

SURREY COUNTY COUNCIL**LOCAL PENSION BOARD****DATE:** 26 MAY 2022**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF FINANCE,
CORPORATE AND COMMERCIAL**SUBJECT:** SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF
10 MARCH 2022**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 March 2022. 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) Detailed changes to the risk register and that the registers were to combine service areas into a single register in the future.
 - b) The continual improvement over the last year, including work on clearing of the backlog of work, as part of the Turnaround Programme
 - c) Updates on the work of the internal audit team on the 2021/22 Audit Plan. This includes:
 - i. Altair Application Controls (Reasonable assurance)
 - ii. Key Administrative Processes including those identified by the Pensions Regulator including, but not limited to, retirements, deaths and immediate payments (in progress).
 - iii. Banking controls (to follow).
 - iv. Pension Fund investments (to follow).
 - v. Follow up of the 2020/21 Administration Review (to follow).
 - d) The Chairman stated that the work from the McCloud judgement was a major piece of work that was expected to last two years and thanked the Pension Team for the revamp of the risk register.
 - e) Phase 1 of the Turnaround Programme is now complete and that all staff were now in place for the integrated Pension Team from May 2022.
5. 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.

Ukraine Crisis

5. This report was introduced by the Assistant Director - LGPS Senior Officer as an urgent report and explained that as a result of the situation in Ukraine he had been in consultation with the fund managers, Border to Coast and the Chairman regarding the Committee response. It was explained that the Fund had minimal exposure to Russian/Belarus investments and that it would be impossible to trade these funds. A statement had therefore been drafted for the Committee to approve.
6. The Committee took the supplementary question for Jennifer Condit as this point and she asked that fund members also be kept informed with information updated regularly on the members website. The Chairman stated that that was the intention and whilst £12m was a substantial amount to any person, it was very small in relation to the Fund as a whole.
7. The Committee discussed the statement and possible variations to it. It was recognised that the situation was volatile, and predictions could not be made and there was concern that money should not be thrown away.

8. The Independent Advisor explained that any assets owned as part of passive investment and index driven investment were being excluded from the index and therefore, when it is possible to exercise the option value, they would be removed from the index driven investment and there was no control over this. There were also no control over active managers, but they would be looking at this to improve the situation. If there was any scope for the Committee to recover value, they should do it and spoke of the Committee's fiduciary responsibility. If the Committee chose to ignore that it would need to be documented very carefully.
9. Following advice from the Independent Advisor the Committee discussed further the recommendations and the agreed statement.

Resolved

- a) That the Surrey Pension Fund is aware that there is a high level of interest in our investments in Russia and our response to the invasion of Ukraine.
 - b) That officers will continue to monitor events, in consultation with the Fund's asset managers, consultant and advisors and to keep the committee and fund members informed.
10. That the following statement be agreed in response to the crisis:
* "The Surrey Pension Fund is saddened by and strongly condemn the invasion of Ukraine by Russia. Given the current circumstances we have immediately suspended making any further investments in Russia and Belarus and continue to review our existing investments with a view to exiting in due course as and when markets permit as long as the current circumstance prevail. This is above and beyond the UK sanctions currently in place."

**The Pension Fund Committee is keeping the situation with these assets under review, consistent with its fiduciary duty.*

Responsible Investment Policy

11. The Chairman introduced the report by saying that the sub-committee had met for a second time. Border to Coast had made comments on the current draft version of the policy and other feedback was welcome from the Committee for consideration at the next meeting of the sub-committee. He also stated that in relation to recommendation four, the Taskforce for Climate Related Financial Disclosures would be available in September 2022.

Resolved

- a) That the progress of the sub-committee on drafting a Responsible Investment Policy be noted.
- b) That officers continue to work with the sub-committee, the independent investment advisor, investment consultant, Minerva and Border to Coast

to receive further feedback on the Responsible Investment Policy which has been approved.

- c) Progress has been made on drafting the Fund's Taskforce for Climate Related Financial Disclosures (TCFD) report be noted.
- d) That officers continue work with the sub-committee, the independent investment advisor, investment consultant, Minerva and Border to Coast to receive further feedback on the Fund's TCFD report be approved.
- e) Officers continue to work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to establish a decarbonisation curve that is ambitious enough to align with a 1.5°C scenario above pre-industrial levels, which has been approved.

Pension Team Business Plan 2022/23

- 12. The objectives for the Fund that underpin the Business Plan were noted by the Committee. Revisions and updates will be brought back to the Committee as appropriate.

Company engagement and voting

- 13. The report broke down the roles of Minerva and Robeco in assisting the Pension Team with its engagement responsibilities.

Resolved

- 14. That the Pension Fund Committee reaffirmed ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through;
 - a) Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment.
 - b) Acknowledging the outcomes achieved for quarter ending 31 December 2021 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 December 2021.

Investment Manager issues and Performance and Asset/ Liabilities Update

- 15. The Chairman asked for the report format to be reviewed. Officers to action in consultation with the Chair.
- 16. The Senior Pensions Finance Specialist highlighted the following areas of report:
 - a) The positive cashflow position and being fully funded at over 100% but that this may change this quarter
 - b) The transition from diversified growth fund to the Border to Coast Listed Alternative Fund in February 2022

- c) That the asset allocation in the report was as of 31 December 2021 and were not updated to reflect changes agreed by the Pension Committee at its December 2021 meeting.

Resolved

- a) That the main findings of the report in relation to the Fund's valuation and funding level, performance returns, asset allocation and performance fees be noted.

Investment Strategy Review

17. The Investment Consultant, Mercer, introduced a Part 2 report and described in detail the high level focus areas for the Investment Strategy Review. These were:
- a) High level overview
 - b) Review of equity portfolio construction:
 - i- UK vs Global split
 - ii- Revisit proposed allocation to regional equities
 - iii- Revisit proposed allocation to emerging market equities
 - iv- Consider the pros and cons of passive management
 - c) Review of current hedging policy
 - d) Review of cash-flow position
 - e) Propose to introduce a more intuitive method for re-balancing the asset allocation in line with targets.
18. The Chairman stated the need for a robust strategy and the importance of consultation at least with himself and the Vice Chairman.
19. The Independent Advisor suggested rebalancing on a monthly/quarterly basis due to higher than expected inflation levels.
20. The Assistant Director – LGPS Senior Officer confirmed that there would be meetings to take this forward, outside of the Committee, with relevant partners and officers to which the Chairman and Vice Chairman would be invited.

Resolved

21. That the focus areas for the Investment Strategy review as detailed in this report be noted.
22. That officers work with the Independent Investment Advisor, Investment Consultant, Fund actuary and Border to Coast, in consultation with the Chairman and Vice Chairman, to progress the review in accordance with the high level project plan.

Border to Coast update

23. The Committee considered a Part 2 report that provided an investment and governance update from Border to Coast. Rachel Elwell, Border to Coast gave a presentation to the Committee and responded to Member questions.

Resolved

- a) That the shareholder approval of the Border to Coast Strategic Plan 2022-25 Border to Coast Strategic Plan be noted.
- b) Approves (subject to meeting necessary conditions prior to launch) a 2022 commitment consistent with the Surrey Pension Fund current target alternatives allocation to the Border to Coast Alternatives (Series 2) investment proposition, including a new and additional commitment to the Border to Coast Climate Opportunities Fund of up to 5%.
- c) That compliance with the “necessary conditions” of governance for the Border to Coast Listed Alternatives Fund has been met and that the transition of assets into this sub-fund is in progress be noted

CONSULTATION:

24. The Chairman of the Local Pension Board has been consulted on this report

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL

27. 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

28. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

29. There are no equality or diversity issues.

OTHER IMPLICATIONS

30. There are no other implications.

WHAT HAPPENS NEXT

31. The following next steps are planned:
 - a) Further updates will be provided to the Board at its next meeting.

Contact Officer:

Adele Seex – Governance Manager

Consulted:

Local Pension Board Chairman

Annexes:

1. Board Report to the Committee meeting of 10 March 2022

Sources/background papers:

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