

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 19 September 2014 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

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

Elected Members:

- * Ms Denise Le Gal (Chairman)
- * Mr Nick Skellett CBE (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Tim Evans
- * 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

Substitute Members:

Mr John Orrick

In attendance

Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer (Section 151 Officer representative)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager – Pensions and Treasury
Steve Turner, Partner, Mercer

37/14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from John Orrick.

Sheila Little (Section 151 Officer) had also sent her apologies and had asked Kevin Kilburn to attend on her behalf.

The Chairman outlined the new management structure for the pension's administration team and informed the Board that Paul Baker (Pensions Manager) was retiring. The Board asked that its thanks for the services provided by Paul Baker be recorded.

38/14 MINUTES OF THE PREVIOUS MEETING: 15 MAY 2014 [Item 2]

A Member suggested that the draft Minute 32/14, resolution a) be amended:

“That the Pension Fund Board agrees to investing in a more risk aware manner relative to the Fund's liabilities with a view to the establishment of a liability driven investment (LDI) strategy *framework*. *If implemented, this should be set up on a relatively small scale initially with the level of liability protection increased as and when the funding level moves towards 100%*”.

Subject to this amendment, the Minutes were agreed as an accurate record of the meeting.

39/14 DECLARATIONS OF INTEREST [Item 3]

There were none.

40/14 QUESTIONS AND PETITIONS [Item 4]

There were none.

41/14 ACTION TRACKING [Item 5]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. In relation to A10/14 (private equity performance), the Strategic Finance Manager – Pensions and Treasury informed the Board that the cash flow analysis was being worked on and would be included with the papers for the next meeting.
2. In relation to A12/14 (training needs analysis), the Strategic Finance Manager – Pensions and Treasury informed the Board that the analysis was underway and the results would be brought to the meeting in November 2014. Members were asked to fill in the survey and arrange to complete the test.
3. In relation to A16/14 (Statement of Investment Principles), the Board was informed that the amended Statement was on the agenda at item 10.
4. In relation to A18/14 (Service Level Agreement), the Board was informed that the Service Level Agreement had been published on the Pension Fund website.

5. In relation to A21/14 (training), the Strategic Finance Manager – Pensions and Treasury explained that the training on synthetic equities was to be scheduled for a future meeting.

Actions/Further Information to be Provided:

None.

Resolved:

That the actions tracker was noted and the committee agreed to remove the completed actions from the tracker.

Next Steps:

None

42/14 INVESTMENT STRATEGY REVIEW [Item 6]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Chairman explained that this report had been marked to follow on the agenda and had been circulated the day before the Board meeting because the informal presentations on leveraged gilts to the Board had only recently taken place on 12 September 2014. Time had then been required to consider the information provided and prepare the report, which recommended the appointment of LGIM as the Fund's liability hedging manager.
2. A recap was provided on the rationale for why the Fund was considering putting in place a risk management framework.
3. A discussion took place on the potential benefits of the additional flexibility that could be provided by Schroders (in terms of capital efficiency and higher degree of leverage) and versus the merits of using LGIM, and the competitive nature of their proposal. On balance, it was considered that the higher degree of leverage that could be provided by Schroders was not necessarily needed. The leverage that could be provided via LGIM was sufficient and considered more in line with a "keep things simple" approach.
4. The Chairman stressed that the report and recommendation were from officers but that the Board was under no obligation to agree with the recommendation. In response to queries about the figure of £90m, which was the proposed amount of capital to be initially invested in the mandate, the Chairman explained that this simply reflected the current value of the passively managed Index-Linked gilts portfolio with LGIM.
5. A Member questioned if there was merit in deferring a decision on which manager to appoint until the next Board meeting. The Board was reminded of the comprehensive discussions and previous training sessions that had taken place on risk management and, as a result, it was agreed not to defer at this stage.

6. There was a query about the description of the LGIM solution as an 'insurance policy'. The Mercer representative explained that the investment with LGIM would technically be written as a unit-linked 'insurance' contract, as was the case with the existing assets by LGIM on behalf of the Fund. It was noted that the Fund had received legal advice from Sackers regarding the suitability of the proposed structures from the LDI managers being considered. All the managers could implement a structure that was consistent with the relevant LGPS investment regulations, including LGIM. Taking all things into consideration, the Mercer representative confirmed that he supported the officers' recommendation to appoint LGIM for the mandate. Their overall fee proposal was the most competitive and there were clear arguments to support the expectation that it would be most straightforward to use LGIM in terms of initial implementation and ongoing management of the mandate.

EXCLUSION OF THE PUBLIC

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 paragraph 3 of Part 1 of Schedule 12A of the Act.

PART 2 IN PRIVATE

THE FOLLOWING ITEMS OF BUSINESS WERE CONSIDERED IN PRIVATE BY THE COMMITTEE. HOWEVER, THE INFORMATION SET OUT BELOW IS NOT CONFIDENTIAL.

7. The Board asked a number of questions regarding the confidential annex to the report, which were answered by the officers and advisors present.

The Board meeting adjourned at 10.20am for training and reconvened in public session at 10.45am.

Actions/Further Information to be Provided:

None.

Resolved:

That the Pension Fund Board **APPROVES:**

- i. The setting up of a framework for a liability driven investment (LDI) strategy with the establishment of a leveraged gilt portfolio. This will be funded by the existing passive and index-linked gilts held with Legal & General, amounting to a maximum of £90m.
- ii. The appointment of Legal & General Investment Management with the intention of eventually implementing an LDI strategy. This will serve as a platform for future strategy requirements as the Fund approaches a full funding level. The appointment should be subject to final full due diligence being completed in terms of the legality of the LGIM solution within the LGPS regulations.
- iii. The level of liability protection may be increased as the funding level moves further towards 100% with triggers set for consideration of these future decisions, and further Board training to be provided.

Next Steps:

None

The Board meeting adjourned at 10.48am for training and reconvened at 11.30am.

43/14 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 7]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report. In response to a question about the cost of the transfer from equities run by LGIM to the Standard Life GFS Fund, the officer explained that the transfer had occurred at mid-price and so there had been no direct transaction charge.
2. The Strategic Finance Manager – Pensions and Treasury explained that Pitchbook was a private company that gathers information via Freedom of Information requests and sells on the data.
3. The Strategic Finance Manager – Pensions and Treasury informed the Board that a report on the ill health insurance policy would be brought to the November meeting (**Action Review ref: A22/14**).
4. The Board discussed the potential private equity opportunities with Capital Dynamics and Goldman Sachs. Historically, the Fund had looked at opportunities in Private Equity from the stable of managers it previously invested in. Members queried how the figures being recommended for commitment in the private equity opportunities had been identified. The Strategic Finance Manager – Pensions and Treasury explained that the figures follow the pattern of the last 10-12 years of being reasonable and affordable and within the cash flow of the pension fund. After discussion, it was agreed that a wider review of the Fund's Private Equity holdings and future strategy for this part of the portfolio should be considered before committing additional monies to this asset class. Within this, Mercer would identify the top tier private equity managers and address whether the Pension Fund receives appropriate returns for the fees charged, what kinds of funds complement what the Pension Fund already invests in, and the value from existing managers compared to their peer group (**Action Review ref: A23/14**).
5. Members queried whether Board Members were expected to attend investment manager meetings and, if so, could they be arranged so that they did not clash with other Council meetings. The Chairman and Advisors assured the Members that these were regular monitoring meetings which Board Members had an open invitation to attend but it is not essential that they do. The Surrey Pension Fund Advisor informed the Board that some Boards never meet investment managers and some Boards spend over half of their time meeting investment managers. The balance sought by the Surrey Pension Fund Board was closer to the optimum.
6. A Member asked whether online training was available. The Chairman informed her that CIPFA provides online training and she would send her some information.

The Board meeting adjourned at 12.30pm for lunch and reconvened at 1pm.

The Chairman left the meeting at 1.05pm and the Vice-Chairman took the Chair.

7. The Strategic Manager – Pensions and Treasury presented the Financial and Performance Report.

The Chairman returned to the meeting at 1.10pm and took the Chair.

8. The Surrey Pension Fund Advisor presented the summary of meetings with Fund Managers on 17 September which had been circulated with the late supplementary agenda. The Mercer representative informed the Board that the decision to invest more capital with CBRE had, so far, proven to be a good decision. It had helped reduce exposure to the European property markets and increased investments in the UK property market which had performed well. The Chairman expressed discomfort with having 100% of the Fund's property portfolio invested in the UK and recommended support for changing the wording in the Surrey mandate to CBRE. The Board agreed with this proposal.
9. The Surrey Pension Fund Advisor informed the Board that while Newton had outperformed the benchmark when reviewing the past three years' performance (albeit below target) this was primarily due to good performance in just one year. It was noted that the house remains very cautious in its outlook. While this would be expected to help a manager outperform in a falling market there were some concerns that this could lead to missed opportunities. After discussion, it was considered appropriate to review the role of Newton and compare them against alternative managers. The diversification merits relative to Marathon would also need to be considered, when identifying alternative managers. It was suggested that Mercer identify a range of alternative global equity managers and invite Newton to pitch against them. The Mercer representative agreed but explained that it would first be necessary to check how to do this so that the process is consistent with OJEU regulations (**Action Review ref: A24/14**).
10. A Member suggested that the Pension Fund has a big spread of fund managers and asked if it would be appropriate to shorten the list. The Surrey Pension Advisor informed the Board that the number of managers was almost exactly in line with the average for the LGPS.
11. The Surrey Pension Advisor informed the Board that he had concerns regarding Mirabaud and the performance achieved for the Fund. He expressed concern that Mirabaud does not take enough notice of what is going on in the markets in its portfolio management decisions. The Board concurred with the concerns and agreed to terminate Mirabaud's contract with immediate effect and temporarily move the 4% allocation from Mirabaud to a passive portfolio with Legal & General.

Actions/Further Information to be Provided:

- a. A report on the ill health insurance policy to be brought to the November meeting of the Board.
- b. Mercer to undertake a review of the Fund's Private Equity holdings and report back to the Board.

- c. Mercer to provide a report identifying a range of potential alternative global equity managers to the November meeting.

Resolved:

- i. That the Pension Fund Board approves the report and the decisions as laid out;
- ii. That the Pension Fund Board defers a decision on making a £7m commitment each year for 2014/15, 2015/16 and 2016/17 to the Capital Dynamics LGPS Collective Private Equity Vehicle;
- iii. That the Pension Fund Board defers a decision on making a USD 20m commitment to the Goldman Sachs Private Equity Manager (PEM) Fund;
- iv. That the Pension Fund Board amends the wording in the Surrey mandate to CBRE to allow investment in global property;
- v. That the Pension Fund Board instructs officers to terminate Surrey's mandate with Mirabaud and instruct LGIM to manage the 4% allocation in passive equities on a temporary basis, subject to further review.

Next Steps:

None

44/14 SURREY PENSION FUND ACCOUNTS 2013/14 [Item 8]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report and thanked the Senior Accountant for his work on preparing the accounts. The Deputy Chief Finance Officer highlighted that the accounts had been closed two months earlier than usual.
2. The Strategic Finance Manager – Pensions and Treasury confirmed that retention from auto-enrolment had been higher than expected.
3. The Strategic Finance Manager – Pensions and Treasury agreed to circulate information on how many pension fund members are taking up the 50:50 offer and whether the age profile of the membership had changed with the introduction of auto-enrolment (**Action Review ref: A25/14**).

Actions/Further Information to be Provided:

The Strategic Finance Manager – Pensions and Treasury to circulate information on how many pension fund members are taking up the 50:50 offer and whether the age profile of the membership had changed with the introduction of auto-enrolment.

Resolved:

- i. That the Pension Fund Board NOTES and APPROVES the financial statements;
- ii. That the Pension Fund Board NOTES the content of the Audit Findings for Surrey Pension Fund Report;
- iii. That the Pension Fund Board NOTES the Letter of Representation;
- iv. That the Pension Fund Board NOTES the External Auditor's Report.

Next Steps:

None

45/14 PENSION FUND RISK REGISTER [Item 9]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report and explained that the risk register had been reviewed and streamlined as requested at the previous Board meeting.
2. With regard to Risk 6 (Changes to LGPS regulations), the Strategic Finance Manager – Pensions and Treasury informed the Board that following publication of the regulations, this risk would be downgraded to amber or possibly green.
3. With regard to Risk 17 (implementation of proposed changes to LGPS), the Strategic Finance Manager – Pensions and Treasury reminded the Board that it had requested this to be added to the register.
4. A Member pointed out that the valuation mentioned in Risk 1 should be updated to read 2016.

Actions/Further Information to be Provided:

None.

Resolved:

That the revised Risk Register was NOTED.

Next Steps:

None

46/14 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 10]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report and outlined the changes since the previous meeting.
2. A Member pointed out that 31 March 2013 is used to show the Funds private equity investments and that this was now 18 months old. He also requested that the date on which investment managers were appointed be included under Section 5.

Actions/Further Information to be Provided:

None.

Resolved:

That the revised Statement of Investment Principles be APPROVED.

Next Steps:

None

47/14 KEY PERFORMANCE INDICATORS [Item 11]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report and explained that performance in some areas of pension administration had fallen because of the need to allocate resources to the implementation of the new 2014 scheme. He had been assured that normal administration activity was now resuming and performance improving.
2. A Member queried whether the targets for death benefits were too low given that targets are being passed. The Chairman stressed that it was not realistic to have a higher target.
3. The Surrey Pension Fund Advisor suggested that all the targets were relevant apart from the target to improve the funding level to 100%. He suggested that this was impossible in the short term. The Strategic Finance Manager – Pensions and Treasury stated that it would be at least eight years before the Pension Fund is near to being 100% funded.

Actions/Further Information to be Provided:

None.

Resolved:

That the Pension Fund Board NOTE the KPI statement.

Next Steps:

None

48/14 CORPORATE GOVERNANCE SHARE VOTING [Item 12]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report and explained that share voting could generate a great deal of work, which was substantially reduced with the assistance of a governance consultant. He highlighted paragraph 15 to indicate how successful protest votes have been.

Actions/Further Information to be Provided:

None.

Resolved:

That the Pension Fund Board NOTE the report.

Next Steps:

None

49/14 LOCAL GOVERNMENT PENSION SCHEME: DRAFT GOVERNANCE REGULATIONS [Item 13]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Finance Manager – Pensions and Treasury introduced the report and highlighted the confusion generated from the requirement to create a 'Pension Board' to oversee or scrutinise the work of the Scheme Manager. In the case of Surrey Pension Fund, the Scheme Manager is the administering authority as currently defined by LGPS regulations, ie Surrey County Council for the Surrey Pension Fund. The Surrey Pension Fund Board has delegated authority to take decisions pertaining to the running of the pension fund. It was suggested that the two bodies needed names which made it clear what their responsibilities are. The Government were not supportive of calling the new Board a 'scrutiny' Board. Suggestions included renaming the Surrey Pension Fund Board or naming the new Board as the Review Board or Governance Board.
2. It was agreed that it would be difficult to combine the two Boards.
3. The Strategic Finance Manager – Pensions and Treasury stated that a report would be taken to Council to create the new Board once the regulations have been published.
4. The Strategic Finance Manager – Pensions and Treasury informed the Board that Hymans had suggested that the new overview Board could take responsibility for some matters such as share voting but his preference was for the existing Board to retain responsibility for all facets of the pension fund and for the new body to have a review/scrutiny role.

Actions/Further Information to be Provided:

None.

Resolved:

- i. That the Pension Fund Board NOTES the report;
- ii. That the Pension Fund Board NOTES the response to the consultation from the Surrey Pension Fund.

Next Steps:

None

50/14 LGPS REFORM: OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES [Item 14]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Chairman introduced the report. Members congratulated officers on the response to the consultation.

Actions/Further Information to be Provided:

None.

Resolved:

- i. That the Pension Fund Board NOTES the report;
- ii. That the Pension Fund Board NOTES the consultation sent by Surrey Pension Fund with views expressed by members within the Board meeting of 15 May 2014.

Next Steps:

None

51/14 DATE OF NEXT MEETING [Item 15]

The date of the next meeting was noted.

Meeting ended at: 2.40 pm

Chairman

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