



Surrey Local Pension Board 24 October 2019

Summary of the Pension Fund Committee meeting of 13 September 2019

Recommendations:

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

Detail:

Introduction

1. The Pension Fund Committee met on 13 September 2019. This report provides a summary of this meeting and any resolutions made.

Forward Plan

2. The latest approved Pension Fund Committee Forward Plan is shown as Annex 1.

Local Pension Board report

3. The Pension Fund Committee (Committee) received the report from the Local Pension Board (shown as Annex 2).
4. The Chairman of the Surrey Local Pension Board introduced the report and explained to the Committee that one of the Board's main concerns over the previous year had been the key performance indicators (KPIs). The Board, alongside the pensions administration and pensions fund teams, were in the process of refining those.
5. The Chairman went on to discuss the backlog of work that currently existed and told the Committee that it amounted to more than one years' worth. He informed the Committee that a letter had been written to the Cabinet member responsible for Orbis and the Section 151 Officer outlining concerns. The Section 151 officer had issued a response, who committed to remedying those issues in his response, and a project had been put in place by the pensions administration department.

6. The Committee also heard about the work the Board had done on the risk register. The Chairman noted that, given the scale of the issues, risk ratings for administration matters are high and will remain so until evidence was received of implementation of improvements.
7. The Pensions Lead Manager endorsed the Chairman of the Surrey Local Pension Board's summary and explained to the Committee that they were in a healthy position now the size of the task was known. It was acknowledged that it would take time to deal with the issues but officers were optimistic.
8. Responding to a question from a Member of the Committee about future changes would be made to the administration of pensions, the Pensions Lead Manager explained that a significant part of the plan was to not only address the legacy issues but to make sure the administration service was fit for purpose, ready for the future and resilient.
9. A Member of the Committee questioned whether the 31 August 2019 deadline for benefit statements had been met and was told by the Pensions Lead Manager that it had.
10. The Committee resolved the following:
 - Approved the following governance steps in order to expedite progress of the Administration Service Improvement Plan and provide appropriate assurance:
 - i) Pension Administration officers are to provide cost estimates to Pension Fund officers for each project in the Administration Service Improvement Plan.
 - ii) Pension Fund officers are to set out and agree with Pension Administration officers the appropriate assurances in support of the projects in the Administration Service Improvement Plan.
 - iii) The Business Case for the Administration Service Improvement Plan is to be written and agreed by the Pension Administration officers and Pension Fund officers.
 - iv) Authorisation of the Business Case is to be delegated to officers (including the Director of Corporate Finance) in consultation with the Chairman of the Surrey Pension Fund Committee and the Chairman of the Surrey Local Pension Board.
 - Approved proposed changes to the risk register, as noted in the Risk Register section of the report.

Company engagement and voting

11. The Strategic Finance Manager informed the Committee that the Climate Change Working Party had met that week and had engaged with the Head of Pensions for the Church of England. The Fund's approach to ESG is broadly consistent with that of the Church of England. Officers were in the process of drawing conclusions from these sessions, and these would be brought to the Committee in December 2019. This would include a re-drafting of the BCPP responsibility policy.

12. The Committee resolved the following:

- The Surrey Pension Fund Committee reaffirmed that ESG factors are fundamental to the Fund's approach, consistent with the Mission Statement through:
 - Becoming a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD) with the objective to begin to report against its disclosures for the 2019/20 Annual Report
 - Commending the outcomes achieved for the quarter ending 30 June 2019 by Robeco in their Active Ownership approach and the LAPFF in its engagement with multinational companies as at 31 March 2019
 - Noting the positive results achieved in relation to ESG issues, through the Fund's share voting for the quarter ending 30 June 2019
 - Supporting the work carried out by BCPP as well as its Climate Change Working Party in understanding climate change risk, and the outcomes achieved by Fund managers during the quarter ending 30 June 2019

Draft annual report and audited statement of accounts

13. The Senior Accountant introduced this report.

14. The Committee heard from the Chairman of the Surrey Local Pension Board, who explained that his statement had been sent to officers and would be shared with Members after the meeting.

15. The Committee resolved the following:

- To note and approved the Draft Annual Report with the Audit Pension Fund Accounts for publication, subject to audit approval and any recommended alterations.
- To note the content of the 'External Audit Findings for Surrey Pension Fund' report, which reviewed the Surrey Pension Fund Statement of Accounts 2018/19.
- To note the Letter of Representation with regards to the Surrey Pension Fund Statement of Accounts.

Governance compliance statement

16. The Surrey Pension Fund Committee noted the amendments to the Compliance to Statutory Guidance Statement and the Governance Policy Statement. These were concerned with a change in description of the S101 committee from the Pension Fund Board to the Pension Fund Committee.

Ministry of Housing, Communities and Local Government (MHCLG) – Consultation on changes to the local valuation cycle and the management of employer risk

17. The Committee heard from the Strategic Finance Manager, who ran through the MHCLG consultation (available at <https://www.gov.uk/government/consultations/local-government-pension-scheme->

[changes-to-the-local-valuation-cycle-and-management-of-employer-risk?=7](#)), which proposed amendments to the local fund valuations from the current three-year cycle to a four-year cycle. The Fund did not believe that a persuasive business case had been set out by the Government regarding these proposed changes.

18. The Strategic Finance Manager went on to explain that the second area of proposed amendments was concerned with flexibility on exit payments. The proposals would allow the Fund to have more flexibility on how these payments were received and, from the view of the Fund, this is a positive develop for scheme employers and the Fund.
19. Discussing the proposals for policy changes to employers required to offer LGPS membership, the Strategic Finance Manager outlined the changes being considered and explained that the Fund had responded to the consultation noting that cash flows may end up being reduced and that the affected employers, by ending their intake of new members, would be accelerating their point of maturity. The Fund was wary this could bring about a situation where there were separate pension rights for the same set of employees.

Scheme Advisory Board review of governance

20. The report on governance from Hymans Robertson noted that the consensus from survey responses was that existing structures were satisfactory provided the Fund was ring-fenced from the wider Council, provided that the Section 151 Officer was given the necessary support and ongoing training to understand their role as lead officer of the Fund.
21. The Scheme Advisory Board has invited the Hymans Robertson project team to assist the Secretariat in taking forward the next stage of the good governance project. Two working groups will be established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The aim is for an options report to be ready for the Board's consideration when it meets in November.

New Surrey Pension Fund logo

22. The Pension Fund Committee approved the new Surrey Pension Fund logo and its alignment with the Fund's Mission Statement, approved on 7 June 2019 and shown below:



Surrey Pension Fund

- > Oak leaves represent growth, Surrey's nature
- > Two leaves overlaid to represent partnership
- > Blue gives corporate and traditionally 'financial' feel, green represents Surrey – brighter shades give more modern feel
- > Slab-serif font to feel strong, solid, reliable and traditional yet fresh
- > **Fresh**
- > **Modern**
- > **Growth**
- > **Partnership**

2019 Valuation update

23. The Committee heard from the Fund actuary, who provided an update on the delivery of the 2019 actuarial valuation and highlighted the next stages.
24. The Fund actuary explained that the Fund was 96% funded, with much of that being as a result of asset returns.
25. The Committee heard that conversations would be had with employers about multiple investment strategies and that the intention would be that no one would be moved without their understanding. There was a need to be pragmatic and proportionate to make sure everything had an appropriate award for employers and that different funding objectives were kept in mind.
26. In response to a query from the Committee regarding the experience of other LGPS Funds who had employed similar strategies, the Strategic Finance Manager agreed to include case studies in the funding strategy statement paper.
27. The Pension Fund Committee resolved to:
 - Note the progress on the delivery of the 2019 actuarial valuation of the Pension Fund.
 - Approve for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers.

Cashflow analysis

28. The Committee noted the cash-flow position for quarters four and one and determined that no change was required to the investment or funding strategy as a result of the current cash-flow position.

Investment strategy review

29. The Strategic Finance Manager explained that the investment strategy review built on the draft report that had been brought to the last meeting regarding changes in the asset allocation. The investment consultant, Mercer, noted the further work being done with Border to Coast regarding the development of a regional global equity fund.
30. The Committee were asked to consider the future of the equity protection strategy. The Strategic Finance Manager explained that the issue being considered was an extremely complex one and that the establishment of a working group was recommended due to the limited time available for discussion in a formal Committee meeting.
31. The Pension Fund Committee resolved to:
- Approve the proposed changes to the asset allocation.
 - Authorise officers to work with the independent advisor, investment consultant and Border to Coast to explore a solution incorporating a regional/GDP based approach to global equities including additional allocation to emerging market equities.
 - Approve the convening of and delegation of authority to an investment sub-committee in respect of the decisions regarding the continuation of the equity protection strategy. This sub-committee will include members, officers and advisors and will consider options regarding the equity protection strategy, including:
 - Renew the entirety of the protection
 - Renew a portion of the protection
 - Cease equity protection when the current contract expires

National Pooling Update

32. The Committee were provided with details of the meetings and calls with BCPP, since the last Committee meeting. These included the Climate Change Workshops and Joint Committee meeting of 7 June 2019.
33. The Chairman of the Surrey Pension Fund Committee was congratulated on his re-election as the vice chairman of the BCPP Joint Committee.
34. The Committee were given information on the progress towards compliance with the “necessary conditions” of governance for transition to the BCPP Global Alpha fund, which had now largely been met. This included a letter of suitability from the investment consultant, Mercer, who have provided a detailed Investment Due Diligence paper.
35. In accordance with recommendations in the Investment Strategy Review papers, the Committee were asked to approve for officers to work with the investment consultant, independent advisor, partner funds and BCPP to develop a global equity sub-fund based on regional allocations and with an additional allocation to emerging market equity.

36. A BCPP Regional fund in combination with BCPP's Global Equity Alpha fund seeks to serve the dual purpose of producing an equity allocation that is more in-line with the sources of global growth than a purely market cap weighted global equity fund. The allocation will seek to reduce the overall exposure to the expensive US market and increases exposure to faster growing Asian and Emerging markets.
37. The Committee were given information on the compliance with the "necessary conditions" of governance for Infrastructure within the BCPP Alternatives investment proposition and that a commitment consistent with the Surrey Pension Fund target asset allocation (c£100m) to Infrastructure can commence.
38. The Committee we given information of the Private Credit alternatives sleeve designed within the BCPP Alternatives investment proposition and were asked to approve (subject to meeting necessary conditions prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation (c£100m).
39. The Pension Fund Committee resolved to:
- Approve for officers to work with the investment consultant, independent advisor, partner funds and BCPP to develop a global equity sub-fund based on regional allocations and with an additional allocation to emerging market equity, consistent with the revised investment strategy.
 - Approve (subject to meeting necessary conditions prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation (c£100m) to Private Credit within the BCPP Alternatives investment proposition.

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Annexes:

Annex 1 – Pension Fund Committee forward plan

Annex 2 – Local Pension Board committee report

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