



## **The Surrey Local Pension Board 13 February 2020**

### **Summary of the Pension Fund Committee meeting of 20 December 2019**

#### **Recommendations:**

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

#### **Detail:**

##### **Introduction**

2. The Pension Fund Committee met on 20 December 2019. This report provides a summary of this meeting and any resolutions made.

##### **Local Pension Board report**

3. The Pension Fund Committee (Committee) received the report from the Local Pension Board (shown as Annex 1).
4. The Chairman of the Local Pension Board introduced the report noting that the programme of work for the pension administration team, included in the Service Improvement Plan and in business as usual, was substantive. He highlighted that adequate training resources for the administration team remained a concern. The Chairman of the Committee stressed that the Committee would help offer support where required.
5. The Chairman of the Local Pension highlighted the red risk affecting staff retention within the Administration Risk Register on the move of County Hall. In response to a Member's query on the risk grading, he stated that the inherent risk was graded red, however, he acknowledged that the residual risk could move from red to amber as alternative arrangements are being sought and the administration team is expected to remain in a location close to County Hall. The Strategic Finance Manager (Pensions) added that the location for the Pension Administration team was being addressed in consultation with Property Services.

6. The Committee resolved the following:

- Note the progress of the administration service improvement plan II (SIP2).
- Approve the draft Administration Strategy allowing for consultation with scheme employers.
- Approve the draft Service Specification between the Pension Fund and the Pension Administration service.
- Approve the proposed change to the risk register, as noted in the Risk Register section of the report.
- Note the minutes of the Local Pension Board meeting of 24 October 2019 (as amended in the supplementary agenda).

#### **Scheme Advisory Board (SAB) Review of Governance in the LGPS**

7. Details were provided to the Committee on Phase II of the governance review commissioned by the SAV (shown as Annexe 2). These included the following:

- General:
  - MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
  - Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).
  - Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
- Conflicts of interest:
  - Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
  - The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision-making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
- Representation:
  - Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
- Knowledge and understanding:
  - Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

- Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
  - Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
  - CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
- Service delivery for the LGPS function:
    - Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.
    - Each administering authority must publish an administration strategy.
    - Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
    - Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
    - Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of the pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pension functions.
  - Compliance and improvement:
    - Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
    - LGA to consider establishing a peer review process for LGPS Funds.
8. The Committee were provided with information on the work that the Fund is doing in conjunction with its governance consultant Hymans Robertson, on compliance and future proofing the Fund going forward, in order to develop Phase III of the Fund's 'Good Governance' report.

### **Company engagement and voting**

9. The Senior Pensions Finance Specialist highlighted the progress made by the five-year initiative, Climate Action 100+ which operated across six different industries - not just fossil fuel industries - to facilitate low carbon transition.
10. The Chairman referred to positive progress by the largest steel manufacturer in the world, Arcelor Mittal in reducing its carbon usage and Glennmont Partners' recent investment in a 36 megawatt onshore wind farm in Italy.

11. The Committee resolved the following:

- Reaffirm that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through;
- Commend the outcomes achieved for quarter ending 30 September 2019 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 September 2019.
- Note the outcomes in relation to ESG issues, through Surrey Pension Fund's share voting for the quarter ending 30 September 2019.
- Support the work carried out by Climate Action 100+ in their engagement on ESG issues, and Darwin on their strong Environmental Credentials.

### **2019 Valuation update**

12. The Strategic Finance Manager (Pensions) informed Members of the significant changes from 2016 to the Funding Strategy Statement (FSS):

- That colleges and higher education institutions were affected due to the decrease in their recovery periods – similar to private companies.
- The previous distinction between multi-academy and single academy trusts had been removed.
- Actuarial improvements were not expected to return to employers due to the McCloud judgement.
- The early cessation of admission bodies had been included.
- Tailored employer investment strategies would be brought to the Committee in March 2020 for approval, the Fund was working on its draft strategies with its investment consultant, Mercer and its governance consultant, Hymans Robertson prior to consultation with scheme employers.

13. The Chairman of the Local Pension Board expressed satisfaction that the Surrey Pension Fund were moving away from a single investment strategy as that issue had been raised by the Local Pension Board.

14. The Vice-Chairman queried whether officers could advise on anything controversial in the report. In response the Strategic Finance Manager (Pensions) noted that officers were already in consultation to explore solutions to the issues affecting colleges and higher education institutions, while this could be of material consequence to these institutions, they were not material to the Fund as a whole.

15. The Pension Fund Committee resolved to:

- Approve the draft Funding Strategy Statement (FSS) to enable it to be shared with scheme employers in a 30 day consultation.

### **Cashflow analysis**

16. The Pensions Finance Specialist explained that the contributions received and net cash-flow were significantly higher in quarter two than quarter one.
17. The Chairman stressed that the six month period between quarters did not generate a detailed trend so suggested a cash-flow analysis covering an eighteen month period. The Strategic Finance Manager (Pensions) responded that a more comprehensive report on the benefits paid, the contributions received and the Fund's cash-flow scenario with illiquid investments would be provided to the Committee next year.
18. The Chairman queried the large increase in deferred members between quarter one and quarter two and in response the Pensions Service Delivery Manager acknowledged that the approximately 3,000 difference in deferred members was due to the backlog being processed and would continue to steadily increase as well as the contributions from deferred pensions.
19. The Vice-Chairman suggested the addition of a third recommendation to include more a detailed cash-flow analysis over a longer period of time and specific targets set in relation to the processing of the Fund's membership, the contributions received and benefits paid out.
20. The Pension Fund Committee resolved to:
  - Note the cash-flow position for quarters one and two.
  - Determine that no change was required to the investment or funding strategy as a result of the current cash-flow position.
  - Agree for a detailed cash-flow analysis over a longer period of time and specific targets set in relation to the processing of the Fund's membership, the contributions received and benefits paid out.

### **Competitions and Markets Authority (CMA) Investment Consultant Objectives**

21. The Senior Pensions Finance Specialist reported that the draft Strategic Objectives identified by the Fund for its Investment Consultants formed the basis of scoring upcoming tenders for the Investment Consultant.
22. The Chairman questioned if the Strategic Objectives applied to the Independent Advisor. In response the Independent Advisor stated that the Strategic Objectives acted as a guideline for him and that other local authorities had set objectives that mirrored their Investment Consultants.
23. The Strategic Finance Manager (Pensions) explained that the Fund's Investment Consultant was up for retender next year with a review by the Competition Markets Authority (CMA), which would be discussed in conjunction with the Fund's Independent Advisor.
24. The Vice-Chairman sought clarification on the more detailed interaction between the Committee and Fund with the Independent Consultants in practice and how the Fund could be more informed on its more technical applications. In response, the Chairman proposed that the Committee add to the recommendation its request for

further development of the draft Strategic Objectives to set out more specific interactions between the Fund and its Investment Consultants.

25. The Investment Consultant (Mercer) informed Members that from a technical perspective the Committee were asked to approve the draft Strategic Objectives which would then be sent to the Fund's Investment Consultants (Mercer). That would then allow the Fund to accept advice from Mercer from January 2020 in order to develop those Strategic Objectives further.
26. The Pension Fund Committee resolved to:
  - Approve the Draft Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements.
  - Request further development of the draft Strategic Objectives to set out more specific interactions between the Fund and its Investment Consultants.

### **Responsible Investment Policy (RIP) Review**

27. The Strategic Finance Manager (Pensions) explained that the BCPP's Responsible Investment Policy 2020 and Corporate Governance and Voting Policy represented the joint agreement with the twelve partner funds. In addition to those documents, Surrey Pension Fund identified the need for a Committee sub-group on the Fund's own approach towards Responsible Investment - as indicated in the third recommendation. The sub-group would clearly express the Fund's core beliefs on Environmental, Social and Governance issues (ESG) and Members of the Committee had been invited to be a part of it.
28. The Chairman questioned how far the Fund would go on the Spectrum of Capital with the use of its capital to deliver Responsible Investment. In response, the Strategic Finance Manager (Pensions) commented that an independent Engagement Specialist to support the work of the sub-group and measure the Fund's performance against the United Nations Sustainable Development Goals (SDGs) was being employed and the Fund were committed to ensuring it addressed Environmental, Social and Governance issues (ESG).
29. The Pension Fund Committee resolved to:
  - Note the results of the ShareAction survey regarding the Fund's approach to Responsible Investment and Climate change.
  - Approve the revised BCPP Responsible Investment (RI) Policy 2020 and Corporate Governance & Voting Guidelines 2020.
  - Approve for a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:
    - The Fund's development of its own definition of Responsible Investment.
    - The Fund's positioning of Responsible Investment in its Core Investment Beliefs.
    - The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets.

- The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP.
- The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM).
- Reaching a recommendation on the position of The Fund on the Spectrum of Capital.
- Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs), carried out by an independent provider.

### **Investment manager Issues and Performance and Asset/Liabilities Update**

30. The report showed the quarterly summary of the funding level over the last three year.
31. The Strategic Finance Manager (Pensions) noted that investment performance and risk reporting was discussed at the Border to Coast Officer Operations Group meeting earlier in December. As a result, Surrey Pension Fund officers were working closely with the Performance Manager at BCPP to establish performance and risk reporting templates that would provide the Pension Fund Committee with more useful management information.

### **Private Market Assets Review**

32. Members query the illiquidity of the new Private Credit class of assets and if the Fund was recommended to put more money into Border to Coast than individual managers, the Independent Advisor explained that it was beneficial to invest in Private Credit due to higher returns and often individual managers charged higher fees so investment through BCPP was more cost efficient.
33. It was noted that the Fund could still partake in one-off investments - rather than solely investing through BCPP - due to the Fund's retention of miscellaneous allocation to private markets in its asset allocation.
34. Allocation to the Private Market has increased within the Fund's portfolio.
35. BCPP has an experienced and more resourced team than Surrey to spot enterprising investment managers across the Private Market.
36. It was noted that some private market assets, such as private equity and infrastructure, have an investment J-Curve effect. This means that returns are limited in early years as capital is paid out to make investments, cover associated transaction costs and pay management fees.

### **Border to Coast Update**

37. The recent completion of the Fund's partial transition to a BCPP global equity fund was highlighted. It was noted that unusual circumstances surrounding the transition as the target portfolio value increased significantly during the transition period. This

meant that, while there was a high level of implementation shortfall, the Fund was not only able to recoup all transition costs during the period of transition, but, also increase net value compared to performance of the legacy portfolio.

38. All the necessary conditions before investment in the new asset class of Private Debt.
39. The Investment Consultant informed the Committee that the long term investment in illiquid assets such as Private Debt was no longer as expensive as when the Fund investigated this asset class in the past, as a result of the Fund's cost-efficient partnership with BCPP. The fund was also able to access the specialist investment resource of the BCPP investment team.
40. On the question of savings made from pooling it was stated that it was too early to judge as it would take a few years to assess cost savings.
41. The Strategic Finance Manager (Pensions) noted that the Fund would have a clearer indication of the Government's direction of travel in the New Year and that the priority of pooling was to get enhanced risk-adjusted returns with competitive transition and management charges across a wide range of assets.

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**Sources/background papers:**

**Annexes:**

1. Local Pension Board committee report
2. Scheme Advisory Board Review of Governance in the LGPS (Phase II) report