

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 14 February 2014 at AXA Investment Management UK Ltd, 7 Newgate Street, London, EC1A 7NX.

These minutes are subject to confirmation by the Committee at its meeting on Thursday, 22 May 2014.

Elected Members:

- * Ms Denise Le Gal (Chairman)
- * Mr Nick Skellett CBE (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Mike Goodman
- * Mr John Orrick
- * Mr Stuart Selleck

Ex officio Members:

Mr David Munro, Chairman of the County Council
Mrs Sally Ann B Marks, Vice Chairman of the County Council
Mr David Hodge, Leader of the Council
Mr Peter Martin, Deputy Leader

Co-opted Members:

- * Mr Tony Elias, District Representative
- * Judith Glover, Borough/District Councils
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- * Philip Walker, Employees

In attendance

Paul Baker, Pensions Manager
Cheryl Hardman, Regulatory Committee Manager
Sheila Little, Chief Finance Officer (Section 151 Officer)
Phil Triggs, Strategic Manager – Pension Fund & Treasury
Steve Turner, Partner, Mercer

1/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were no apologies for absence.

2/14 MINUTES OF THE PREVIOUS MEETING: 15 NOVEMBER 2013 [Item 2]

The Minutes were agreed as an accurate record of the meeting.

3/14 DECLARATIONS OF INTEREST [Item 3]

Judith Glover declared a personal interest as she was in correspondence with CBRE on a property in her ward.

4/14 QUESTIONS AND PETITIONS [Item 4]

There were none.

5/14 ACTION TRACKER [Item 5]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. Many of the actions from previous meetings would be addressed at the current meeting.

Actions/Further Information to be Provided:

None.

Resolved:

That the actions tracker was noted and the committee agreed to remove page 22 of the tracker as the actions would be completed during the current meeting.

Next Steps:

None.

6/14 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the report. He informed the Board that a full report on the P750 Fund would be brought to the Board at its May meeting (**Action Review ref: A1/14**).
2. The Board considered the Freedom of Information (FOI) requests during the last quarter. There was a query whether all FOI responses were published on the Council's website. The Regulatory Committee Manager was asked to find out and report back (**Action Review ref: A2/14**).

3. Officers confirmed that the dates listed for the November Board meeting and the AGM in the papers were correct. A number of Members stated that they were unable to make the meeting on 23 May and it was agreed to look for a different date (**Action Review ref: A3/14**).

Ian Perkin joined the meeting.

4. The Strategic Manager – Pension Fund & Treasury informed the Board that he was working with Manifest to develop a summary report on share voting. This would categorise votes and include information on the more interesting votes. A first report would be provided to the next Board meeting (**Action Review ref: A4/14**).
5. The Board debated the proposal to insure against ill health retirements and the options available for doing this, including self-insurance. The Board considered issues such as: the benefits of externalising the risk of ill health retirements; the additional complex administration to notionally separate and invest the assets ring fenced if the Fund was to self-insure; size of the risk to the Fund as a whole and the paternalistic remit of the Fund to smaller employers; requirement on the Board to mitigate risks. The Board took a vote and agreed to support recommendation 2 on the report.
6. Members queried how much Surrey County Council charges for loans and the Strategic Manager – Pension Fund & Treasury agreed to check and report back to the Board (**Action Review ref: A5/14**).
7. The Strategic Manager noted that on page 40 of the Board papers, column 4 should be headed “Allocation at 31/1/2014”.

Actions/Further Information to be Provided:

- i. A full report on the P750 Fund to be brought to the Board at its May meeting.
- ii. Regulatory Committee Manager to find out if all FOI responses are published on the Council’s website and report back.
- iii. To reschedule the meeting currently set for 23 May 2014.
- iv. A first summary report on share voting to be brought to the next meeting of the Board.
- v. The Strategic Manager – Pension Fund & Treasury agreed to check how much Surrey County Council charges for loans and report back to the Board.

Resolved:

- i. That the report be **APPROVED**;
- ii. That the purchase of an annual insurance policy with Legal & General to insure the fund against the cost of ill health retirements be **APPROVED**, subject to the County Council’s Head of Procurement confirming that it is not necessary to formally tender for an insurance provider.

Next Steps:

None.

7/14 ACTUARIAL VALUATION 2013: OUTCOME [Item 7]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Chairman updated the Board by informing them that the Surrey Pension Fund Advisor had stated that as of 13 February 2014, the Surrey County Council Pension Fund had a funding level of 81%.
2. The Strategic Manager – Pension Fund & Treasury informed the Board that the Funding Strategy Statement would be circulated to employer organisations for feedback and a final version would be brought to the next meeting of the Board (Action Review ref: A6/14).
3. Members of the Board thanked officers for the good communications and reassurance to smaller employers and Borough/District Councils during the actuarial process.

Actions/Further Information to be Provided:

- i. The final version of the Funding Strategy Statement to be brought to the next meeting of the Board.

Resolved:

That the report was **NOTED** and the 2013 actuarial valuation was **ADOPTED**.

Next Steps:

None.

8/14 PENSION FUND RISK REGISTER [Item 8]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund and Treasury introduced the report, highlighting the newly identified risks and the additional columns which provides a revised likelihood once mitigating actions have been taken and a net risk score.

Actions/Further Information to be Provided:

None.

Resolved:

That the Risk Register be **NOTED**.

Next Steps:

None.

9/14 PENSION FUND BUSINESS PLAN 2014/15 [Item 9]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the report.
2. In response to a query, the Pensions Manager informed the Board that the final regulations on the revised Local Government Pension Scheme had not yet been published. However, a communications programme had been implemented with employers and Fund members.
3. Members suggested that the description of Action 5 under the heading “Communication” be amended to remove the word “positive”.
4. Members praised the simple design of the Business Plan.

Actions/Further Information to be Provided:

None.

Resolved:

That, subject to the amendments discussed at the meeting, the Board **ADOPT** the Business Plan in respect of the 2014/15 financial year attached as Annex 1 to the report.

Next Steps:

- i. Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
- ii. Outturn report of the 2014/15 financial year to be presented at the first meeting of the Pension Fund Board in 2015/16.

10/14 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 10]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the report and highlighted the cosmetic changes to the Statement of Investment Principles. He also noted that the “Commitment” column on page 159 of the papers refers to millions and that this would be amended to make it clear.

Actions/Further Information to be Provided:

None.

Resolved:

That the revised Statement of Investment Principles be **APPROVED**.

Next Steps:

None.

11/14 KEY PERFORMANCE INDICATORS [Item 11]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the report. He informed the Board that the data pending for the overall satisfaction score of employers had now come in and was 92%. This was a good result and above the set target of 80%. It was suggested that it was a particularly good score given the current environment as employers tend to confuse actuarial valuations with pensions administration.
2. The Chairman informed the Board that she had requested that the red downwards arrow against the indicator for investment returns is removed. The red arrow is misleading as the Fund had done very well in the past quarter and had only done a little less well than the previous quarter. The Fund was still achieving well over the benchmark.

Actions/Further Information to be Provided:

None.

Resolved:

That the KPI statement format be **APPROVED**.

Next Steps:

None.

12/14 REVIEW OF PENSION ABATEMENT POLICY [Item 12]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the report.
2. Members asked whether there were any equality issues with regard to requiring medical clearance before permitting the purchase of an additional pension. Officers responded that if a person has a life-threatening illness, it wouldn't make sense for it to be an equalities issue. The Board was also informed by the Pensions Manager that every Pension Fund he had worked for has required medical clearance before scheme members could purchase additional years/pension. The Pensions Manager informed the Board that it cost the scheme member £40 to undertake the medical check.
3. Officers clarified that recommendation 2 was not affected by the decision under item 6 to take out insurance against ill health retirements.

Actions/Further Information to be Provided:

None.

Resolved:

- i. That a policy that continues with the existing practice of not abating the pension of a scheme member that is re-employed by a local government pension scheme employer be **ADOPTED**.
- ii. That a policy that continues with the existing practice requiring a scheme member to receive medical clearance before being permitted to purchase an additional pension be **ADOPTED**.

Next Steps:

A further report will be submitted on the outcome of consultation with scheme employers to the next meeting of the Board.

13/14 PENSION FUND ADMINISTRATION STRATEGY [Item 13]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the report and highlighted the amendments made to the Pension Fund Administration Strategy following consultation with scheme employers.

Actions/Further Information to be Provided:

None.

Resolved:

That the Pension Fund Administration Strategy be **APPROVED**.

Next Steps:

None.

The Board adjourned at 10.55am for training and presentations. It reconvened at 2.06pm. Nick Skellett, Paul Baker and Sheila Little gave their apologies for the afternoon session.

14/14 INVESTMENT STRATEGY REVIEW [Item 14]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Mercer representatives outlined the conclusions of its investment strategy review of the Surrey Pension Fund. It was explained that 5000 simulated projections of the future funding position had been undertaken with the use of a number of changing variables. This had created the funnel chart on page 8 of the annex. The simulations suggest that the funding position would reach 100% in 2021. However, it is accepted that assumptions will not necessarily bear out and so a deficit risk has been calculated. The Mercer representatives highlighted that the Pension Board and Officers needed to carefully consider the extent to which a deficit risk was tolerable and suggested ways in which it would be possible to (1) further diversify the Fund's sources of return and (2) better manage any deficit risk. The analysis represented showed the expected benefits of addressing these issues in combination. Simply diversifying the sources of return has minimal impact on reducing deficit risk.

2. The Mercer representatives proposed that an investment strategy for once the Fund is 100% funded should be considered sooner rather than later as it would take one to two years for a new Strategy to be fully implemented. This would provide a “target” investment strategy for the future and provide a clear framework for helping to decide what changes to the current investment strategy should be made over time.

Mike Goodman left the meeting at 2.50pm.

3. The Mercer representatives explained that the potential target return from the revised strategy appeared low but that a high return would not be required if the Scheme was 100% funded. Members pointed out that the Scheme still needed to honour future liabilities. The Mercer representatives assured the Board that the Strategy would still be designed to have an expected return that supported that Actuarial funding assumptions so would continue to help maintain the affordability of financially supporting the Fund. They also suggested that the Fund should be less concerned about the level of real interest rates it locked into once it is 100% funded, if it was agreed to introduce improved risk management techniques to help better manage deficit risk.
4. The Mercer representatives stressed that there were many opportunities for long-term investors such as the LGPS to tap into.
5. A Member raised a concern about risks associated with infrastructure debt and derivatives. The Mercer representatives assured Members that large, established investment management firms had solid experience with these types of assets. The Chairman also responded that the Pension Fund Board did not know how to trade these assets (this would be delegated to an investment manager) but just needed to understand what they are.
6. The Mercer representatives reiterated that they were not recommending a big bang approach to changing the investment strategy but that any agreed change should be undertaken in stages.

Stuart Selleck left the meeting at 3.15pm.

7. The Chairman suggested that training on leveraged gilts and synthetic equities be given at the next meeting of the Board (**Action Review ref: A7/14**).

Actions/Further Information to be Provided:

None.

Resolved:

- a. That a further report on the Investment Strategy Review be brought to the next meeting of the Pension Board for consideration (**Action Review ref: A8/14**);
- b. That training on leveraged gilts and synthetic equities be provided at the next meeting of the Board.

Next Steps:

None.

15/14 DATE OF NEXT MEETING [Item 15]

The date of the next meeting would be rescheduled and the Members updated.

Meeting ended at: 3:20pm

Chairman

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