

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 11.00 am on 18 September 2015 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 Alan Young (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Tim Evans
- * Mr Stuart Selleck
- * Mrs Hazel Watson

Ex officio Members:

Mr David Munro
 Mrs Sally Ann B Marks, Chairman of the County Council
 Mr David Hodge, Leader of the Council
 Mr Peter Martin, Deputy Leader and Cabinet Member for Economic Prosperity

Co-opted Members:

- Mr Tony Elias, Borough/District Representative
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- * District Councillor Peter Stanyard, Borough/District representative
- * Philip Walker, Employees

In attendance

Tanuja Boyjonauth, Treasury Officer
 Cheryl Hardman, Regulatory Committee Manager
 John Harrison, Surrey Pension Fund Advisor
 Neil Mason, Senior Advisor (Pension Fund)
 Barry McKay, Hymans Actuary
 Alex Moylan, Senior Accountant
 David Munro, Chairman – Council Overview Board
 John Orrick, Vice Chairman – Local Pension Board
 Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)
 Steve Turner, Partner, Mercer

47/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Tony Elias.

48/15 MINUTES OF THE PREVIOUS MEETING: 23 JULY 2015 [Item 2]

The Minutes were approved, subject to some minor formatting changes.

49/15 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of disclosable pecuniary interest.

The Chairman did inform the committee that she had been approved as the English county council representative to the Local Government Pension Scheme Advisory Board.

50/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

51/15 ACTION TRACKING [Item 5]**Declarations of interest:**

None.

Key points raised during the discussion:

1. In relation to A21/14 (synthetic equities training), the committee was informed that the results of a training needs analysis did not suggest that synthetic equities was a priority over the next year. It was agreed to abandon this action.
2. In relation to A5/15 (assessment one to ones), the Chairman corrected the tracker, stating that she hadn't yet spoken to the newest members of the committee Alan Young, Peter Stanyard and Hazel Watson. However, she would do this by the next meeting.

Actions/Further information to be provided:

None

Resolved:

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

Next steps:

None.

The Chairman informed the committee that she would be reordering the agenda to ensure that the strategic policy issues were discussed first. Following item 6, the Chairman would move to item 14 Local Pension Board and then item 8 Unitisation of Assets before returning to the order as set out in the agenda.

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduce the report, highlighting the likely criteria for pooling and outlining the options for change. He explained that officers had deliberately not steered the committee towards any particular option because the consultation paper had not yet been published. However, the committee could give a steer to officers on a preferred option to investigate further. It was felt that options 1 to 3 would be rejected by the Government as not being 'sufficiently ambitious'.
2. The Surrey Pension Fund Advisor clarified the differences between Collective Investment Vehicles (CIVs) and Joint Vehicles.
3. The Chairman highlighted the need to work with like minded Funds with a similar investment philosophy.
4. Members stressed the need to get in early with proposals and negotiate a good deal.
5. The possibility of joining an existing CIV or Joint Vehicle was discussed at length, with officers responding to questions about the London CIV and the London Pension Fund Authority.
6. Members pointed out the good governance and investment performance of the Surrey Pension Fund and questioned the benefit of pooling assets. The Chairman highlighted the benefit of scale allowing the Local Government Pension Scheme to invest in alternatives and be a global competitor. Local accountability would also be retained, with the main difference to the committee being the loss of being able to choose investment managers.
7. Officers informed the committee that extensive networking was underway with regard to how pooling could be taken forward.
8. The Surrey Pension Fund Advisor suggested that the committee consider how joint governance will be organised, eg the London CIV has 31 members on its governing board which could be unwieldy. From the perspective of fund managers, pooling would give them one person to speak to which would potentially lead to reduced fees.
9. Members felt that as the Surrey Pension Fund was well-governed and ambitious for its investment performance, it should be a leader in whichever option it decides to follow and retain a reasonable amount of control. It was understood that this would require a lot of work.
10. The Surrey Pension Fund Advisor explained the need to run-off private equity, liquid assets being easier to pool than illiquid assets. However, run-off can go on for 20-30 years.

Actions/Further information to be provided:

None

Resolved:

That officers undertake further investigation into the options set out in the report, with option 7 being the preferred option, and bring a report back in November 2015 (**Recommendations tracker ref: A12/15**).

Next steps:

None.

53/15 LOCAL PENSION BOARD [Item 14]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report. He informed the committee that legal advice had just come in stating that there is no impediment to the Chairman of the Local Pension Board having a casting vote. Therefore, for consistency with the rest of the council's committees, it was recommended and agreed that the following should be added to paragraph 4.1.2 of the Terms of Reference:

"If consensus is not reached, the Chairman to have a second or casting vote".
2. The Chairman suggested that the Local Pension Board minutes should include a list of those in attendance throughout the meeting **(Recommendation tracker ref: A13/15)**.
3. The Vice-Chairman of the Local Pension Board was invited to speak and he stressed the steep learning curve and requested that joint training sessions be arranged for the future. He also informed the committee that he hoped to have more members of the Board observing committee meetings in future. The Chairman suggested that training sessions be held on separate days to the committee meetings in future but stressed that this should not result in decreased attendance at training. It was suggested that members of the committee could discuss the strategic approach to investment during these separate sessions.

Actions/Further information to be provided:

Local Pension Board minutes to include a list of those in attendance throughout the meeting.

Resolved:

That the Surrey Pension Fund Committee:

1. Notes the report; and
2. Approves amendments to the terms of reference of the Local Pension Fund Scheme, including the addition reported above.

Next steps:

None.

54/15 UNITISATION OF ASSETS [Item 8]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) and the Hymans Actuary introduced the report, explaining the benefits of asset unitisation for the Surrey Pension Fund.
2. The Hymans Actuary clarified that the proposals would not result in a shift of the investment strategy.

3. In response to a question on whether the impact on employers had been modelled, the Senior Advisor (Pension Fund) stated that this was underway.
4. The committee discussed whether unitisations would result in the removal of cross-subsidy, pushing less stable employers into default. Officers suggested that unitisation offered clearer transparency, allowing the Scheme Manager to identify problems earlier and if necessary work with weak employers to exit the Scheme. At present, the three year valuation identifies problems only once employers are already in deficit. Some members were still concerned that if weaker employers default this would result in the rest of the Fund having to pay the debt.
5. The Senior Advisor (Pension Fund) explained that the classification of employers as large and secure, other well-funded, or poorly-funded was decided by the Scheme Manager, in consultation with employers.
6. The Hymans Actuary informed the committee that initially unitisation would require a lot of work and therefore resource. There was also the possibility of employers rejecting the investment strategy identified for them. However, the majority would be happy with what is set.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee:

1. Notes the benefits that asset unitisation would bring to the Fund in order to support a focused employer funding and investment strategy; and
2. Approved in principle the future implementation of asset unitisation and request officers to work with the Fund's actuary towards its implementation with effect from 1 April 2016 (the effective date of the next actuarial valuation), and subject to the actuary's final report being approved by the Committee.

Next steps:

A further report to be brought to committee at a future meeting.

The committee adjourned from 12.30pm to 1.15pm for lunch.

55/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 7]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, highlighting key issues.
2. The Independent Advisor introduced the Financial and Performance Report and suggested that the success rate of the committee in choosing investment managers had been good. He then went on to introduce the notes from meeting with Fund Managers.

3. Members discussed the flexibility of mandates agreed for Fund Managers. It was felt that active managers should be requesting changes to mandates if they feel they have become restrictive.
4. The Surrey Pension Fund Advisor explained that Franklin Templeton was expected to depart from their benchmark with the expectation of a positive absolute return.
5. Information provided by CBRE on cash flow would be circulated to the committee (**Recommendations Tracker ref: A14/15**).
6. With regard to the Self-Assessment Results, it was suggested that some Members had requested more meetings because agendas were long and issues complex. This would hopefully be addressed by holding training on separate days. It was also suggested that members of the committee should meet informally without officers or advisors.

Actions/Further information to be provided:

Information provided by CBRE on cash flow to be circulated to the committee.

Resolved:

That the Surrey Pension Fund Committee:

3. Notes the report.
4. Delays consideration of infrastructure as a future strategy for the Fund until the Government provides clarity over proposed pooling of assets.

Next steps:

None.

56/15 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE [Item 9]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report and highlighted a new category showing the number of active employers in the Surrey Pension Fund.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee notes the report.

Next steps:

None.

57/15 SURREY PENSION FUND ACCOUNTS 2014/15 [Item 10]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Accountant introduced the accounts and the audit findings.

- 2. It was queried why Note 24 had been signed off by the actuary. The Deputy Chief Finance Officer explained that the sign off used to be removed from the Note but the external auditor had advised that this should be retained.

Actions/Further information to be provided:
None.

Resolved:
That the Surrey Pension Fund Committee:

- 1. Notes and approves the financial statements.
- 2. Notes the content of the Audit Findings for Surrey Pension Fund Report.
- 3. Notes the Letter of Representation.
- 4. Notes the External Auditor’s Report.

Next steps:
None.

58/15 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 11]

Declarations of interest:
None.

Key points raised during the discussion:

- 1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report.

Actions/Further information to be provided:
None.

Resolved:
That the Surrey Pension Fund Committee:

- 1. Approves the Revised Statement of Investment Principles.
- 2. Notes the existing Core Belief Statement.

Next steps:
None.

59/15 PENSION FUND RISK REGISTER [Item 12]

Declarations of interest:
None.

Key points raised during the discussion:

- 1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report and highlighted the new entry at number 25 regarding the Local Pension Board. He also informed the committee that, following suggestions at the previous meeting that the risk score regarding uncertainty about possible UK withdrawal from the EU was too high, the score had been reduced.

Actions/Further information to be provided:
None.

Resolved:

That the Surrey Pension Fund Committee notes the revised Risk Register.

Next steps:

None.

60/15 CORPORATE GOVERNANCE SHARE VOTING [Item 13]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, highlighting that it had been a very busy period.
2. Members asked, with regard to times when we had voted against management on remuneration, whether we knew what action had been taken. The Strategic Finance Manager (Pension Fund & Treasury) explained that it was unlikely that a majority had voted against management. The Fund's vote is just registered as a mark of protest. However, the Chairman pointed out that the Surrey Pension Fund was also part of the Local Authority Pension Fund Forum which gives it greater influence.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee notes the report.

Next steps:

None.

61/15 EXCLUSION OF THE PUBLIC [Item 15]

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 Schedule 12A of the Act.

62/15 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW [Item 17]

It was agreed to take item 17 next as Peter Stanyard would be leaving shortly.

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report. The committee asked a number of questions which were responded to by the officers present, before moving to the recommendations.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee:

- i. Notes the current position on the Fund's Private Equity investment performance.
- ii. Continues to commit to draw downs of the existing private equity schemes, and submit new opportunities to the Surrey Pension Fund Committee to consider.

Next steps:

None.

63/15 PENSION FUND COST BASE: DEEP DIVE REVIEW [Item 16]

The committee's external advisors, the Surrey Pension Fund Advisor, the Mercer representative and the Hymans actuary, left the meeting at 2pm prior to the start of the committee's consideration of item 16.

Declarations of interest:

None.

Key points raised during the discussion:

1. The Chairman thanked Stuart Selleck and Tim Evans for this work on the review.
2. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report and tabled some further information, attached as a confidential annex to the Minutes.
3. The committee asked a number of questions which were responded to by the officers present.

Peter Stanyard left the meeting at 2.25pm, while the discussion was ongoing.

4. The Strategic Finance Manager (Pension Fund & Treasury) reminded the committee that the Fund's investment consultancy will shortly be subject to tender review under the LGPS National Frameworks portal and it was suggested that a shortlist would be brought to committee in due course at a special meeting (**Recommendation tracker ref: A15/15**).

Actions/Further information to be provided:

A shortlist of investment consultants would be brought to committee in due course at a special meeting.

Resolved:

That the Surrey Pension Fund Committee:

- i. Notes the report.
- ii. Approves the proposed, revised fees reference the investment managers of the pension fund.

Next steps:

None.

64/15 PUBLICITY FOR PART TWO ITEMS [Item 18]

RESOLVED: That items considered under Part 2 of the agenda should remain confidential and not be made available to the press and public.

65/15 DATE OF NEXT MEETING [Item 19]

The date was noted.

Meeting ended at: 2.55 pm

Chairman

Document is Restricted

This page is intentionally left blank