

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 7 June 2019 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:

- * Mr Tim Evans (Chairman)
- * Mr Ben Carasco (Vice-Chairman)
- * Ms Charlotte Morley
- * Mr John Beckett
- * Mr David Mansfield
- * Mrs Hazel Watson

Co-opted Members:

- * Borough Councillor Ruth Mitchell, Hersham
- * District Councillor Tony Elias, Bletchingley and Nutfield
- * Margaret Janes, Employers
- * Philip Walker, Employees

In attendance:

Nick Harrison, Chairman of the Surrey Local Pension Board

17/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

None received.

18/19 DECLARATIONS OF INTEREST [Item 2]

None received.

19/19 MINUTES OF THE PREVIOUS MEETING: 8 FEBRUARY 2019 [Item 3]

The minutes were approved as an accurate record of the meeting.

20/19 QUESTIONS AND PETITIONS [Item 4]

Six questions were received from members of the public. Responses can be found as an annex to these minutes.

Supplementary questions were asked from five members of the public and verbal answers were provided.

Meeting was adjourned at 10:25 am due to disruptive behaviour.

21/19 FORWARD PLAN [Item 5]

Key points raised during the discussion:

Meeting resumed at 10:40 am.

Resolved:

The Committee reviewed its forward plan.

22/19 COMPANY ENGAGEMENT & VOTING [Item 6]**Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)
Mamon Zaman, Senior Accountant

Key points raised during the discussion:

1. The Chairman introduced the report and explained that the Committee took seriously all environment, social and governance (ESG) issues. He said that it was reasonable for people to query what had come out of the engagement the Fund had been involved in and that this was one of the questions the report attempted to address.
2. The Committee heard from the Strategic Finance Manager, who directed Members' attention to the section on the Border to Coast Pensions Partnership (BCPP) Climate Change Working Party. These laid out the considerations the Surrey Pension Fund (the Fund) were working on and offered an explanation for its policy of engaging rather than divesting. The Responsible Investment Policy of Border to Coast was adopted by the Fund. This is reviewed annually and any future changes would be brought to the Committee.
3. A discussion was had about the Fund's voting record, with a Member asking for more detailed information to be provided about the impact and outcome of each vote. The Senior Accountant highlighted the fact that the success of the Fund's voting varied depending on the specific resolution and that paragraph 25 of the report mentioned votes that had been defeated.

Actions/further information to be provided:

The Committee is to be provided with a list of the individual votes that the Fund has been involved in.

Resolved:

The Committee:

1. Noted the main findings of the report, the outcomes achieved for the quarter ending 31 December 2018 by Robeco/LAPFF, by engaging with multinational companies on various ESG issues.
2. Noted the findings from the Fund's share voting process for the quarter ending 31 March 2019.
3. Noted the ESG outcomes achieved by Fund managers.
4. Reaffirmed focus on ESG issues and the Fund's policy on engagement.

23/19 EXCLUSION OF THE PUBLIC [Item 7]

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.

24/19 INVESTMENT STRATEGY REVIEW [Item 9]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
 Steve Turner, Mercer
 Anthony Fletcher, Independent Advisor
 Nick Harrison, Chairman of the Surrey Local Pension Board

Key points raised during the discussion:

1. The Committee heard from the representative from Mercer, who directed their attention to the illustrative portfolio graphics outlined in the Part 2 report and explained the proposed investment strategy.
2. A discussion was had about a training session on illiquid assets that would be conducted before the next Committee meeting on 13 September 2019. The Strategic Finance Manager informed the Committee that this would take place in either July or August and Members would be invited to attend.
3. The representative from Mercer introduced the proposed strategy pie chart included in the report and ran through the key considerations outlined.
4. The representative from Mercer confirmed to a Member of the Committee that the expected return outlined in the proposal had taken into account costs and fees expected.
5. The Chairman of the Surrey Local Pension Board questioned what progress had been made with regards to the potential introduction of employer-related investment strategies. In response, the Strategic Finance Manager explained that strategies had been agreed by the Committee. The shape of the proposed strategies would become apparent after the end of year valuation and contributions had been agreed with employers, and the plan was to bring this to the Committee for approval later in 2019.
6. A discussion was had about the formulation of the percentage allocations outlined in the illustrative portfolio proposals. The representative from Mercer told the Committee that changes had been made in an attempt to keep the return the same as the current strategy.

Actions/further information to be provided:

The Strategic Finance Manager is to organise a training session on illiquid assets before the next Committee meeting on 13 September 2019.

Resolved:

The Committee:

1. Noted the initial work carried out by officers and the Investment Consultant, Mercer, on reviewing the investment strategy.
2. Gave approval for officers, Mercer, the Independent Advisor and the Chairman of the Committee (and other members of the Committee, if

deemed appropriate) to continue work on this review. Formal recommendations will then be put forward to the Committee at its meeting on 13 September 2019.

25/19 2019 VALUATION ASSUMPTIONS [Item 10]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
John Wright, Hymans Robertson
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The representative from Hymans Robertson introduced the report and explained to the Committee that there was no clear evidence to justify a change in the discount rate.
2. Discussing longevity assumptions, the representative from Hymans Robertson informed the Committee that these were the same as at the last valuation. The rate of improvement in population life expectancy had slowed down since then but was improving amongst pension contributors.
3. A Member of the Committee questioned how often longevity was reviewed to work out figures and was told by the representative from Hymans Robertson that this was done at the time of the valuation for the purposes of the Fund but that data was provided from private sector schemes on a yearly basis. The Chairman added that the Continuous Mortality Investigation (CMI) was constantly carrying out analysis to see what changes were occurring.
4. Responding to a question about what impact an increase in certainty would have on expected return, the representative from Hymans Robertson explained that more certainty would be achieved by a lower risk investment strategy with lower investment return, but that this could result in higher contributions from the Fund's employers. The Independent Advisor then spoke about the fact that the scheme is approximately 93% funded and that the aim was to make sure that they did not need to go back to employers in the future for higher contributions.

Actions/further information to be provided:

None.

Resolved:

The Committee approved the recommended actuarial assumptions to be used by the actuary in the 2019 valuation.

26/19 BORDER TO COAST UPDATE [Item 11]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Andrew Stone, Border to Coast

Key points raised during the discussion:

1. The Committee viewed a presentation from the representative from Border to Coast.
2. In response to a question about the development of the ESG strategy, the representative from Border to Coast told the Committee that this was ongoing and would take into account all of the investment decisions.
3. The Chairman asked whether managers were specifically asked about ESG issues and was told that this formed a section of the questions and was part of the due diligence before sign off.
4. A discussion was had about the references to “necessary conditions” in the recommendations for the Committee. The Strategic Finance Manager agreed to share the related papers with Members.

Actions/further information to be provided:

The Strategic Finance Manager is to provide the Committee with the necessary conditions papers.

Resolved:

The Committee agreed the recommendations outlined in the Part 2 report.

27/19 PUBLICITY OF PART 2 ITEMS [Item 12]

The Committee agreed that the Part 2 items remain confidential and restricted from the public.

28/19 GOVERNANCE REVIEW [Item 13]**Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)
Ian Colvin, Hymans Robertson

Key points raised during the discussion:

1. The representative from Hymans Robertson introduced the report and ran the Committee through its main points. He explained that the governance arrangements of the Fund were strong, with experienced and engaged members and officers committed to driving things forward, but that there were still steps that could be taken to further improve governance.
2. The Committee heard that one of the key goals of the governance review was to produce a mission statement that would boil down the Fund’s objectives to a core philosophy. The proposed statement tried to capture what shone through from the previous discussions that were had and the work that Hymans Robertson had undertaken.
3. The representative from Hymans Robertson explained that the nine recommendations for the Fund were outlined on page 252 of the report and that these had been linked to the outlined business plan. He went on to tell the Committee that the Fund had in place all the mandatory policies but some needed to be refreshed and revisited to make sure it had adequate oversight.

4. The Strategic Finance Manager discussed the diagram on page 230 and informed the Committee that it outlined four clear, stakeholder-led objectives that informed the business plan. This would act as a representation of the way in which the Committee wanted to see the Fund operate.
5. A discussion was had about the mission statement, with Members approving its overall message but suggesting changes to the wording used. The following suggestions were put forward:
 - A stronger word than “strives” needed to be used, as it was an implicit admission that the Fund would like to achieve the outlined goals but were not doing so.
 - The phrase “by creating” indicated that the “strong partnerships” mentioned by the mission statement were not yet established.
 - It would be better to refer to “ESG considerations” rather than “ESG factors”.
 - “Risk management” needed to be moved to start of the final sentence.
 - “LGPS” and “ESG” should be referred to in full rather than through the use of acronyms.
 - There was a discussion around whether “ESG factors are fundamental to our approach” should be reworded to “ESG factors are fundamental to our approach to investment”.
6. Discussion turned to the delivery objectives detailed on page 229, with a Member of the Committee questioning how these were measured. In response, the representative from Hymans Robertson said that this would take place through member surveys, workshops and any comments submitted to the Surrey Local Pension Board.

Actions/further information to be provided:

The Strategic Finance Manager is to circulate the reworded version of the mission statement to the Committee for approval.

Resolved:

The Committee:

1. Noted the governance report and recommendations from Hymans Robertson and agreed that the recommendations are included in the 2019/20 Business Plan.
2. Approved the mission statement for the Fund subject to rewording and subsequent sign off.
3. Approved the objectives for the Fund with regards to investments, funding, governance and delivery.
4. Approved the 2019/20 Business Plan.

29/19 PENSION FUND ACCOUNTS 2018/19 [Item 14]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
Anna D'Alessandro, Director of Corporate Finance

Mamon Zaman, Senior Accountant
John Wright, Hymans Robertson

Key points raised during the discussion:

1. The Chairman questioned the information provided on page 323 that related to the “actuarial present value of future retirement benefits” and was told by the Strategic Finance Manager that the Committee had always seen the accounts but this was the first time it had seen them before the external audit had taken place. The Director of Corporate Finance also explained that she felt it was right for Members to see the difference between the draft and final versions as the role of the Committee was to be custodians of the Fund.
2. The Senior Accountant informed the Committee that the main changes had been summarised in the covering report under the ‘Summary of Findings’ heading. The officer went on to explain that the Fund had transitioned its first asset to Border to Coast and made improvements in terms of timing and efficiency in producing the accounts.
3. Responding to a question about the deadline for approving the accounts, the Senior Accountant informed the Committee that this would take place at the end of July 2019.
4. It was agreed that the recommendation should be amended to explicitly mention that the accounts had been presented to the Committee in draft form.

Actions/further information to be provided:

None.

Resolved:

The Committee approved the draft 2018/19 Pension Fund Accounts, subject to an unqualified opinion issued by audit.

30/19 LOCAL PENSION BOARD REPORT [Item 15]

Witnesses:

Nick Harrison, Chairman of the Surrey Local Pension Board
Andrew Marson, Pensions Lead Manager
Anna D’Alessandro, Director of Corporate Finance

Key points raised during the discussion:

1. The Committee heard from the Chairman of the Surrey Local Pension Board (the Board), who presented a summary of the administration and governance issues reviewed by the Board at its last meeting on 25 April 2019. He ran through the key issues that the Board had considered, which included the Pensions Administration problems highlighted at the last meeting of the Committee, the processing of death cases, the reconciliation project and the contract entered into with Jardine Lloyd Thompson to handle the backlog processing.
2. The Chairman of the Board informed the Committee that the Board had received a positive report on the annual benefit statement and that officers were on track to meet the 31 August 2019 deadline.

3. Members were directed to paragraph 19 of the report, which dealt with the Administration Risk Register and the changing of many residual risks from amber to green. The Chairman of the Board explained that there were plans in place to remedy the problems and that this had resulted in these risks being reduced from ratings of 3 to 2. However, he asked the Committee to treat this with caution as there was still work to do.
4. The Pensions Lead Manager stated his agreement with the points made by the Chairman of Board. He told the Committee that Pensions Administration was in a phase of stabilisation and recovery, and that this would be the case for the next 12 to 15 months.
5. A discussion was had about the Chartered Institute of Public Finance and Accountancy benchmarking report after a Member of the Committee expressed their concern that the cost per member remained below average. The Chairman of the Board suggested that underinvestment could have affected the quality of the service. However, he went on to explain that the number of complaints received from members had remained at a low level despite the problems exhibited.
6. The Director of Corporate Finance informed the Committee that it would receive further clarity on the standards of pension administration later in 2019, as Internal Audit would be undertaking a follow-up review in the autumn.

Actions/further information to be provided:

An update on the Internal Audit follow-up review is to be added to the Committee's forward plan.

Resolved:

The Committee:

1. Approved the recommendations from the Board.
2. Noted the progress and developments in improvements in the Pension Administration department, but also noted that the service improvement plan is in its infancy.
3. Endorsed relying on the legal opinion on the recovery of overpaid guaranteed minimum pensions prepared by Squire Patton Boggs for the Local Government Association.
4. Agreed that there are currently no projects or processes that the SLPB should be commissioned to undertake on behalf of the SPFC.

31/19 ADMINISTRATION MONITORING REPORT [Item 16]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Strategic Finance Manager explained to the Committee that he had undertaken constructive meetings with the Pensions Lead Manager and that the Pension Fund and Pension Administration teams were now meeting on a monthly basis.

2. The Committee also heard about the introduction of new metrics for KPIs and that progress against project milestones and business as usual performance would be reported to the Surrey Local Pension Board on a quarterly basis.

Actions/further information to be provided:

None.

Resolved:

The Committee noted the content of the report and approved the monitoring approach of the Fund.

32/19 PENSION FUND BUSINESS PLAN 2018/19: OUTTURN REPORT [Item 17]

Witnesses:

Neil Mason, Strategic Finance Manager (Pensions)
 Andrew Marson, Pensions Lead Manager
 Nick Harrison, Chairman of the Surrey Local Pension Board

Key points raised during the discussion:

1. The Strategic Finance Manager introduced the report and highlighted the key areas of interest. The Committee heard that Items 7, 8 and 11 were partial achievements but that the Strategic Finance Manager had received assurance that Items 7 and 8 were in the project plan and that the Pensions Fund department were working with the Pensions Lead Manager. With regards to Item 11, he informed the Committee that the statutory deadline was not met due to employers failing to engage sufficiently with the Fund but that they were on course to make the deadline for all benefit statements that year.
2. The Committee heard from the Pensions Lead Manager, who explained that Pensions Administration were focusing on improving engagement with employers, timeliness of returns and the accuracy of the provided information. He went on to say that at the time of the publication the Pensions Administration update report noted that 216 out of 276 returns had been received from scheme employers but that there were now just six outstanding.
3. The Chairman of the Surrey Local Pension Board raised the issue of missing addresses for deferred members and explained that close attention needed to be paid to the problem.

Actions/further information to be provided:

None.

Resolved:

The Committee noted the achievements and progress made with regards to the Business Plan objectives shown in respect to the 2018/19 financial year and approved the outturn report.

33/19 MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) - STATUTORY GUIDANCE ON ASSET POOLING [Item 18]**Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Strategic Finance Manager expressed to the Committee the importance of the proposed changes to the current statutory investment pooling guidance outlined in the report and explained that both a response by the Border to Coast Joint Committee and an individual response on behalf of Surrey County Council from the Executive Director of Finance had been issued to MHCLG after consultation with the Chairman of the Committee.
2. The Committee heard about concerns that the government seemed to use passive funds as a default for the way adjusted returns are measured. A well-researched response to a previous government consultation had been issued by LGPS funds on this question.
3. The Strategic Finance Manager informed the Committee that he had recently found out that a follow-up consultation was going to take place.

Actions/further information to be provided:

None.

Resolved:

The Committee noted the report and annexes.

34/19 CASHFLOW ANALYSIS [Item 19]**Resolved:**

The Committee:

1. Noted the cash-flow position for quarters three and four.
2. Determined that no change was required to the investment or funding strategy as a result of the current cash-flow position.

35/19 DATE OF NEXT MEETING [Item 20]

The next meeting of the Surrey Pension Fund Committee will take place on 13 September 2019.

36/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 8]**Witnesses:**

Neil Mason, Strategic Finance Manager (Pensions)
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Strategic Finance Manager introduced the Part 2 report to the Board and provided it with a summary of manager issues, an update on investment performance and the values of assets and liabilities.
2. Responding to a question from a Member of the Board, the Independent Advisor discussed the Manager Review Meeting of 26 April 2019 in more detail.
3. Referring to the information outlined in one of the tables included in the report, the Chairman asked that the reporting format was reviewed. Officers agreed to action this in consultation with the Chairman.

Actions/further information to be provided:

Officers are to meet with the Chairman to consider the format of future investment performance reports.

Resolved:

The Committee noted the main findings of the report.

Meeting ended at: 1:28 pm

Chairman

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SURREY PENSION FUND COMMITTEE – 7 JUNE 2019**PROCEDURAL MATTERS – QUESTIONS****1. Question submitted by Kathy Higham**

As a resident and contributor to a Surrey Pension Fund I would like to know what percentage of this fund is being directly invested into renewable energy investments and ethical organisations?

Reply:

The Surrey Pension Fund currently invests £18,490,322.34 in the Capital Dynamics Clean Energy and Infrastructure Fund (with a commitment to a further £675,000), £10,596,907.25 in the Pantheon infrastructure fund (with a commitment to a further £46,712,000) and has a commitment of £40,000,000 in the Glennmont Clean Energy fund. It also invests £352,108,754 into the LGIM passive low carbon index tracker.

Our Low Carbon and Infrastructure Funds combined therefore make up 8.9% of our current Total Fund Value.

The Fund's policy on environmental, social and governance issues can be found in the Surrey Pension Fund's Investment Strategy Statement and also its policy on responsible investment.

This can be found at: <https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf>

2. Question submitted by Stephen McDonald

Last week, climate movement history was made. On Friday, hundreds of thousands of students went on strike in over 1600 cities across the globe to demand bold steps to prevent climate breakdown. We are leaving it up to our children and teenagers to take actions whilst so called responsible adults in power seem oblivious to see the problem and continue, as the Surrey Pension Fund does, to invest c. £140m in climate wrecking fossil fuels. Whilst it is accepted that there is a fiduciary duty to seek strong investment returns – which to my knowledge has never been questioned – the moral implications of your irresponsible actions are rapidly being communicated across the county, as you are no doubt aware, and reflect on individual Trustees, the Pension Fund Committee as a whole and Surrey County Council, as was made very clear last week at the full Council meeting. When will the Trustees finally get the message and remove all direct investments in this industry?

3. Question submitted by Chris Neill

As a Surrey resident concerned about the climate crisis I am appalled at the Surrey Pension Fund in continuing to invest £145m directly into the fossil fuel industry. Given that the international scientific community has declared that we have less than 12 years to change course in order to avoid an ecological catastrophe, and given that the UK parliament has now declared a climate emergency, will the Committee confirm that it will take urgent and immediate steps to divest this very large sum of money from the fossil fuel industry and to invest it instead in infrastructure for renewable energy?

4. Question submitted by Barry Staff

With parliament declaring a climate emergency and implementing policies to achieve a carbon neutral economy before 2050, what are you doing to dissuade the fossil fuel industries that you continue to invest in to desist from exploring for new oil reserves to exploit in the future?

5. Question submitted by Jeannette Bayliss

What is the earliest date by which it is technically and legally possible to divest pension fund monies from the fossil fuel industry, and what is your timetable for doing so?

COMBINED RESPONSE TO QUESTIONS 2-5:

Questions 2-5 address the same central theme of whether the Surrey Pension Fund considers a policy of divestment as the most effective way of managing its Environmental, Social and Governance (ESG) policy, specifically in relation to the issue of climate change.

The Surrey Pension Fund fully supports and incorporates ESG issues when making investment decisions. ESG includes a whole range of factors, including climate impact.

This is evident in the Fund's current investment in Private Equity Infrastructure funds, such as Capital Dynamics Clean Energy, Pantheon and Glennmont, in addition to the Fund's planned commitment to infrastructure through Border to Coast Pensions Partnership.

However, we believe that the best way to help influence ESG is through engagement and not divestment.

Divestment is a blunt tool. If this course of action is taken, management of these companies will not change and it may be counter-productive if a company is taking action to transition to a more sustainable model. In addition, if company valuations get lower, then private companies may be encouraged to enter the market. These buyers could potentially be more profit related and transparency could be diminished.

We will generally not divest from companies exclusively on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance and environmental policies by constructive shareholder engagement and the use of voting rights.

An example of the success of this approach was evidenced in December 2018 when our asset pool, Border to Coast's engagement partner, Robeco and Shell announced a joint statement with investors on how they would move forward. In March 2019, Shell announced their three-year target to reduce their net carbon footprint (NCF) by 2%-3% compared to 2016 and linking this to executive remuneration. They also announced that they will cease membership of American Fuel and Petrochemical Manufacturers and have started engagement with nine other industry bodies. Robeco believes that Shell now leads the sector in terms of planning and positioning for the energy transition and plans to ask other companies to follow suit.

Other examples include:

- BP have agreed to back a shareholder resolution – they have committed to reducing emissions but still need to demonstrate the strategy to investors
- Glencore have also committed to cap coal production
- VW have made a complete turnaround – now largest investment on electric vehicles. Battery-electric vehicles will be their focus. They have persuaded the VDA, the German Association of Automotive Industry, to do so too

This is not to say that there must be a process and clear policies in place if a company does not act; divestment is the final action. Institutional investors should use their voting policies wisely to effect change by voting against the Chair or other members of the board. This is the best way as a responsible investor to achieve the goals that we set.

Engagement is an ongoing process and we always have the power to withdraw and re-engage at a later stage if the company improves.

The Quarterly Company Engagement and Voting Report summarises the engagement work the Fund has carried out, in addition to its Fund managers, BCPP, Robeco and the Local Authority Pension Fund Forum. The BCPP Climate Change Working Party is also doing work to understand how best to incorporate climate risk into its investment decision making.

Please refer to Committee meeting minutes on the Surrey County Council website to view previous and upcoming Company Engagement reports:

<https://mycouncil.surreycc.gov.uk/ieListMeetings.aspx?Committeeld=334>

Please also refer to the Surrey Pension Fund website to view the Surrey Pension Fund's Investment Strategy Statement and also its policy on Responsible Investment:

<https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf>

6. Question submitted by Ruth Allen

I would like to know what interests, if any, are held by the members of the Pensions Committee, as well as any fund managers brought in to oversee this fund. This refers to interests in fossil fuel companies or other investments, shares and interests in companies that may have a stake in the continued use of fossil fuels.

Reply:

Members of the Surrey Pension Fund Committee are required to regularly register their interests, and details of these can be found on the Surrey County Council website:

<https://mycouncil.surreycc.gov.uk/mgDeclarationsHome.aspx>

Likewise, our investment managers, consultants, actuaries and advisors are obliged to comply with the rules of various regulatory bodies, including the Financial Conduct Authority and MiFID II. These have prescribed rules regarding conflicts of interest including a requirement to produce and maintain a conflicts of interest policy.

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