	AA [1]	7.8 [1]		(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	3.5%	+1.0%	AAA [1]	Young & Cos Brewery	0.1%	+0.1%	B [1]
Unilever	2.6%	-2.4%	AAA [1]	FeverTree Drinks	2.5%	+2.5%	BB [1]
Relx	2.5%	-0.2%	AAA [1]	Learning Technologies Group	0.1%	+0.1%	BB [1]
Sage Group	2.5%	+2.1%	AAA [1]	CLS Holdings	0.1%	+0.1%	BB [1]
Kingfisher	1.5%	+1.2%	AAA [1]	FD Technologies	0.6%	+0.6%	BBB [1]

Quarterly ESG Commentary

- The Fund's ESG score has been consistent at 7.8 since Q4 2022 and is now marginally above the benchmark.
- The Fund saw FD Technologies enter the bottom 5 ESG lowest rated issuers this quarter. FD Technologies has an ESG rating of BBB. The fact the company is one of the Fund's lowest 5 rated entities is reflective of the high scoring nature of the Fund's holdings.

Feature Stock: FD Technologies

FD Technologies is a software and consulting company, headquartered in Northern Ireland. It has built a long-standing and successful IT consulting practice where it implements and supports a range of systems for front, middle and back-end office operations for major global financial institutions. In addition, it owns a promising software business called KX, an ultra-high-performance database and analytics solution which helps clients interpret large volumes of data and discover richer, actionable insights for faster decision-making. It has become the gold standard in big data applications in capital markets and is starting to successfully expand into new end markets. These factors highlight FD Technologies long-term growth potential which remains unappreciated by the market.

FD Technologies is mostly a software-related business therefore there is little environmental risk in the business model. Positively, the space, hardware and cooling requirements for devices using KX technology is significantly less than competitors. This could be a key source of edge for KX, for example for use in data centres which currently account for around 1% of the world's electricity consumption.

MSCI rated FD Technologies as BBB, or "average". The company is viewed as having quality data security measures, with board-level oversight. Despite these measures MSCI sees the company less favorably to peers as the company appears to lack external security certifications. MSCI also identifies that FD Technologies lags industry peers in efforts to monetize the demand for clean technology, although we would note that this is less relevant to an IT consulting and software company.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST UK LISTED EQUITY ALPHA FUND

ESG & CARBON REPORT

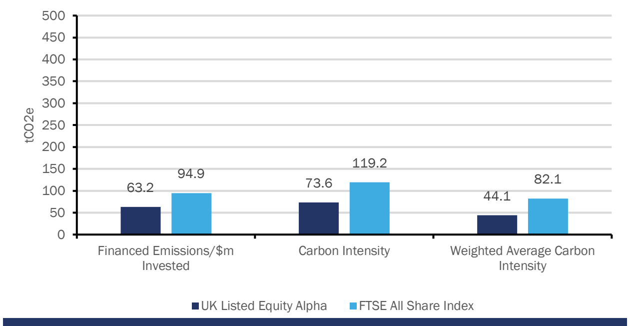
Q3 2024

MSCI ESG RATING

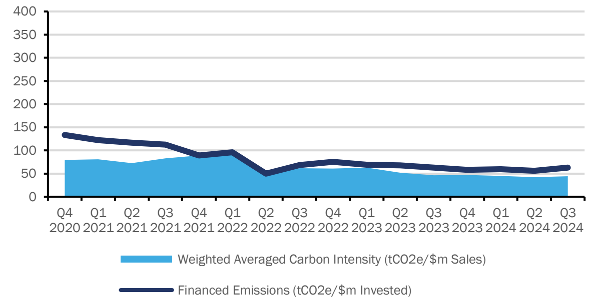
AA

PENSIONS PARTNERSHIP

Carbon Emissions and Intensity[1]



Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]

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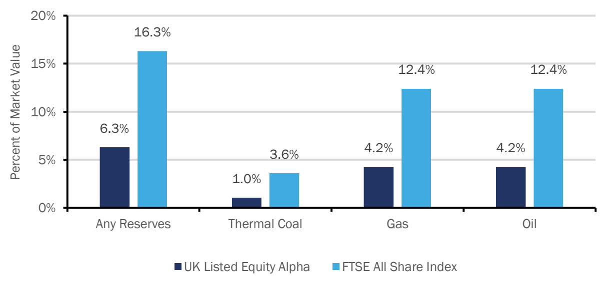
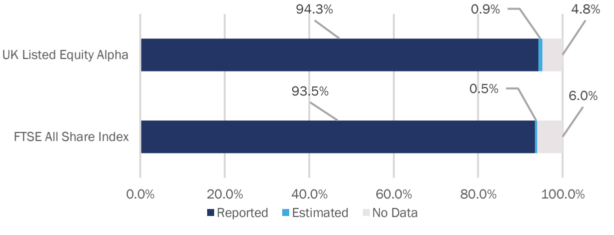


Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
International Consolidated Airlines Group	0.7%	+0.3%	17.9%[1]	No	4
easyJet	0.6%	+0.5%	16.2% [1]	No	3
Shell	2.1%	-4.7%	15.6% [1]	Yes	4
BP	1.9%	-1.3%	12.3% [1]	Yes	4*
Wizz Air	0.2%	+0.1%	9.4% [1]	No	3

Quarterly Carbon Commentary

- Over the quarter the Fund saw material increases in financed emissions and carbon intensity metrics but remains significantly below benchmark across all metrics.
- A new active position in International Airlines Group saw it become the Fund's highest emitter causing the increase in Fund emissions. A reduction in the Fund's position in easyJet and underweight positions in Shell and BP, the Funds' top emitters, has offset that effect to some extent. These factors similarly impacted the Fund's carbon intensity measure.

Feature Stock: International Consolidated Airlines Group (IAG)

IAG is one of the largest airline groups in the world and has a particularly strong foothold in the highly profitable transatlantic market. Given the quality of the management team, the reinforced balance sheet, and formidable market share on its most profitable routes, the company's valuation is highly attractive. Furthermore, the Company has shown a willingness and capacity to return capital to shareholders, paying out almost 40% of today's market value in dividends and buybacks in the five years prior to the pandemic.

The company has a clear transition plan, with new aircraft and sustainable aviation fuel accounting for over 80% of emission reductions by 2050. The company has secured one-third of the SAF required to meet their 2030 goal of 10%. Other levers being explored by IAG include carbon removals and supply chain engagement. As with all airlines the company is exposed to climate transition risks that include changing and uncertain regulations and changing customer travel behaviours.

Since the initiation of the position, our external manager has had good access to management having met with the company's CEO and CFO and discussed elements of the transition plan.

[1]Source: MSCI ESG Research 30/09/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	2.3%	1.9%
Investment Trust/ Funds	1.0%	2.9%

Important Information

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[1]Source: MSCI ESG Research 30/09/2024

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BORDER TO COAST EMERGING MARKETS EQUITY ALPHA FUND

ESG & CARBON REPORT

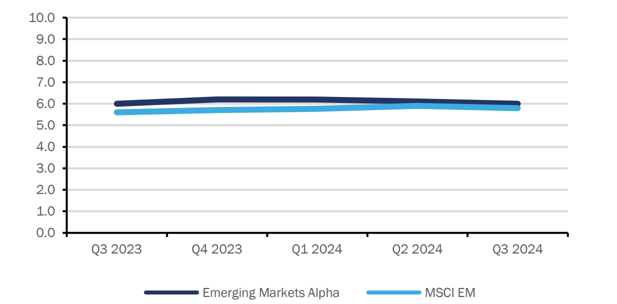
Q3 2024

MSCI ESG RATING
A

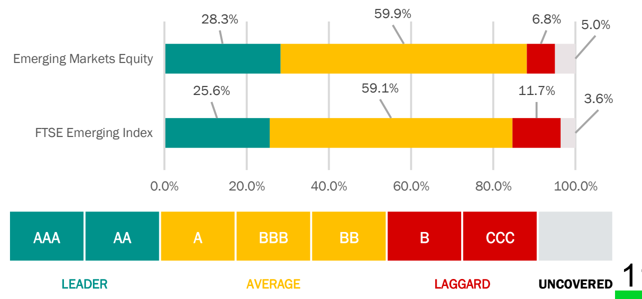
BORDER TO COAST PENSIONS PARTNERSHIP

	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.
Emerging Markets Equity Alpha	A [1]	6.1 [1]	(green)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI Emerging Index	A [1]	5.8 [1]		(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
Taiwan Semiconductor	10.7%	+1.7%	AAA [1]	Hyundai Motor Company	1.0%	+0.6%	CCC [1]
Allegro	0.5%	+0.4%	AAA [1]	Jiangsu Hengli Hydraulic	0.5%	+0.5%	CCC [1]
KB Financial Group	0.5%	+0.2%	AAA [1]	Amber Enterprises	0.2%	+0.2%	CCC [1]
Samsung Electronics	4.2%	+1.1%	AA [1]	Saudi Tadawul Group	0.2%	+0.2%	CCC [1]
Zomato	1.1%	+0.8%	AA [1]	Sea Limited	0.9%	+0.9%	B [1]

Quarterly ESG Commentary

- The Fund's ESG score continues to be above the benchmark. The Fund's lesser coverage results in a higher proportion of "ESG leader" rated companies held by the Fund and a higher ESG score relative to benchmark.
- This quarter the Fund saw no change in the number of 'CCC' rated companies in the Fund. Hyundai Motor Company, one of the Fund's four CCC rated companies is this quarter's feature stock.

Feature Stock: Hyundai Motor Company

Hyundai is a Korean based automobile manufacturer that is well placed to gain market share in the EV market. Hyundai's vehicles have gained wider acceptance globally owing to better designs and higher value add features, which means the vehicles have moved up on the customer desirability ladder. This improved desirability combined with focused efforts on the SUV market has seen significantly improved margins. The company's attractiveness has been amplified by its recent IPO of its Indian business which is expected to further improve value.

Though the company scores poorly on ESG metrics, our in-house assessment sees the company as in line with peers from an ESG perspective. Hyundai is scored poorly by MSCI primarily based on governance issues. The company is controlled by the Chung family through a cross-shareholding structure, and a member of the family, Mr. Eui Sun Chung, serves as the co-CEO and chair. These governance factors, though misaligned with global practice are common across Chaebols (family-owned conglomerates) in South Korea.

Beyond these geographically specific governance peculiarities the company has improved practices in other areas. The company has taken steps to increase female representation on the board and have made shareholder returns more investor friendly by moving from a payout ratio based on free cash flow to a net income-based payout. The company has managed regarding recent engine recalls across US, Canada, Australia and South Korea and has stated it is unlikely to see further escalations in the future.

Our external manager last engaged with the company in June 2024, where management discussed net zero targets and implementation, human rights and labor rights processes and policies, board composition, and circular shareholding.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST EMERGING MARKETS EQUITY ALPHA FUND

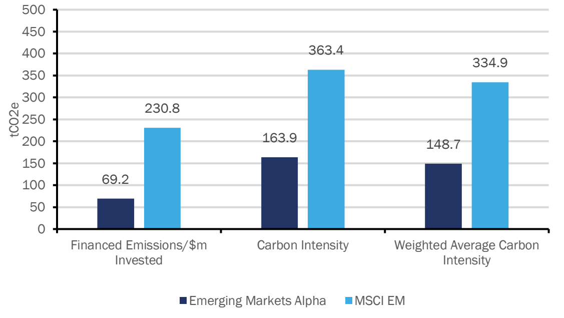
ESG & CARBON REPORT

Q3 2024

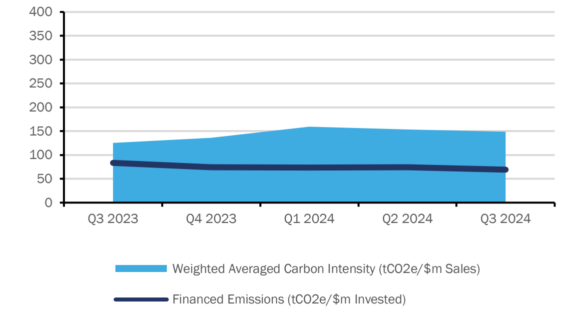
MSCI ESG RATING
A

PENSIONS PARTNERSHIP

Carbon Emissions and Intensity[1]



Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]

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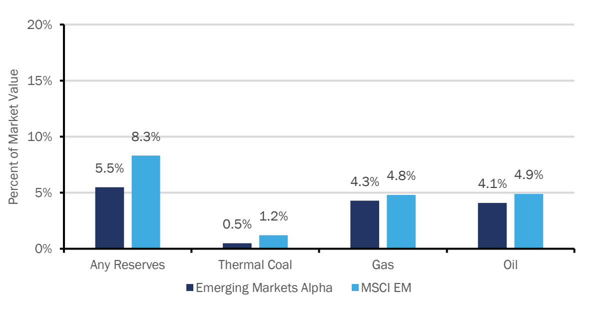
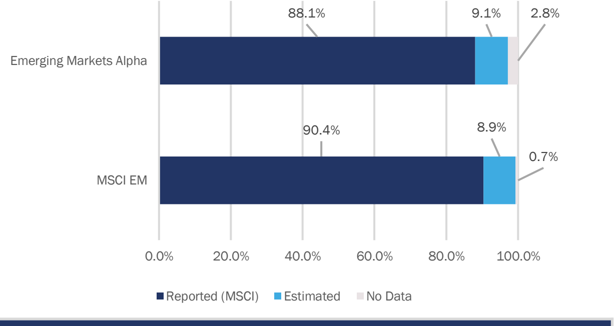


Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Hindalco Industries	0.5%	+0.1%	11.2% [1]	N/A	3
Cemex	0.2%	+0.2%	9.8% [1]	Yes	4
UltraTech Cement	0.3%	+0.2%	7.9% [1]	Yes	3
Petroleo Brasileiro	1.2%	+1.2%	7.1% [1]	Yes	4
PetroChina	0.6%	+0.6%	6.6% [1]	Yes	3

Quarterly Carbon Commentary

- The Fund remains materially below the benchmark across all emissions metrics. The Fund saw a 7% quarter-on-quarter reduction in financed emissions and 3% reduction in weighted average carbon intensity (WACI). Movements in these metrics were caused by a 10% increase in market cap of the Fund's top emitter, Hindalco Industries, and reduced positions in PetroChina and Petrobras.
- The position in Ultratech Cement and Cemex, two of the Fund's most carbon intensive entities, remained consistent across the quarter contributing to the stability in the Fund's carbon intensity. Ultratech Cement is this quarter's feature stock.

Feature Stock: UltraTech Cement

Ultratech Cement is India's largest cement producer, providing a critical product in a country where urbanisation and ambitious infrastructure improvement plans are expected to drive strong demand for many years. It is a market leader that is taking share in a growing industry with significant structural tailwinds, with consolidation to support pricing power over time, existing limestone contracts to support capacity expansion and operating costs, and the possibility of further acquisitions adding to growth.

The Indian cement industry is more energy and carbon efficient than in other countries. The chemical process for "clinker" (a mix of limestone and minerals that has been heated in a kiln) is the biggest source of emissions for the company (approx. 65%). Ultratech is actively managing its emissions having significantly improved "clinker factor" over the last 5 years and by increasing its clean energy usage.

The company has been engaged multiple times. Engagement with management has focused on assessing the company's plans on decarbonisation, evolving environmental regulation, carbon pricing and improving related disclosures.

[1]Source: MSCI ESG Research 30/09/2024

Issuers Not Covered		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	7.5%	2.5%
Investment Trust/ Funds	0.0%	0.3%

[1]Source: MSCI ESG Research 30/09/2024

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BORDER TO COAST
LISTED ALTERNATIVES FUND

ESG & CARBON REPORT

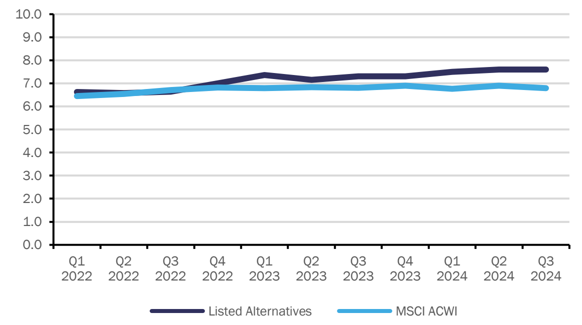
Q3
2024

MSCI ESG
RATING
AA

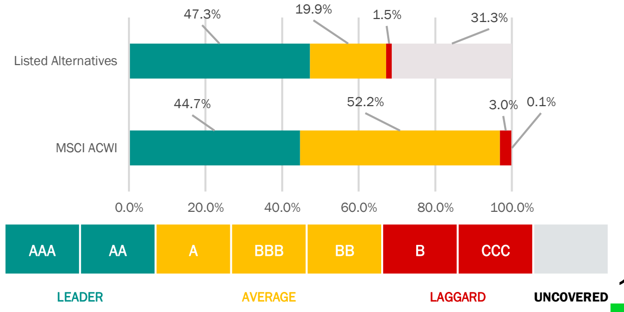
PENSIONS PARTNERSHIP

	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]	7.6 [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
American Tower Corporation	3.5%	+3.3%	AAA [1]	Blue Owl Capital	2.2%	+2.2%	CCC [1]
Cheniere Energy	3.4%	+3.3%	AAA [1]	Hercules Capital	0.5%	+0.5%	B [1]
Iberdrola	3.2%	+3.1%	AAA [1]	TPG	0.3%	+0.3%	B [1]
National Grid	1.7%	+1.6%	AAA [1]	KKR	4.3%	+4.2%	BBB [1]
3I Group	1.7%	+1.6%	AAA [1]	Alexandria Real Estate Equities	2.4%	+2.4%	BBB [1]

Quarterly ESG Commentary

- The Fund's ESG score continues to be above the benchmark .
- The Fund still has a relatively high proportion of issuers that do not have an ESG Rating .

Feature Stock: KKR

KKR is a leading Alternative Investment Manager with a strong track record of delivering superior returns. Their comprehensive investment platform allows them to capitalize on a diverse range of opportunities across various alternative asset. KKR's robust fee-generating capacity, driven by its substantial asset base and strong investment performance, provides a stable revenue stream. This combination of a diversified investment platform and a strong fee-generating capacity positions KKR as a compelling investment choice.

KKR has implemented a comprehensive governance framework that places significant emphasis on responsible investing. The firm's responsible investing policy outlines its dedication to integrating environmental, social, and governance (ESG) considerations into its investment decision-making process. This policy ensures that KKR's portfolio companies adhere to ethical standards and contribute positively to society.

To assess the ESG risks and opportunities associated with potential investments, KKR conducts a thorough due diligence process. The firm undertakes meticulous investigations into companies' environmental practices, social impact, and governance structures. This due diligence process enables KKR to identify potential risks and collaborate with portfolio companies to implement sustainable practices and mitigate negative consequences.

Furthermore, KKR has demonstrated its support for the Walker Report, a comprehensive review of the UK's corporate governance landscape. The firm recognizes the importance of robust corporate governance in fostering transparency, accountability, and sustainable business practices. By endorsing the Walker Report, KKR reinforces its commitment to enhancing corporate governance standards and contributing to a more responsible and ethical business environment.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST
LISTED ALTERNATIVES FUND

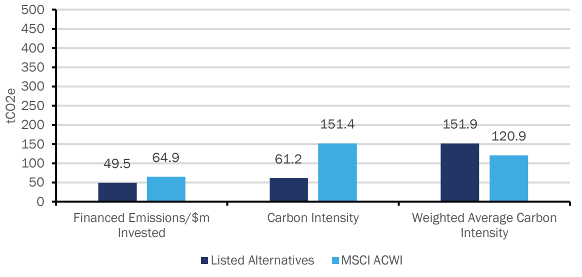
ESG & CARBON REPORT

Q3 2024

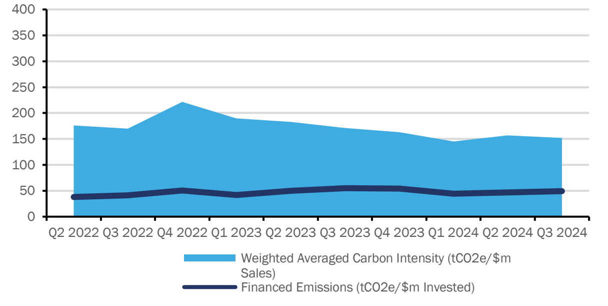
MSCI ESG RATING
AA

PENSIONS PARTNERSHIP

Carbon Emissions and Intensity[1]

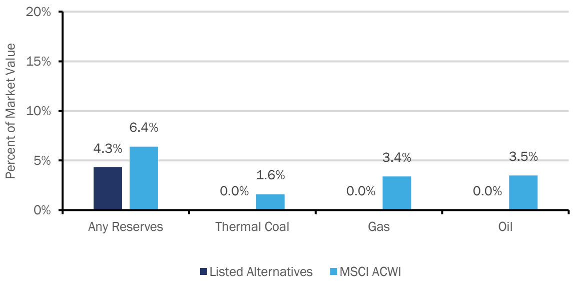


Carbon Trends[1]

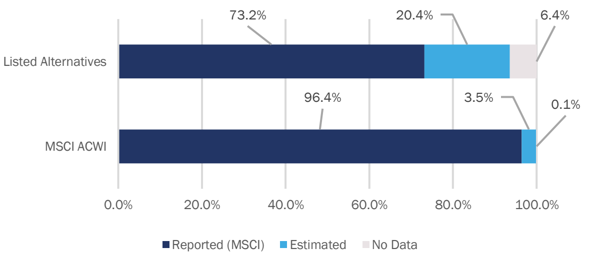


Weight of Holdings Owning Fossil Fuel Reserves[1]

11



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



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
NextEra Energy	3.8%	+3.6%	31.8% [1]	Yes	4
Cheniere Energy	3.4%	+3.3%	18.7% [1]	No	4
Enbridge	3.0%	+2.9%	14.4% [1]	No	3
Iberdrola	3.2%	+3.1%	12.8% [1]	Yes	4
National Grid	1.7%	+1.6%	5.3% [1]	Yes	4

Quarterly Carbon Commentary

- Despite a 5% increase in the Fund’s financed emissions, the Fund remains significantly below the benchmark for both carbon emissions and carbon intensity.
- The Fund is overweight in Utilities. This is mainly due to the active position in NextEra. This overweight position drives the Fund's higher WACI compared to the benchmark.

Feature Stock: Enbridge

Enbridge Inc. is a leading North American energy infrastructure company well-positioned to benefit from growing energy demand. Its extensive network, stable cash flow, and attractive dividend yield make it an appealing investment. As North America's energy needs increase, with Enbridge's strong infrastructure and financial position, it is positioned well for long-term growth.

Enbridge, has embarked on a journey to achieve carbon net zero by 2050. To accomplish this ambitious goal, the company has implemented a comprehensive strategy that focuses on renewable energy investments and innovative carbon reduction initiatives.

One key component of Enbridge's carbon net zero strategy is its significant investment in renewable energy projects. The company is actively developing and acquiring renewable energy assets, including solar, wind, and geothermal power generation facilities. These investments not only diversify Enbridge's energy portfolio but also contribute to the reduction of greenhouse gas emissions.

In addition to renewable energy investments, Enbridge is exploring innovative carbon reduction technologies. One such initiative is the company's involvement in reef carbon sequestration. By supporting the restoration and conservation of coral reefs, Enbridge aims to capture and store carbon dioxide from the atmosphere. This natural carbon sequestration approach complements Enbridge's efforts to reduce emissions from its operations and contribute to a more sustainable future.

[1]Source: MSCI ESG Research 30/09/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	26.7%	29%
Investment Trust/ Funds	5.0%	3.5%

Important Information

The material in this report has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is designed for the use of professional investors and provides investor information about this fund. The MSCI ESG Fund Ratings and material in this document are for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. There is no assurance that any socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Border to Coast accepts no liability for any loss or damage arising from any use of, or reliance on, any information provided in this document. Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).

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

[1]Source: MSCI ESG Research 30/09/2024

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: INVESTMENT STRATEGY – FIDUCIARY DUTY AND INVESTMENT BELIEFS UPDATE

SUMMARY OF ISSUE:

Investment decisions made by the Pension Fund Committee must be within the regulations, in accordance with fiduciary duty and aligned with agreed investment beliefs.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Agree for the sub-committee to meet again to consider how the Committee's fiduciary duty in law relates to the objectives of the Fund and reaffirm investment beliefs.

2. Agree any proposed changes to the investment beliefs by the sub-committee be brought back to the Committee for consideration.

REASON FOR RECOMMENDATIONS:

To allow the current investment beliefs to be reviewed and changes considered.

BACKGROUND

1. Committee Members must make decisions that are within the regulations, in accordance with fiduciary duty and aligned to the agreed investment beliefs. The proposed training and discussions are aimed to establish the parameters of the factors above to enable effective decision making.

DETAILS:

2. As previously agreed at the June 2024 Committee meeting, the sub-committee has met on two occasions to discuss legal requirements & fiduciary duty, and the spectrum of capital & emerging investment themes.

3. The third session for the sub-committee to review the current investment beliefs has not taken place yet, although areas for discussion were raised during the Committee and Board Off-site in October 2024.

4. It is proposed that this third session now take place in the fourth quarter (Jan-March 2025).

CONSULTATION:

5. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

6. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

7. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

8. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

9. There are no equality or diversity issues.

OTHER IMPLICATIONS:

10. There are no other implications.

NEXT STEPS:

11. The following steps are planned:

    a) Arrange a third session for the sub-committee to consider the Fund’s investment beliefs.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

Sources/Background papers:

SURREY PENSION FUND COMMITTEE REPORT

Surrey Pension Team

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

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 paper concentrates on Private Markets and specifically the exposure to renewable energy.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the Fund's Private Markets renewable energy exposure and review from the Fund's independent investment advisor.

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.

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3. At the December 2023 Committee meeting it was agreed that the Private Markets review in December 2024 should focus on highlighting the renewable energy exposure within the Private Markets investments.

4. Annexe 1 contains the private market renewable energy report by the independent financial advisor.

CONSULTATION:

5. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

6. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

7. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS:

8. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

9. There are no equality or diversity issues.

OTHER IMPLICATIONS:

10. There are no other implications.

NEXT STEPS:

11. The following steps are planned:
    a) Continued monitoring of Private Markets holdings with a performance review report to be brought to the Committee at the September 2025 meeting.
    b) Committee to consider further commitments to the Border to Coast Pensions Partnership (BCPP) Private Markets programme in March 2025.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Private Markets renewable energy report from the Independent Investment Advisor - Annexe 1

Sources/Background papers:

None

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Surrey Pension Fund Committee

Private Markets – Renewables allocation

December 2024

APEX

Attendees

Nick Harrison; Chair of the Pension Fund Committee

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 managers specifically to focus on the amount money invested in "Renewables" and to comment on their performance.

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.

In the paper I refer to the following terms which are commonly used when discussing Private market investments.

IRR = Internal Rate of Return, a measurement of performance based on cash flow analysis during the period of investment, especially when cashflows are variable in size and timing.

MOIC = Multiple on Invested Capital, a metric used to describe the value or performance of an investment relative to its initial cost, the length of time between purchase and sale is not considered.

TVPI = Total Value to Paid-in Capital, like MOIC time is not taken into consideration for estimating the value of the investment, it is the multiple on the total capital paid into the fund so far.

Investment review

Preface

The Surrey Pension Fund has been investing in Private market vehicles for over 20 years. Older investments, referred to as Legacy Investments, were selected directly by the Pension Fund Committee under advice from their Advisers at the time and tended to be Fund of Fund type investments in Private Equity and Infrastructure. More recently and most likely in future, Private Markets allocations will be channelled through Surrey's pooling partner BCPP, and they will be responsible for Manager Selection in Private Equity, Credit, and Infrastructure. BCPP have also created themed portfolios covering all types of private markets asset classes, called Climate opportunities and UK opportunities.

The first part of my report will cover an overview of the total value of all the outstanding Private Markets investments as of the 30th June 2024. I will then drill down and quantify those investments than can be described as investments in "Renewables", and where possible I will present and comment on the performance of these investments.

Total committed capital to Private Markets

Over the last 20 years Surrey has committed just under £1.878 billion to private market investments. Of that money £1.027 billion has been invested and £850 million has still to be invested. The Surrey Pension Fund has received £419 million of income and capital distributions from the investments it has made over that time.

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At the 30th June 2024, the fair value of remaining investments was £1.003 billion or 16.8% of the total asset value of the Fund. Of this current invested capital approximately £200 million or 20% of the private markets portfolio is invested in renewables. A further £100 million of the outstanding £850 million is expected to be invested in renewables in future. The expected net rate of return from these renewable assets is around 8% per annum. But as I will show in the detailed analysis below, the performance of individual investments can be highly variable.

Total committed capital to Renewables in the Private Markets Allocation

Table 1, Carve out of Renewables investments in Surrey's Private Markets allocation, 30th June 2024.

Private Markets renewable investments	Original Committed capital	Estimated current investment in Renewables		Expected over investment period	
Legacy investments	£m	%	£m	%	£m
Capital Dynamics	24.8	100	14.3	100	24.8
Pantheon GIF III	48	19*	10*	~20	10
Glenmont	45	100	55.4	100	55.4
BCPP					
Infrastructure series 1	300	13	37.4	30	90
Infrastructure series 2A	100	0	0	30	30
Climate opportunities 1	233	32	72.4	30	70
Climate opportunities 2	50	20	10	30	15
UK opportunities	90	0	0	~30	27
Total	800		200		322

*19% renewables at peak invested capital value of £60 million.

Table 1, above show the portion of Surrey's private markets allocation that can be described as directly invested in renewables. Three of these are Legacy investments made directly by the committee. The

Capital Dynamics and Glenmont funds are 100% invested in Energy Infrastructure assets, roughly 50% of the Capital Dynamics fund was invested in wind farms located in the UK and the US and nearly 100% of the Glenmont fund is invested in portfolios of wind generation assets across continental Europe. Pantheon Global Infrastructure Fund III is a generalist infrastructure fund which had at its investment peak 19% invested in renewables.

The rest of the allocation to renewables has been selected by BCPP as part of their Infrastructure investment series 1 and 2, and their Climate opportunities funds 1 and 2 and the newly launched UK opportunities fund. These funds are still in their investment phase and have currently allocated between 10 and 30% of Surrey's committed capital to renewables, once fully invested BCPP expect the allocation to rise to 30% of committed capital.

Legacy Investments

The Legacy funds are fully invested and are in or about to enter the harvest and disposal period of their life cycle.

Capital Dynamics Clean Energy Infrastructure Fund II (vintage 2013)

Surrey's committed capital to this fund was £24.8 million. At its peak value, this fund owned 6 assets, 1 portfolio of onshore wind generation assets in the UK, 3 in the US, based in Texas and 2 combined cycle natural gas power stations. The wind assets were all development assets with a plan to build and operate and then dispose via a secondary sale.

The UK portfolio was sold in April 2022 and the sale proceeds resulted in a gross exit IRR of 11.3% equivalent to 2.4 times, multiple on invested capital (MOIC). Due to construction, operational and electricity price trading issues the 3 US wind assets have been written down to zero. Of these 3 assets Briscoe is now operationally revenue positive, but Green Pastures I and II remain operationally and financially challenged. The losses to date on all 3 of these assets means that there in unlikely to be any asset value recovered for investors, even if they were to become fully operational. Fortunately the electricity trading issues have been resolved and the liabilities are also zero.

The remaining natural gas generators in the fund have also experienced some operational and trading issues and due to relatively unfavourable market conditions (high interest rates, low energy/capacity prices), there was limited interest from the sponsor groups to start the exit process during 2023. As a result, their value has also been written down. However, more recently conventional power assets are regaining some interest from the investors due to the reliability of generation compared to wind and solar generators.

At the end June 2024 the IRR of the whole fund was -5.6%, equivalent to 0.63 times, MOIC.

Pantheon Global Infrastructure Fund III (vintage 2017)

As of 30th June 2024, of the US$ 60 million committed to Pantheon by Surrey, US$ 54.1 million or 90% has been committed to investments. The NAV of Surrey's investments is US$ 56.5 million, and a further US$ 18.5 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 10.4% or 1.4 times, multiple on invested capital (MOIC).

Pantheon Global Infrastructure Fund III, as mentioned above is a generalist Infrastructure fund and their definition of renewables in their 19% allocation is wider. Therefore only 8% is directly invested in renewable energy split between solar, wind and biomass, with a larger allocation of 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 highlighted some of the assets in the fund, Project Sullivan, a portfolio of operational assets 40% of which are renewable energy. This project has currently achieved an IRR of 16% and 1.9 times MOIC and Pantheon are preparing some of the wind assets for a trade sale. The fund is close to the end of its investment phase, so it only has a few full exits to report one of these is Project Inti, a portfolio of solar assets in Italy where they managed to achieve an exit IRR of 30% and a 2 times MOIC. There are a few problem assets in the fund where the investment thesis has not completely played out as expected, but they reported none of these were in their renewable energy allocation. Pantheon confidently expects to maintain the fund's overall expected IRR of 10% as the fund seeks to liquidate its portfolio of assets over the next 3 to 4 years.

Glennmont Clean Energy Fund (vintage 2018)

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

When we met Glenmont in November 2023 they said that operating and financial conditions had worsened for wind and solar investments. As a result they expected that future returns would be lower.

In this report which they presented in November 2024, based on the most recent valuation of the fund on 30th June 2024, the fund's net IRR has fallen to 5.1% compared to 6.5% in the year to 30th June 2023, the TVPI has fallen slightly from 1.12x to 1.1x, and the distribution yield has fallen from 7% to 4%.

Over the last two and half years, with the majority 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 energy 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. They also noted that in the last year high net worth and Family office investors were becoming interested in these assets. Now that the fund is fully invested the balance of activity has switched from origination to asset management and gradually the resources of the "exits team" are being increased.

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 36%, assets under construction 57% and under development 7%. All projects are in the Euro-Area, by country Finland 17%, Germany 21%, Italy 17%, Portugal 7% and Spain 38%. Solar is the dominant source of generation at 43%, onshore wind 34%, offshore wind 21%, and other 2%.

BCPP Infrastructure, Climate and UK opportunities funds

Infrastructure investments (vintage 2019 onwards)

Preliminary valuation data to 30th June 2024, for Infrastructure series 1, suggests a net return of 8.5% (ranging between -10% and +27%) and a TVPI of 1.1, (ranging between 0.7 and 1.8). No data is currently available for Series 2A.

In Series 1 BCPP appointed 25 different GPs. 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 GPs appointed are expecting to find more opportunities in the USA and fewer in Europe, Asia and the rest of the world. Across the 3 sub-series, on average 80% of committed capital is invested and around 11% of capital has been distributed.

The Series 2A appointment phase began on 1st April 2022, in total 9 GPs were appointed representing over 99% of Surrey's commitment. 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 52% of committed capital is invested and 1.5% of capital has been distributed.

Renewables Investments to date

Infrastructure series 1 and 2

Like Pantheon BCPP is a generalist Infrastructure investor looking to build a portfolio of investments across the whole infrastructure universe not just in renewables. BCPP's target allocation to renewables is 30% of invested capital. Series 1 infrastructure is 80% invested with about 13% in 3 renewable energy funds, these investments were made in 2019/20. Series 2A (2022) has no investments in renewables at the moment but only 52% of the committed capital has been invested. The failure of the team to make any more recent investments in renewables reflects the availability of reasonably priced assets. The difficulties the sector has had in recent years, coping with over-valuation and the impact of higher interest rates, inflation and regulatory change, as reported by the specialist managers reviewed above.

Preliminary performance data provided by Northern Trust suggests that the 3 renewable investments in aggregate have achieved a net IRR of around 10% and a TVPI of 1.2x.

Climate Opportunities (vintage 2021 onwards)

The objective of the Climate opportunities 1&2 is to invest in "Transition Alpha". This means not just operational renewable assets such as power generation but also the companies that are 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.

At the end of June 2024 BCPP have committed all the series 1 capital of which 40.5% has been invested and 0.9% distributed. For Climate opportunities series 2, 24.5% of the capital has been drawn and 19.6% invested. At the moment 32% of series 1 capital is invested in renewables and 20% of series 2. The objective is to have about 30% of capital invested in renewables.

It is too early in the life of these funds to have any meaningful performance data for either of the Climate opportunities funds.

UK Opportunities (vintage 2024)

BCPP's Infrastructure and Climate opportunities funds are looking invest globally, whereas the objective of the UK opportunities fund is to invest a in portfolio of Private markets investments that are domiciled solely in the UK. BCPP have indicated that between 20% and 60% could be invested in UK infrastructure of which 50% of that allocation could be in renewables, meaning that 30% of this fund could also be invested in renewables.

Adviser view

The review above shows that the Surrey Pension Fund has invested significantly in renewables as part of its investment in private markets. At the end of June 2024 the whole Fund was valued at £5.85 billion, of this 16.8%, approximately £1 billion, was invested in all types of private market assets.

The invested allocation to renewables had an estimated value of £200 million, or 3.4% of total assets. Based on the investment thesis of the BCPP private markets investment programme this should reach a capital invested value of approximately £300 million, or 5.5% of total assets. It is important to note that this is the value of the invested capital and that the Fund will not realise the full value created for some time and with no certainty until the assets are sold.

The review shows that investment in renewables is not a guarantee of success, because these investments are subject to the same uncertainties as all other types of private and public market investment. As the Capital Dynamics fund shows it is possible to lose all your capital by investing in wind farms. Glenmont's portfolio has seen its returns decline due to changes in costs, valuations, macro and regulatory issues. While the expected return from the Glenmont fund is likely be reasonable, provided they are able to execute their exit strategy, it is unlikely to be as high as expected during the offer period. Pantheon were able to report some significant successes but even they pointed out that conditions had become less favourable and expected lower returns from renewables in future. BCPP have also found it difficult to buy reasonably priced renewable assets in recent years and when pressed in the recent promotion period for Series 3 of their Private Markets programme they were unwilling to increase the expected return forecasts.

I believe that in the current market conditions the Fund's allocation to renewables is about right and if valuations improve BCPP have enough flexibility to take advantage of the opportunity through increased allocations via their Infrastructure funds, Climate opportunities funds, and the most recently launched UK opportunities fund. As can be seen in the 12th November press release below with respect to the first investment for their UK opportunities fund.

"Border to Coast has committed £48.5m to Capital Dynamics' Clean Energy UK Fund which will finance the build of onshore solar and wind farms as well as battery storage. The investment will be put to work constructing four wind farms in Scotland, set to add some 193MW of energy to the UK grid, enough to power 46,000 homes, with further sites in the pipeline."

Anthony Fletcher – Independent Adviser to the Surrey Pension Fund

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: RECENT DEVELOPMENTS IN LGPS (BACKGROUND PAPER)

SUMMARY OF ISSUE:

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

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report.

REASON FOR RECOMMENDATIONS:

The report provides background information for the Committee.

DETAILS:

Highlights

1. **Consultation launched on pooling of LGPS investment funds**

   Based on responses to the former consultation on proposals to accelerate and expand the pooling of LGPS assets, and responses to the Pensions Review Call for Evidence, government have launched a consultation to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme. More can be found in paragraphs 5 and 8.

2. **Consultation launched on Inheritance Tax on pensions**

   Proposal for death benefits to be included in valuing a person's estate for Inheritance Tax purposes. More can be found in paragraph 6.

3. **Further McCloud Regulations laid**

   Regulations laid to preclude the McCloud underpin figures in Annual Benefit Statements provided to 31 August 2024 for affected members. More can be found in paragraph 16.

4. **Pensions Dashboards**

   As the LGPS moves closer to the connection date of 31 October 2025, the LGA issues guidance on connection and AVCs. More can be found in paragraph 27.

14 **LGPS Updates**

5. HM Treasury published the Terms of Reference for Phase One of the Review, confirming focus will be on investments, driving scale and consolidation in defined contribution workplace schemes and the LGPS. On 4 September 2024 the Government published a Call for Evidence inviting input, data and information from interested parties to inform the first phase of the Pension Investment Review. The Call for Evidence closed on 25 September 2024 and responses have been sent from the Local Government Pensions Committee (LGPC) and the SAB. The second stage of the Pensions Review is expected to look at the issue of pensions adequacy and fairness, such as the gender pensions gap.

6. Within the Budget on 30 October 2024 the Chancellor announced the death benefits payable from a pension will be included within the value of a person's estate for Inheritance Tax purposes from 6 April 2027 and pension scheme administrators will become liable for reporting and paying any Inheritance Tax due to HMRC. A consultation on the proposals was launched on the same day which closes on 22 January 2025.

7. Also announced within the Budget was a change to the measure of public debt for the government's fiscal targets from Public Sector Net Debt (PSND) to Public Sector Net Financial Liabilities (PSNFL), meaning the funding position of the LGPS as a whole, can have a more direct impact in the amount the government can borrow and invest in the UK economy.

8. On 14 November 2024 the Chancellor gave her Mansion House speech and within this announced a series of reforms to the pensions sector, specifically for the LGPS, the consolidation of LGPS assets into fewer, larger pools of capital. An interim report was published on the same day setting out the proposals, together with the interim findings of Phase 1 of the Pensions Review launched in July 2024. The report was also accompanied with the publication of a consultation LGPS: Fit for the future, with a closing date of 16 January 2025. The consultation seeks views on proposals relating to the investments of the LGPS, with three main areas:

   a) Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice with the minimum standards proposed as:

      i- requirement for administering authorities to fully delegate the implementation of investment strategy to the pool and to take their principle advice on their investment strategy from the pool, ii- pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies,

iii- requirement for administering authorities to transfer legacy assets to the management of the pool.

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b) Boosting LGPS investment in their localities and regions in the UK by requiring administering authorities to:

i- set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities,

ii- work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities,

iii- set out their local investment and its impact in their annual reports.

Pools would then be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

c) Building on the recommendations of the Scheme Advisory Board's Good Governance Review in 2021, strengthening the governance of both LGPS administering authorities and LGPS pools by:

i- requiring committee members to have the appropriate knowledge and skills,

ii- requiring administering authorities to publish a governance and training strategy, including a conflicts of interest policy, as well as an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether administering authorities are fully equipped to fulfil their responsibilities,

iii- requiring pool boards to include representatives of their shareholders and to improve transparency.

9. The Ministry for Housing, Communities and Local Government (MHCLG) published the LGPS statistics for England and Wales on 24 October 2024. This showed:

a) an increase of 11.9% on total expenditure since 2022/23,

b) an increase of 19.3% on total income since 2022/23,

c) an increase of 24.6% on employer contributions since 2022/23, this reflects early payment of employer contributions following the triennial valuation,

d) an increase of 8.3% on employee contributions since 2022/23,

e) an increase of 9% on the market value of LGPS funds since 31 March 2023,

f) an increase of 6.3% on the number of retirements since 2022/23.

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10. MHCLG has issued updated guidance on flexible retirement to cover how the McCloud remedy affects calculations for flexible retirement, together with the calculation of a death grant where a member dies after taking flexible retirement.

11. The Local Government Association (LGA) has made improvements to the lump sum calculator tool on the national LGPS member website, together with introducing a new maximum AVC lump sum calculator. Both calculators reflect the lump sum limits in force since April 2024.

12. The LGA have published legal advice on payment of death grants to genealogy companies.

13. The LGPS Governance Conference which takes place on 30 and 31 January 2025 in Bournemouth, is open for booking. The conference can be attended in person or online and is aimed at councillors and others who attend pension committees and local pension boards.

14. The National LGPS Technical Group have agreed to replace the group with a new group called the National Pension Officer Group (NPOG) as it was felt the role of the group as initially intended when set up, was now much covered by the Local Government Association in aiding with technical queries and understanding of the regulations. NPOG will instead focus on providing a strategic approach to scheme administration issues along with practical advice.

15. The Office for National Statistics announced on 16 October 2024 the Consumer Prices Index (CPI) rate of inflation for September 2024 was 1.7%. It is yet to be confirmed by Government that this rate will apply to revaluation and pensions increase from April 2025 for LGPS benefits.

McCloud

16. The LGPS (Information) Regulations 2024 were laid on 28 August 2024 and came into force on 23 September 2024 with backdated effect to 1 October 2023. These regulations remove the requirement to include estimated underpin information in the 2024 Annual Benefit Statement's (ABS), which had to be issued by 31 August 2024, however, underpin information must be included in 2025 ABS. The regulations also provide a discretion to not include the underpin for a particular class of members for the 2025 statements, but this cannot be used as a blanket approach for all statements. Where authorities choose to use this discretion, the affected members must be informed.

17. The LGA have updated the technical guide on annual benefit statements to reflect their understanding of what must be included as a result of the McCloud remedy and the introduction of pensions dashboards from 2025.

18. The LGA have published a second instalment of the McCloud administration guide. The initial instalment included an overview of which pension accounts qualified for underpin protection and how to perform the provisional and final underpin calculations. The update includes other calculations impacted by the underpin such as transfers in and revisiting past calculations. They have also significantly updated the section on which accounts qualify for protection after considering the Statutory guidance issued by the Government. 14

19. The LGA held webinars in October 2024 covering McCloud generally and transfers and will consider more McCloud webinars next year should there be demand.

20. The Teachers' Pension Scheme (TPS) have updated the timeline for excess service cases and communications are being sent to employers based on region. Once employers have completed the first stage by verifying the service details held by TPS for those affected, the next stage is for employers to provide the information to administering authorities to enable LGPS records to be created. TPS is finalising the template for these final stages and the LGA will advise as soon as the template is available.

21. Errors have been identified in Club transfer out quotations provided by the TPS for members affected by the McCloud remedy and they are investigating the matter.

22. The Government Actuary's Department (GAD) have confirmed how to record extra payments due to the underpin in GAD transaction data and that these payments should be treated as a transaction relating to the career average main section (even where the member was in the 50/50 section), in the Scheme year in which payment was received.

23. The LGA have published forms for administering authorities to use to collate information from members about any public service pensions history where it would appear, based on information and membership held in a particular fund, the member is not to be protected by the McCloud remedy.

24. The Cabinet Office have confirmed in their view for the purposes of extending the 12 month deadline due to exceptional circumstances for Club transfers, the McCloud remedy can be considered as such but administering authorities would need to agree this with the receiving scheme.

25. The LGA requested administering authorities to complete a survey by 3 November 2024 about how schemes are planning to revisit past Club transfers. This was required as GAD are gathering data about how public service pension schemes are planning to approach revisiting these transfers so this can be taken into account when they produce any cross-scheme guides or other resources.

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Pensions Dashboard Programme (PDP)

26. The Department of Work and Pensions (DWP) published a ministerial statement on 22 October 2024 confirming the Government's commitment to the existing timetable for schemes to connect to the ecosystem. The statement also confirms Government's commitment to the delivery of the dashboards and that the PDP will focus on the connection and launch of the MoneyHelper dashboard before working on the connectivity of commercial dashboards, thereby prioritising the launch of the government backed dashboard initially.

27. The LGA have published the Pensions Dashboards connection guide and the AVCs and Pensions Dashboards administrator guide. The connection guide aims to assist administering authorities identify the steps required to connect to the pensions dashboards ecosystem and whilst it does not duplicate information elsewhere, it does provide a summary of each topic together with links to the information. Authorities will need to create a project plan to implement dashboards and this guide will assist with the actions, decisions and recommended timings to enable connection by 31 October 2025. The AVCs and Dashboards administrator guide aims to establish common approaches on the preparation and provision of AVC view data to the pensions dashboards ecosystem.

28. The PDP updated its draft code of connection with mostly technical or terminology clarifications. The draft code sets out how pension providers, schemes and dashboard providers are to connect to the dashboards ecosystem. Chris Curry, PDP Principal published a blog on the updated code of connection.

29. The PDP published version 1.1 of the draft technical standards along with further resources covering guidance on the step-by-step connection journey about connecting to the ecosystem, support for testing connection to the ecosystem, answers to more queries on connection timelines and registration codes.

30. The PDP has confirmed users of pensions dashboards will verify their identity with GOV.UK One Login which will make it easier for those who have previously registered with One Login for other Government service.

31. The Pensions Regulator (TPR) published the Pensions dashboards compliance and enforcement policy, together with a response to the consultation on the policy and have updated its breach of law guidance. TPR also published a blog on pensions dashboards compliance to accompany the policy release.

32. TPR expects schemes to connect to the dashboards ecosystem in line with the timetable set in DWP's guidance on connection: the stage timetable.

33. From 15 October 2024 TPR will be contacting pension schemes in scope of dashboards to ensure they have the correct processes and controls in place around data and will be challenging schemes unable to demonstrate how they meet TPR's record-keeping expectations, which can be found in the general code of practice.

34. TPR will be sending all scheme managers two surveys at key points in their journey to their connect by date which will provide TPR with useful insights into the industry's readiness and identify where any gaps may lie. For Public Service Pension Scheme (PSPS) the firs survey is expected in November 2024.

35. TPR has produced a 'hot topics' article focusing on some of the issues it is hearing about through engagement with the industry. 14

36. The Pensions Administration Standards Association (PASA) have published the first content in its new Dashboards Toolkit, which will be updated over time. The first release includes information to consider in relation to Additional Voluntary Contribution (AVC) data.

Scheme Advisory Board (SAB)

37. The Ministry of Housing, Communities and Local Government (MHCLG) appointed the GAD to review and report on the 2022 fund valuations in accordance with section 13 of the Public Service Pensions Act 2013. The purpose of the report is to examine whether the 87 separate fund valuations have achieved the four aims as set out in the Act, being compliance, consistency, solvency and long-term cost efficiency. The report includes three recommendations for the SAB which are being considered.

38. The Board Secretariat wrote to MHCLG officials asking for a review of the regulations and actuarial factors used in shared cost additional pension contributions (SCAPCs) and is one of the first recommendations of the Gender Pensions Gap working group.

39. The SAB have been revising the guidance for funds to follow when reviewing their Funding Strategy Statement (FSS) and the guidance is nearing the final stages awaiting the approval process and it is hoped will be available before the end of the calendar year.

40. The SAB issued a statement of fiduciary duty and dealing with lobbying and it is hoped this will help administering authorities deal with increasing levels of interest in how LGPS funds are invested and manage discussions with stakeholders and at board and committee meetings.

41. Following on from the above the SAB is aware a number of administering authorities have received letters alleging they are acting unlawfully by holding and failing to dives from investments in companies which have been linked to the ongoing situation in the Middle East. The SAB therefore sought leading Counsel advice on behalf of the Scheme.

42. The SAB Secretariat is seeking an opinion from Counsel on whether there is a need to update the previous advice received on the nature of fiduciary duty for administering authorities.

His Majesty's Revenue and Customs (HMRC)

43. Following the technical inaccuracies in the legislation introduced to implement the new regime following the abolition of the Lifetime Allowance (LTA), The Pensions (Abolition of Lifetime Allowance Charge etc) (No.2) Regulations 2024 and The Pensions (Abolition of Lifetime Allowance Charge etc) (No.3) Regulations 2024 were laid in October 2024 and came into force on 18 November 2024. Amendments include corrections to LTA protections, new provisions relating to Transitional Tax-Free Amount Certificates (TTFAC) and the calculation to determine valuing a member's benefits when paying a Trivial Commutation Lump Sum.

The Pensions Regulator (TPR)

44. TPR sent out scheme return notices to managers of public service pension schemes in October 2024, which must be returned within six weeks of receiving the notification.

45. Following the publication by TPR of a case report detailing how 245 victims were defrauded in a £13.7 million scam, TPR in association with the Pension Scams Action Group (PSAG) have launched a new video featuring a critical care nurse who was scammed out of her retirement pension.

46. On 22 October 2024 TPR published its digital, data and technology strategy, which describes a set of missions over a 5 year plan on how TPR wishes to adapt and embrace changing technology together with a changing pensions market in an effort to drive better outcomes for savers, whilst reducing burden on pension schemes and asks the industry to work with them to achieve this.

The Pensions Ombudsman (TPO)

47. TPO published its corporate plan outlining priorities and areas of work for the year with top priorities.

48. TPO celebrated Ombuds Day on 10 October 2024 with a blog raising awareness and understanding of TPO's services.

Other News and Updates

49. The Money and Pension Service (MaPS) have now launched digital Pension Wise appointments for anyone over the age of 50 with a defined contribution pension.

<u>CONSULTATION:</u>

50. The Chair of the Pension Fund Committee and/or Chair of the Local Pension Board.

<u>RISK MANAGEMENT AND IMPLICATIONS:</u>

51. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

52. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

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LEGAL IMPLICATIONS:

53. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

54. There are no equality or diversity issues.

OTHER IMPLICATIONS:

55. There are no other implications.

NEXT STEPS:

56. No next steps are planned.

Contact Officer:

Colette Hollands, Head of Accounting and Governance.

Annexes:

1. None.

Sources/Background papers:

1. None.

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