



The Surrey Local Pension Board 23 April 2018

Summary of the Pension Fund Committee meeting(s), 9 February 2018 and 26 March 2018

Recommendations:

1. The Board is asked to **note** the content of this report.

Detail:

Introduction

2. The Pension Fund Committee met on 9 February 2018 and 26 March 2018. This report provides a summary of these meetings and any resolutions made.

9 February 2018

Local Pension Board report

3. The Pension Fund Committee (Committee) received the report from the Local Pension Board (Board) including the following recommendations:
 - There be a further review of the appropriateness of current“ performance aspiration” and “tolerable” performance standard;
 - An additional line be added to the Administration Performance Report (APR) to allow the measurement of the timeliness of pension strain recharge to employers;
 - A further categorisation between the types of ill-health cases be added to the APR;
 - A review of the Communications Strategy be added to the Report Forward Plan of the APR

The Committee approved all the recommendations

Amendments to the Investment Strategy Statement (ISS)

4. The Committee noted changes to the ISS to take account of the introduction of an equity protection strategy in the portfolio.

Pension Fund Business Plan 2018/19

5. Officers noted that the key objectives of the business plan were broken down into several key areas of focus: Administration, Communications, Actuarial/Funding, Governance, Financial and Risk Management and Investment. These would be augmented by a high level mission statements that would be added to the Committee forward plan for June 2018.
6. The Committee adopted the 2018/19 Business Plan.

Corporate Governance Share Voting

7. Officers noted that there had been no significant changes to the Corporate Governance Share Voting scheme since it was last reviewed by the Committee. Members recognised that the version that they had approved previously was adequate and that there were no mitigating circumstances to suggest that the Committee review the scheme.

Cashflow analysis

8. The Committee noted the following:
 - Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid;
 - 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 half-yearly (quarters two-three) cash-flow for the Surrey Pension Fund shows positive cash flow of £3,787,703 as follows;
 - The Fund actuary, Hymans Robertson, analysed the future cash-flows of the Fund assuming three different membership scenarios with the associated conclusions:
 - Using membership as at the 2016 valuation the Fund is expected to be cash-flow positive until 2023/24;
 - Assuming a 10% decrease in active membership from the 2016 valuation the Fund is expected to be cash-flow positive until 2021;
 - Assuming a 20% decrease in active membership from the 2016 valuation the Fund is expected to become cash-flow negative almost immediately.

The Committee resolved that a regular update be provided to the committee on a quarterly basis including a breakdown of key risks and a detailed list of scenario plans.

Risk Register(s)

9. The review of the risk register during the preceding quarter has not led to any adjustments to the existing risk ratings or mitigation actions.
10. The Committee resolved that future risk registers be initially reviewed by the Board and contained within the quarterly Board Report to the Committee.
11. The Committee requested that the Board add to their forward plan consideration of how the risks are measured and whether the weighting is appropriate.

Manager Issues and Investment Performance

12. The Committee noted the Fund's advisor John Harrison, had been appointed as interim Chief Investment Officer for BCCP Ltd and that Anthony Fletcher, also of Allenbridge, will deputise as the Independent Advisor for the Fund.
13. The Committee resolved to approve the recommendation to switch the Fund's remaining investment grade credit allocation in to the existing multi-asset credit (MAC) mandate. This recommendation was endorsed by the Fund investment consultant, Mercer, who noted that this would not materially increasing risk relative to liabilities. This increases the target allocation to MAC from 4.4% to 9.7% of total assets
14. The Committee resolved to approve the recommendation to switch off the Fund's gilt trigger as monitored by Legal and General Investment Managers (LGIM), due to the change in the Fund discount rate to one measured by consumer prices index rather than gilts.
15. The Committee noted the total value of assets at 31 December 2017 as £4,109.5m, meaning the Funding level was 101%.

Investment Strategy Review

16. The Committee resolved:
 - To approve the future implementation of the equity protection strategy;
 - That further work be carried out by officers and Mercer on reviewing the equity portfolio strategy (including the current balance between passive/active and global/UK equities, the currency hedge and the allocation to carbon based assets).

26 March 2018

Appointment of Fund Actuary

17. The Committee noted and approved the assessment criteria by which an actuary may be appointed. All vendors were assessed in the following three areas:
 - The quality of the mini competition submissions;
 - The price quoted for actuarial services in the submission pack; and
 - The presentation and interviews to members of the Committee and officers on 14 March 2018.

Each assessment category is assigned a percentage weighting. The individual category weightings are set out below:

- Quality (40%);

- Price (30%);
- Presentation/Interview (30%).

18. The Committee approved the re-appointment of Hymans Robertson as the Fund actuary, as the supplier that achieved the highest score, on a 6 year contract with an option to extend for 1 year, with effect from May 2018, in line with the LGPS Frameworks document.

Extension of Downside Equity Protection

19. The Committee noted the progress in Phase 2 of the strategy which included the extension of the protection to active developed market global equities (£731m) through a Qualifying Investor Alternative Investment Fund (QIAIF).

20. In addition the existing passive equity protection contracts within the Client specific Unitised Fund (CSUF (£531m)) were transferred to the QIAIF.

21. The Committee resolved against extending the downside protection to UK equities (passive or active) unless the following criteria was met:

- An acceptable put spread between 70-90 and 75-90
- A minimum upside call of 101%
- The weighted basket of indices must be within 5% of the 28 November 2017 levels (as measured by Mercer/LGIM).

Report contact: Neil Mason, Head of Pensions (Investments, Funding & Governance)

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk