

SURREY COUNTY COUNCIL**LOCAL PENSION BOARD****DATE:** 18 FEBRUARY 2022**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF FINANCE,
CORPORATE AND COMMERCIAL**SUBJECT:** SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF
10 DECEMBER 2021**SUMMARY OF ISSUE:**

This report provides the Local Pension Board (the Board) with a summary of any Surrey Pension Fund Committee (the Committee) meetings held since the last meeting of the Board.

RECOMMENDATIONS:

It is recommended that the Board:

Note the content of this report and make recommendations to the Committee if appropriate.

REASON FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme (LGPS) Regulations and requirements imposed by the Pensions Regulator. This report provides the Board with insight into the activities of the Surrey pension function and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

DETAILS:**Background**

1. The Committee met on 10 December 2021. This report provides a summary of this meeting and any decisions made.

Local Pension Board report

2. The Committee received the report from the Board (shown as Annexe 1).
3. The Board report provides a summary of administration and governance issues reviewed by the Board at its last meeting for noting or action by the Pension Fund Committee.
4. The Chairman of the Board presented the report, highlighting a number of key areas:
 - a) Turnaround programme was now in Phase 2 and emphasised that it was an extensive exercise over a long period of time.

- b) The Board will work with officers to improve presentation of Administration performance statistics.
 - c) Board noted 2020/21 Annual report and Accounts.
 - d) Officers undertook considerable review of risk registers.
 - e) The chairman urged the Committee to look at the papers that went to the Board at its meeting of 11 November 2021, which were available online.
5. Pension Fund Committee chairman stated the importance of the move to a sovereign status and stressed the substantial challenges ahead with regards to annual programme and McCloud. The chair thanked the Board for their detailed monitoring.
6. The Committee resolved the following:
- a) To approve the proposed change to the risk register, as noted in the Risk Register section of the report.

Forward plan

7. The Committee noted the 2021/22 Forward Plan for the Committee. The Forward Plan is included as Annexe 2.

Investment core beliefs and the United Nation's Sustainable Development Goals (UN SDGs)

8. At its meeting of 10 September 2021, the Pension Fund Committee approved the proposed structure for a standalone Responsible Investment (RI) Policy and authorised sub-committee to work with officers, Minerva and investment consultants to progress on drafting a RI policy.
9. The investment consultant highlighted the discussion and recommendations from the first sub-committee meeting on 19th November.
- a) Transitioning from RAFI multi-factor and low carbon indexed equity assets to the Future World Fund will ensure the Fund is more closely aligned with Sustainable Development Goals. The transition will also achieve 20% reduction in carbon footprint across the equity portfolio.
 - b) Taskforce for Climate Related Financial Disclosures (TCFD) metrics will allow committee to measure scope 1 & 2 carbon emissions. Mercer introduced high-level analyses and recommended the following metrics:
 - i- Absolute greenhouse gas (GHG) emissions: likely market standard to report on total GHG emissions;
 - ii- Weighted Average Carbon Intensity (WACI): average exposure (weighted by portfolio allocation) to GHG emissions normalised by a factor such as enterprise value or revenue.
 - iii- Implied Temperature Rise (portfolio alignment): seeks to consolidate the carbon reduction and net zero targets of issuers in whom the Fund is invested into a forward-looking measure of exposure to climate related risks and their ability to capitalise on opportunities in the low carbon transition.

- c) The first two metrics are backward looking and use past data. Forward looking is an area that is growing in terms of the data available as companies are reliant on external parties and the one selected by Mercer is Implied temperature rise.
 - d) A proposed objective is to increase over time the proportion of the assets which the Committee have high quality and robust data in order to calculate the metrics. At present, such metrics are widely available for listed equities, but data for other asset classes such as bonds and private market assets is in progress. By engaging with managers, and making it clear that we expect data availability to improve over time, we expect to be able to improve measurement over time.
10. The Assistant Director explained that in terms of next steps, the officers will liaise with Mercer and once data is available a meeting with subcommittee will be organised and further recommendations will be brought forward to committee.
11. The Committee resolved the following:
- a) Notes the progress of the sub-committee on drafting a Responsible Investment Policy for further consideration.
 - b) To approve officers to work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to establish a total emissions and weight adjusted carbon intensity (WACI) for backward looking metrics and portfolio aligned, implied temperature rise for forward looking metrics in respect of the Fund's Taskforce for Climate Related Financial Disclosures (TCFD) report.
 - c) Approve for officers to work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to model a low carbon transition plan, applying scenario analysis using the agreed TCFD metrics based on dates of 2030, 2040 and 2050.
 - d) Supports the revised Border to Coast Responsible Investment (RI) Policy 2022 and Corporate Governance and Voting Guidelines 2022, subject to the continuing work between the Fund and Border to Coast to align our approaches consistent with the Fund's standalone Responsible Investment Policy currently in design stage.

Company engagement and voting

12. The report summarised the various Environmental Social & Governance (ESG) engagements that the Fund, Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in.
13. The Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide BCPP's voting and engagement services so acts in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 11 partner funds within the Pool.
14. The Committee resolved the following:
- a) That ESG Factors were fundamental to the Fund's approach was

confirmed as consistent with the Mission Statement through;

- i- Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment, referenced in the Investment Core Beliefs & SDG Mapping report.
 - ii- Acknowledging the outcomes achieved for quarter ending 30 September 2021 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 September 2021. A working group had been set up to continue this work going forward, of which the Fund has chosen to participate in going forward.
- b) That the LAPFF be invited to speak at a future meeting.
 - c) That Robeco information be attached as an appendix to future reports to the Committee.
 - d) Further information is provided on votes against management, including details of the vote and the outcome.

Competitions and Markets Authority (CMA) Investment Consultant Objectives

- 15. The Assistant Director explained that Competition Markets Authority (CMA) requires review of strategic objectives for the Investment Consultant (IC) at least every three years. Although it is a good practice to review IC performance annually. An independent review wasn't carried out as Fund reappointed current IC Mercer and the procurement exercise provided a good opportunity to test their investment capabilities. However, further work will be carried in next financial year.
- 16. The Committee resolved the following:
 - a) That the Strategic Objectives for Investment Consultants of the Fund is line with CMA Requirements be noted.
 - b) That compliance against the strategic objectives by the Investment Consultant provider for 2021 be noted.
 - c) That the submission of the CMA Statement and Certificate for 2021 be approved.

Investment Strategy Review

- 17. The Assistant Director presented the project plan for the investment strategy review. It was highlighted that investment strategy will be reviewed in line with 2022 Actuarial valuation and that RI aspects will be incorporated into the investment strategy review.
- 18. The Assistant Director also explained that decisions from 2019 were still being implemented and reiterated the length of time it could take to implement changes to the asset allocation.
- 19. The Committee resolved the following:
 - a) To approve the high-level project plan for the Investment Strategy Review.

Investment and funding report

- 20. The main findings of the report were that the Fund's value as at 30 September 2021 was £5.257bn and its liabilities were £4.756bn, making the funding level 110%.

21. Cash flow also remains positive. Half-yearly (quarters one-two) cash-flow is +£13,346,365.
22. The Senior Pensions Finance Specialist highlighted that in October 2021, the Fund transitioned assets from Franklin Templeton and Western Multi Asset Credit (MAC) to Border to Coast Multi Asset (BCPP) Credit Fund. The Fund was also in process of transiting assets from Diversified Growth Funds, which includes Aviva, Ruffer and Baillie Gifford to Border to Coast.
23. The Committee resolved the following:
- a) That a briefing note be provided to the Committee on stock funding, namely how it works and the benefits and risks of doing so.

Border to Coast update

24. The Committee noted the following:
- a) Meetings since the last Pension Fund Committee meeting of 10 September.
 - b) Border to Coast Joint Committee (JC) meeting of 23 November 2021;
 - c) Details of the Border to Coast Asset Transfer Planning 2022-25
 - d) Details of changes to key personnel at Border to Coast
 - e) Update on the multi-asset transition
 - f) Update on the UK Equity Alpha Fund
 - g) Update on the Alternatives Series 2 launch, including climate opportunities.

CONSULTATION:

25. The Chairman of the Local Pension Board has been consulted on this repo

RISK MANAGEMENT AND IMPLICATIONS:

26. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

27. Any relevant financial and value for money implications have been considered and are contained within the report.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL

28. The Director of Finance, Corporate and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

29. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

30. There are no equality or diversity issues.

OTHER IMPLICATIONS

31. There are no other implications.

WHAT HAPPENS NEXT

32. The following next steps are planned:

- a) Further updates will be provided to the Board at its next meeting.

Contact Officer:

Neil Mason, Assistant Director - LGPS Senior Officer

Consulted:

Local Pension Board Chairman

Annexes:

1. Board Report to the Committee meeting of 10 December 2021
2. Committee Forward Plan

Sources/background papers:

1. The revised Investment Strategy Statement
 2. The BCPP website [Border to Coast Pensions Partnership](#)
 3. The BCPP JC website [Browse meetings - BCPP Joint Committee - South Yorkshire Joint Secretariat](#)
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