

**MINUTES** of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 14 September 2018 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting on 16 November 2018.

**Elected Members:**

\*Present

- \* Mr Tim Evans (Chairman)
- \* Mr Ben Carasco (Vice-Chairman)
- \* Ms Ayesha Azad
- \* Mr John Beckett
- \* Mr David Mansfield
- \* Mrs Hazel Watson
- \* District Councillor Tony Elias
- \* Borough Councillor Ruth Mitchell

**In attendance**

Nick Harrison, Chairman of Surrey Local Pension Board

**44/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Councillor Tony Elias.

The Chairman welcomed Councillor Ruth Mitchell the new borough/district representative on the Committee.

**45/18 MINUTES OF THE PREVIOUS MEETING: 8 JUNE 2018 [Item 2]**

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

**46/18 DECLARATIONS OF INTEREST [Item 3]**

There were none.

- The Committee received a presentation from the Local Authority Pension Fund Forum on corporate governance and corporate social responsibility.

**47/18 QUESTIONS AND PETITIONS [Item 4]**

1. The Committee received three questions from members of the public and responses were tabled at the meeting (attached as **Annex 1**).
2. Mr Richard Essex submitted a following supplementary question in response and it was noted that a response would be provided in writing after this meeting.

**48/18 ACTION TRACKER AND FORWARD PLAN [Item 5]****Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions  
Sharmina Ullah, Democratic Services Assistant

**Resolved:**

Members noted and approved the action tracker and forward plan.

**49/18 INVESTMENT MANAGER ISSUES, PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 6]****Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions

**Key points raised during the discussion:**

1. The Chairman agreed to take this item into Part 2 and exclude the public under Section 100(A) of the Local Government Act 1972, 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.
2. Officers summarised the recommendations and the Committee agreed to share them in Part 1.
3. It was highlighted that the global equity mandates in particular the global equity portfolio had become overweight (£75m) due to strong returns. Officers brought forward recommendations to rebalance the equity holdings.
4. Officers assured the Committee rebalancing the portfolio was a risk management exercise and would reduce exposure in line with the ongoing strategy.
5. It was highlighted that although the report indicated under performance amongst some fund managers this was quarter one and performance had gradually improved for quarter three.

**Resolved:**

The Pension Fund Committee;

1. Noted the report
2. Authorised officers to rebalance the equity holdings by disinvesting £50m from Marathon and £25m from Newton, and investing the £75m proceeds into Western MAC portfolio.
3. Authorised officers to invest £20m of the current surplus internally managed cash into the MAC fund managed by Western. In combination with the above, this will bring that fund broadly into line with its target.
4. Authorised officers to top-up the allocation from current surplus internally managed cash Baillie Gifford to bring it in line with its target. (c£10m).
5. Noted the changes in the Asset Allocation Update (Investment Manager Issues – Annex 1) to now include 5% Private Equity Allocation Policy, in line with ISS.
- 6.

#### **50/18 PRIVATE EQUITY INVESTMENT: PERFORMANCE REVIEW [Item 7]**

##### **Declarations of interest:**

None

##### **Witnesses:**

Neil Mason, Head of Pensions

##### **Key points raised during the discussion:**

1. The Chairman agreed to take this item into Part 2 and exclude the public under Section 100(A) of the Local Government Act 1972, 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.
2. Officers summarised the recommendations and the Committee agreed to share them in Part 1.
3. The Head of Pensions advised the Committee that to ensure that the Fund remained consistent to its target asset allocation of 5% to private equity, regular investments had to be considered.
4. It was highlighted that Mercer had produced a report recommending a theme of private equity for new investment and suggested a list of defined characteristics that would be desirable.
5. It was noted that future allocations would be made through the Border to Coast Partnership however in the meantime officers including the Fund's advisors supported an additional commitment to a new fund during 2018.

6. It was explained that a new commitment was time sensitive and Members were asked to delegate the selection of an appropriate strategy to the Chairman, Officers and advisors, with an update to be provided at the Committee's next meeting on 16 November 2018.
7. The Committee reviewed the fund status of fund managers and asked officers to explain the life cycle of investments. Officers clarified the following terms;
  - Value creation – all monies drawn
  - Investing – monies still being drawn
  - Distributing – monies fully drawn and being returned
  - Fully realised – monies fully returned
8. The Chairman advised that fund managers were monitored and were recently interviewed with the exception of Livingbridge and HgCapital.

**Resolved:**

The Pension Fund Committee;

1. Noted the Fund's Private Equity holdings, respective funds investment performance and review from the Fund's investment consultant and independent investment adviser.
2. Agreed the Fund continue to drawdowns of the existing private equity schemes, and consider new opportunities to the Pension Fund Committee for approval as and when they realise.
3. Approved the recommendations of the Fund's investment consultant, Mercer, to invest a further £30-£40m in new private equity fund with its defined characteristics.
4. Approved for officers to work with Mercer and the independent advisor to research the market for appropriate private equity providers with these defined characteristics and bring a further recommendation to the Pension Fund Committee.

**51/18 CORPORATE GOVERNANCE SHARE VOTING [Item 8]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions

**Key points raised during the discussion:**

1. The Committee were provided with a summary of the Fund's share voting proves in Q1 of 2018/19 ( 1 April 2018 to 30 June 2018).

2. The report also included a class action against BHP who is a firm Surrey had invested in.

**Actions/ further information to be provided:**

None

**Resolved:**

The Pension Fund Committee noted the report.

**52/18 CASHFLOW ANALYSIS [Item 9]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions

**Key points raised during the discussion:**

1. The Committee received a cash-flow analysis for quarters four (2017/18) to quarter one (2018/19) (1 January 2018 – 30 June 2018).
2. It was noted that the Surrey Pension Fund showed positive cash flow.

**Actions/ further information to be provided:**

None

**Resolved:**

The Committee noted the cash-flow position for quarters four and one.

**53/18 VALUATION REPORT 2019 [Item 10]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions  
Gemma Sefton, Hymans Robertson

**Key points raised during the discussion:**

1. The Committee welcomed the new Fund actuary representative from Hymans Robertson and thanked the former Fund actuary Barry McKay for his contribution.

2. It was noted that the next triennial valuation was scheduled for 31 March 2019 and Hymans had produced a draft project plan with 6 months still available to refine it.
3. The Committee received a presentation on the investment strategy and were asked to consider moving from one investment strategy for all employers to multiple strategies to better suit groups of similar employers.
4. It was highlighted that this approach would produce better funding outcomes for employers, reduce risk to the fund, increase flexibility for setting funding plans, keep pace with other Funds in LGPS and would meet the increasing needs of employers.
5. Hymans Robertson informed the Committee that Cheshire had completed one full cycle with this approach and it had worked well.
6. Members were advised that although extra costs were involved in this complex work, assurance was given that these costs provided long term value.
7. It was noted that there was no significant implications as there would be no material change for a long period of time.
8. To support further understanding the Chairman asked officers to explain the current strategy and the proposed strategy in an update report for a future meeting.

**Actions/ further information to be provided:**

None

**Resolved:**

The Pension Fund Committee to receive an update report including a summary on the existing strategy and the proposed way forward.

**54/18 GOVERNANCE REVIEW [Item 11]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions

**Key points raised during the discussion:**

1. It was highlighted that there have been several major changes within the LGPS and that these changes required a review of the governance of the Fund.

2. The Committee noted that three sections of the proposed scope of the governance review; Overview, Background and Review.
3. Under the Review section Members asked officers to consider a revision to 'Decisions' to include 'prudent'.
4. The Committee agreed that the Surrey Local Pension Board could monitor and review the progress of this work.

**Actions/ further information to be provided:**

None

**Resolved:**

The Committee agreed for officers to undertake a governance review and procure specialist governance advisors to assist with this review.

**55/18 ANNUAL REPORT/ STATEMENT OF ACCOUNTS [Item 12]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions  
Mamon Zaman, Senior Accountant

**Key points raised during the discussion:**

1. The Committee noted the error reported under the membership section, officers were asked to amend David Mansfield political party to Conservatives.
2. Officers highlighted further discrepancies on page 159, 262 and 264 and tabled revised copies at the meeting.
3. Officers asked the Committee to consider using electronic copies of the Annual report/ Statement of Account at future meetings to support the Council's bid to reduce the reliance on paper.
4. The Committee agreed to add a recommendation to commend the Pension Fund team's performance this current year.

**Actions/ further information to be provided:**

None

**Resolved:**

The Pension Fund Committee,

- a) Noted and approved the Annual Report for publication subject to audit approval.

- b) Noted the contents of the 'External Audit Findings for Surrey Pension Fund' Report which reviewed the Pension Fund Statement of Accounts 2017/18.
- c) Noted the Letter of Representation with regards to the Surrey Pension Fund Statement of Accounts.
- d) Recognised the good work carried out by the Pension Fund team under the Head of Pensions.

## **56/18 LOCAL PENSION BOARD REPORT [Item 13]**

### **Declarations of interest:**

None

### **Witnesses:**

Nick Harrison, Chairman of the Surrey Local Pension Board  
Clare Chamber, Pensions Service Delivery Manager

### **Key points raised during the discussion:**

1. The Committee welcomed the new Pensions Service Delivery Manager to the meeting. The Local Pension Board Chairman congratulated the Chairman of the Committee on his appointment as the newly elected Vice-Chairman on the Border to Coast Pension Partnership (BCPP) Joint Committee.
2. The lack of resource and employer data concerns were highlighted as issues faced by the service. There was a discussion around how work was being carried out to address these issues.
3. It was noted that the Local Pension Board recommended a further review of the appropriateness of current "performance aspiration" and "tolerance" performance standard in an effort to introduce a target that would work best. The Pensions Service Delivery Manager highlighted that the service was also in the process of re-structuring teams to focus on improving these statistics.
4. The Board recommended that the new risk of change in Section 151 Officer should be added to the register.
5. There was a discussion around the Guaranteed Minimum Pension (GMP) reconciliation project and the Committee were recommended to obtain expert legal advice when deciding how to tackle returns.

### **Actions/ further information to be provided:**

None

### **Resolved:**

The Pension Fund Committee,

- a) Considered the recommendations from the Local Pension Board in regards to the Administration Performance Report.
- b) Updated the Local Pension Board on the current position regarding pension member representation in the BCPP governance structure.
- c) Approved the recommendation of the Board that the new risk of change in Section 151 Officer should be added to the register.
- d) Concluded that there were no reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.

#### **57/18 EXCLUSION OF THE PUBLIC [Item 14]**

**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**

#### **58/18 NATIONAL POOLING UPDATE [Item 15]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Head of Pensions

**Key point raised during the discussion:**

1. The Chairman agreed to take this item into Part 2 and exclude the public under Section 100(A) of the Local Government Act 1972, 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.
2. The Head of Pensions introduced the report by informing the Committee that the Border to Coast Pension Partnership (BCPP) had now launched and plans were underway to transition the Surrey Pension Fund portfolio of UK equity to the BCPP, subject to satisfying the “necessary conditions” outlined in Annex 1 attached to the report.
3. It was noted that a due diligence meeting would take place on 3 October with Surrey Pension Fund Officers, Mercer and the independent advisor.

4. Following the transition of the UK equity, the Head of Pension advised that the global mandate was the Committee's next area of significant review.
5. Members commented on paragraph 24 and asked the Head of Pensions to report on the information left out in error.

**Resolved:**

The Pension Fund Committee,

- a) Noted the report and progress made towards satisfying the "necessary conditions" of governance required to enable the transition of the UK equity portion of the Surrey Pension Fund portfolio to the BCPP.
- b) Reaffirmed the approval given at its meeting of 8 June 2018 to delegate authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the UK equity portion of the Surrey Pension Fund portfolio to the BCPP, assuming that the "necessary conditions" of governance have been satisfied.

**59/18 PUBLICITY OF PART 2 ITEMS [Item 16]**

The Committee agreed to share the recommendations of Part 2 items for public publication.

**60/18 DATE OF NEXT MEETING [Item 17]**

The Surrey Pension Fund Committee noted its next meeting to be held on 16 November 2018.

Meeting ended at: 12.42 pm

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**Chairman**