

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 17 June 2022 at Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey ,RH2 8EF.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

(*present)

- * Nick Harrison (Chairman)
- * David Harmer
- * Trefor Hogg (Vice-Chairman)
- George Potter
- * Richard Tear
- * Robert Hughes

Co-opted Members:

- * Steve Williams, Boroughs & Districts
- * Kelvin Menon, Employers
- * Philip Walker, Employees

In attendance

Tim Evans, Independent Chairman for Local Pension Board

21/22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apology was received from George Potter.

22/22 MINUTES OF THE PREVIOUS MEETING [10 MARCH 2022] [Item 2]

The Minutes were approved as an accurate record of the previous meeting.

23/22 DECLARATIONS OF INTEREST [Item 3]

David Harmer declared that he was a member of the pension fund.

24/22 QUESTIONS AND PETITIONS [Item 4]

There were six questions from six members of the public. These and the responses were published as a supplement to the agenda. Supplementary questions and responses included:

1. Ian Chappell asked: Could the committee please give priority to assessing Shell's lack of a serious response to your continuing engagement events over the last five years and initiate an escalation process to show that the committee is adopting a policy of engagement, with teeth?

The Chairman responded that the question had been answered, that the points made were understood and would be raised with investment managers, and engagement would continue.

2. Kevin Clarke asked: At some point in the future, the demand for fossil fuels will reduce to probably nothing - so what is the Surrey pension fund planning or how are they planning to cope with that event?

The Chairman responded that professional advisors were used to managing these type of assets and the issue of the tipping points was understood. It was a risk, but there were other risks, and they all had to be taken into account.

3. Clive Teague asked: Please could the Surrey Pension fund ensure that the Climate Opportunities Fund does not invest in fossil fuel exploration and extraction?

The Chairman responded that in relation to renewables, the Climate Opportunities Fund is one of the funds invested in, but Surrey does not have absolute control over the decisions of the fund manager responsible for this Fund. It was possible there could be some assets with fossil fuel exposure, but the stated intent of the Fund is to explore opportunities for positive climate outcomes. Another Member explained that this topic was discussed at the responsible investment sub-committee and therefore thought this underlined the need for openness and transparency when this came to public debate regarding the Responsible Investment update report later in the meeting. It was agreed that there would be a discussion on whether that report could be taken in Part 1 of the meeting as it arose on the agenda.

4. Jenifer Condit asked on behalf of Lindsey Coeur-Belle: When is this committee going to make a net zero carbon announcement? We are aware that you're working on a responsible investment policy, but it's been some time and even in the announcement there is urgency and or there should be, and will that date be substantially earlier than the 2050 date that was used some years back and is really yesterday's kind of idea and not at all fit for purpose now?

The Chairman responded that a position in relation to a net zero commitment will be part of the responsible investment policy, and this must also be considered in conjunction with the current actuarial valuation concurrent review of the investment strategy. One thing to be done was track a path to net zero. The Chairman did not commit to a date but acknowledged the importance of a net zero pathway.

5. Jenifer Condit asked: My question had to do with carbon finance, specifically the gargantuan lending by the major banks of the world to the fossil fuel industries, which is very much including extraction for new assets and Surrey Pension Fund is in the position of owning shares in most of the largest banks in the world. What is Surrey Pension Fund doing about that as an investor? You have given me a lot of disclosure about activities being undertaken by you and your advisors, and I'm grateful for that. A lot of the activity that you describe is the work of your advisors talking with banks about how banks are talking to their clients about what their clients could do to decarbonize. But the specific and most important question isn't any of that, it's what are the banks doing themselves in their lending book and in other forms of financing to the oil and gas exploration and production companies. Will you ensure that this item, specifically as regards the financing undertaken by banks, is a

significant item on the engagement list of all your engagement advisors going forward and will you consider perhaps urging fund managers to shift some of their bank investments to the better banks?

The Chairman responded that those points were well made and in terms of engaging with banks he had spoken with the Chair of the LAPFF to say the role of banks must be included in their engagement approach. He had also looked at the exclusions in the LGIM Fund and posited that there were probably not enough. The banks were facilitators of much investment in this area.

6. Ian Chappell asked on behalf of Lucianna Cole: Lucianna asked if the fund could regularly disclose details of the Fund's portfolio, particularly given that Border to Coast regularly published their portfolio on their website. It's an extremely useful disclosure and provides transparency of information. Your reply said that you said you would review this request for transparency. Can I just ask therefore, can you please give me a date when you will give a definitive response?

The Chairman responded that he could not give a date but that the information given to Members was regarded as important and the papers for this meeting were in the public domain. He explained that the fund had recently taken on and strengthened its communications and this was an important element of disclosure to members and employers. He gave a commitment that it would be addressed soon.

25/22 FORWARD PLAN AND ACTION TRACKER [Item 5]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer informed the committee that there would be additional items added to the forward plan:-
 - confirmation of responsible investment policy, subject to consultation
 - investment strategy review updates
 - Taskforce for Climate Related Financial Disclosures (TCFD) report

Actions/ further information to be provided:

None.

Resolved:

That the forward plan and action tracker be noted.

26/22 LOCAL PENSION BOARD UPDATE [Item 6]

Speakers:

Neil Mason, LGPS Senior Officer
Tim Evans, Chairman LPB

Key points raised during the discussion:

1. The Chairman of the Local Pension Board gave a brief introduction to a summary report of the Local Pension Board and highlighted the following areas:
 - work undertaken with the risk registers which had been substantially updated
 - most of the Administration items had improved and were moving in the right direction
 - the turnaround programme had progressed into the transformation programme
 - audit reports were expected at the next Board meeting
 - a meeting had been held with officers and the Chairmen of the Board and the Committee to discuss the review of Border to Coast governance.
2. A Member asked a question regarding banking controls and minimal assurance and whether there were issues of risk to Fund assets due to the absence of controls. The LGPS Senior Officer replied that there was no material risk to pension fund assets and that to the issue of internal controls for banking formed part of the Management response to the internal audit report. It had been agreed by senior management of the Council, to transfer all banking controls to direct pension fund control. This transfer was now in transition. The Chairman stated that whilst minimal assurance was a low standard, he was reassured at the recent Audit & Governance Committee, where this was discussed, hearing that auditors were satisfied with progress being made.
3. A query was raised in relation to the information provided about the pensions help desk and a request made for more information on the number of enquires resolved at first point of contact, to include trends and the nature of enquiries. The LGPS Senior Officer responded to this in the wider context and spoke of changes brought about by the transformation programme.
4. The Chairman requested that the Local Pension Board look at the new government dashboard requirements and to put it on the risk register as this seemed a substantial piece of work with relatively short deadlines.
5. A Member stated that he had difficulty making judgments about what investments should be made. He considered this a huge risk, putting huge amounts of resource into businesses directly or indirectly in various ways without really knowing their future performance outcomes. The Chairman stated that employed professional advisors support the Committee/Fund.

Actions/ further information to be provided:

None.

Resolved:

1. That the following changes to the combined risk register be approved:-
 - i. New Risk ID 4A, prior risk ID F16 Added New Responsible Investment Policy for Surrey Pension Fund as planned enhancement.

- ii. New Risk ID 4B, prior risk ID F17 causes changed to include stranded assets, regulatory fines and IPCC 2021 report on Climate change. Impact increased from 3 to 4. Added TCFD report in Enhancements.
 - iii. New Risk ID 5A, prior risk ID F4 Likelihood increase from 1 to 2.
 - iv. New Risk ID 6A, prior risk ID F9 Likelihood reduced from 4 to 3
 - v. New Risk ID 7A, prior risk ID F10 Likelihood increased from 2 to 3.
 - vi. New Risk ID 7C, prior risk ID F15 Likelihood reduced from 2 to 1.
 - vii. New Risk ID 7E, prior risk ID F30 Impact increased from 2 to 3.
 - viii. New Risk ID 10D, prior risk ID A25(new) New risk reflecting implementation of Unit 4. This will replace risk 10D/A19 in due course.
2. The Committee recommended the Local Pension Board look at the new dashboard requirements and put on the risk register.

27/22 INVESTMENT AND FUNDING UPDATE [Item 7]

Speakers:

Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The new Head of Investment and Stewardship was introduced to the Committee who then explained that, in consultation with the Chair, the format of this report had changed quite dramatically. The aim was to give more information, in a clearer format. He explained the layout and information changes contained in the report.
2. The Chairman stated that performance had been effected by recent turmoil in world markets.

Actions/ further information to be provided:

None.

Resolved:

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

28/22 ENGAGEMENT AND VOTING UPDATE [Item 8]

Speakers:

Neil Mason, LGPS Senior Officer
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced a report that was a summary of various Environmental Social & Governance (ESG) issues that the Surrey Pension Fund, Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) had been involved in. The Fund was a member of LAPFF which enhanced its own influence in company engagement by collaborating with other LGPS

investors through the Forum. Robeco had been appointed to provide voting and engagement services to BCPP, so acted in accordance with BCPP's Responsible Investment Policy, which was reviewed and approved each year by all 11 partner funds within the pool. He highlighted several areas including:

- a list of the companies excluded from our LGIM Future World Global Equity Fund investment and the Legal & General Investment Management Climate Impact Pledge
- paragraph 31 of the report shows that dissenting votes, along with others, were reaching a level where they could have a substantial effect and in some cases achieve a majority. There was a clear demonstration that engagement could work.

2. A Member commented that whilst it was pleasing to see progress being made and some of the engagement being meaningful, there was an issue around thresholds. He stated that he would like to see a more rapid turnaround between engagement and then divestment because that was an important issue. He accepted that the responsible investment policy would be an evolving document.

Actions/ further information to be provided:

None.

Resolved:

1. That the Pension Fund Committee reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through:
 - Continuing to enhance its own Responsible Investment approach, its Company Engagement policy, and SDG alignment.
 - Acknowledging the outcomes achieved for quarter ending 31 March 2022 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 31 March 2022.
 - Acknowledging the LGIM 2021 Annual Active Ownership Report.
 - Noting the voting by the Surrey Pension Fund in the quarter ended 31 March 2022.

29/22 2022 VALUATION [Item 9]

Speakers:

Neil Mason, LGPS Senior Officer
Stephen Scott – Hymans

Key points raised during the discussion:

1. The LGPS Senior Officer introduced a paper that outlined a series of assumptions that officers, in coordination with the Fund actuary, recommended be used in the 2022 valuation. He thanked Members for their participation in the training given the day before.
2. Hymans went through the report in more detail and highlighted the salient points which included:
 - a summary of the recommendations on assumptions made for the 2022 valuation

- the two key assumptions at the valuation relating to future investment returns; these are used to determine a discount rate for the purpose of valuing liabilities
 - that it is a requirement to apply prudence when setting actuarial assumptions.
3. The Chairman stated there were some concerns from Members in relation to some of the financial and demographic assumptions that were made relating to climate change and climate risk. This will be covered in more detail at a future meeting.
 4. A Member asked about the assumption in expectation of investment returns; there was an expectation of improvement compared to 2019 and yet a poor quarter had just been reported which led to uncertainty. Hymans responded that when they look at expectations of asset returns in the future, they see a small increase relative to the 2019 valuation and their view was largely driven by an increase in inflation expectations.
 5. A Member asked about the demographics in terms of improvement in longevity and pointed out that the insurance industry had been more cautious. Hymans responded that it was unknown what impact Covid would have on life expectancies but confirmed that changes to the longevity assumption at the 2022 valuation would lead to slightly higher life expectancies than was assumed at the 2019 valuation. Whilst that might seem odd given the pandemic the key point to consider was the rapid development of the vaccine and the very short period in distributing it to the population. This was encouraging in terms of the ability to deal with potential future pandemics.

Actions/ further information to be provided:

None.

Resolved:

1. That the report from Hymans Robertson be noted and the recommended assumptions required be approved.

30/22 BUSINESS PLAN 2021/22 - OUTTURN REPORT [Item 10]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced a report that set out the outturn of the annual business plan for 2021/22. To better reflect the new team, he explained that the business plan outturn was broken into areas of investments & stewardship, accounting & governance and service delivery. He went on to highlight several areas:
 - recent activity of the turnaround reorganisation team
 - progress on the responsible investment agenda
 - investment performance administration as a main focus
 - revision of risk registers
 - the refreshing of training modules once a new training officer is in place

- progress on service delivery and performance, and the integration of the team.

Actions/ further information to be provided:

None.

Resolved:

That the achievements and progress made with regard to the Business Plan objectives for the 2021/22 financial year be noted and the outturn report be approved.

31/22 RE-APPOINTMENT OF THE CHAIR OF THE LOCAL PENSION BOARD [Item 11]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Chairman introduced a report that requested approval for reappointing the current independent chairman of the Local Pensions Board for a further year.
2. Following that, in 2023 the appointment of an independent chairman for a four-year term would be open to public nominations. The four-year term would not be the same as that for the Council which would help with continuity.
3. The LGPS Senior Officer explained the governance process for appointment of the chairman and members of the Local Pensions Board was delegated to the Council's People Performance and Development Committee.

Actions/ further information to be provided:

None.

Resolved:

1. That People, Performance and Development Committee (PPDC) be RECOMMENDED to approve the extension of the appointment of the current Independent chairman of the Local Pension Board, Tim Evans, for a further one year term.
2. That People, Performance and Development Committee (PPDC) be RECOMMENDED to approve on expiring of this one year term, the role of Independent Chair be appointed for a four year term (2023-2027) through an open recruitment process.

32/22 LGPS UPDATE (BACKGROUND PAPER) [Item 12]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The Chairman stated that the quality of the update report was much improved.

2. The LGPS Senior Officer stated that the report was an amalgamation of information received from various agencies.
3. A Member asked for information about investment in local assets and the latest position in that matter. The Department for Levelling Up had issued a paper exploring the requirement to make 5% of available assets in LGPS schemes to be allocated towards levelling-up projects. The definition of local levelling-up projects was not completely clear to LGPS funds at the moment. Surrey, along with its ten partners in Border to Coast were currently putting forward a paper to be considered by the Joint Committee of Border to Coast on Monday, which would be a response to the Department for Levelling Up. This was in advance of the consultation, and it was hoped would give more clarity to what the 5% levelling up actually meant.
4. The Chairman clarified wording used at the bottom of page 157 of the agenda that spoke about transfers. The wording 'the presence of low-risk overseas investments' was not referring to Fund investments, but to the transfer of member benefits out of the LGPS scheme.

Actions/ further information to be provided:

None.

Resolved:

That the report be noted.

33/22 EXCLUSION OF THE PUBLIC [Item 13]

A Member challenged if the Responsible Investment Update report should be in Part 2. The Chairman explained the relevant paragraphs of the Local Government Act and further explained that the responsible investment policy was still a work in progress. It was intended to go to consultation with the public scheme members and the employers after the version on the agenda was approved.

A Member expressed that there was an overprotective attitude with regards to the Part 2 items in general and in relation to the responsible investment policy report he thought it should be public once it came to this Committee rather than the working group. However, he welcomed the fact that the item would go to public consultation.

The Committee took a vote and the investment policy item remained in Part 2 of the meeting.

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.

PART TWO – IN PRIVATE

34/22 INVESTMENT AND FUNDING UPDATE [Item 14]

Resolved:

Further to Minute 27/22 the Part 2 annex to that report be noted.

35/22 ENGAGEMENT AND VOTING UPDATE [Item 15]**Resolved:**

Further to Minute 28/22 the Part 2 annex to that report be noted.

36/22 INVESTMENT STRATEGY REVIEW [Item 16]**Speakers:**

Neil Mason, LGPS Senior Officer
Steve Turner, Mercer

Key points raised during the discussion:

1. The Committee considered a Part 2 report that presented the high-level analysis for review of the Investment Strategy in accordance with the 2022 valuation, considering its investment core beliefs and in line with the asset offerings of Border to Coast Pensions Partnership (BCPP).
2. The Committee discussed areas of the report in great detail with the adviser. Some of the areas discussed included:-
 - a) That this was the start of the investment strategy review which was a multistage process, quite fluid, and there was expected to be some overlap in the various stages.
 - b) The need to ensure the investment strategy assumed a healthy level of return, to support the funding policy and the provision of pensions over the long term.
 - c) Understanding of the level of potential risk and the downside in any investment strategy.
 - d) The 10-year expected return of the investment strategy and the connection between the expected return and the level of probability. Members were assured that the numbers were broadly aligned.
 - e) The important consideration, and decision, for the Committee was the high-level asset allocation.
 - f) There was much discussion about levels of risk that the Fund was exposed to, including the impact of climate change and returns. It was important to focus on the broad view, maintain discipline and adhere to a long-term strategy; the primary fiduciary duty being to support the payment of pensions.

Actions/ further information to be provided:

None.

Resolved:

1. Notes that the current Investment Strategy remains appropriate, subject to the 2022 Valuation and further discussion
2. Approves the roadmap for the remainder of the year regarding the further development of the investment strategy
3. That Officers work with the Independent Investment Advisor, Investment Consultant, Fund Actuary and BCPP, in consultation with the Chair, with the purpose of progressing the review in accordance with the high-level project plan.

37/22 RESPONSIBLE INVESTMENT UPDATE [Item 17]

Speakers:

Neil Mason, LGPS Senior Officer
David Crum, Minerva

Key points raised during the discussion:

1. The Committee considered a Part 2 report that gave progress on the responsible investment policy.
2. There was some discussion around the consultation; who would be consulted and how. It was reported that 30-days was one consideration for the duration of the consultation. It was also reported that the Pension Team would work with Minerva to capture the salient points arising from the consultation.
3. A Member requested a public event following the consultation. He also requested that timing of the consultation be given some thought as there may not be so many respondents over the summer holiday period. The LGPS Senior Officer explained there were 110,00+ members via 320+ employers, and it was the aim to a comprehensive view of members on the investment policy. Timing of the consultation would be considered.
4. The Chairman stated that thought would be given to the Member's request for a public engagement event.

Actions/ further information to be provided:

That consideration be given to the Member's request for a public engagement event and how that may best be done.

Resolved:

1. That the Responsible Investment Policy be approved, subject to consultation.
2. That officers continue work with the independent investment advisor, investment consultant, Minerva and Border to Coast Pensions Partnership (BCPP) to undertake planning to implement the RI Policy be approved.

38/22 ASSET FOCUS CLASS - EQUITIES [Item 18]

Speakers:

Lloyd Whitworth, Head of Investment & Stewardship
Adrian Brown, MJ Hudson

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced a quarterly Part 2 report that focussed on equities. He briefly explained the fund managers role with both active and passive investments. He further explained that Border to Coast both manage individual shares themselves on behalf of some member funds, and also select external managers for other member funds. A meeting had been held with all Fund's equity managers to discuss performance and other issues.
2. MJ Hudson gave a detailed precis on each of the managers' performance.

Actions/ further information to be provided:

None.

Resolved:

That the Fund's Equity holdings, respective funds' investment performance and review from the Fund's independent investment adviser be noted.

39/22 BORDER TO COAST UPDATE [Item 19]**Speakers:**

Neil Mason, LGPS Senior Officer
Ben Dunning, Border to Coast
Ewan McCulloch, Border to Coast

Key points raised during the discussion:

1. The Committee considered a Part 2 report that provided an investment and governance update from Border to Coast.
2. There was some discussion around governance arrangements of the joint committee and the proposed reduction of the quorum of that committee.

Actions/ further information to be provided:

None.

Resolved:

1. That the delegation of authority to the Director of Corporate Finance and Commercial, in consultation with the Assistant Director – LGPS Senior Officer and the Chairman of the Pension Fund Committee, to transition the active emerging market equity portion of the Surrey Pension Fund portfolio to the Border to Coast when its design has been established to the satisfaction of officers and Fund advisors and assuming that the “necessary conditions” of governance have been satisfied, be approved.
2. That the background and progress of Border to Coast activity, including details of the following be noted:
 - a) Border to Coast Joint Committee (JC) meeting of 8 March 2022.
 - b) Post trade analysis of the transition to the Border to Coast Multi-asset credit (MAC) Fund.
 - c) Update on the transition to the Border to Coast Listed Alternatives Fund.
 - d) Update on the UK Equity Alpha (internal) transition.

40/22 PUBLICITY OF PART 2 ITEMS [Item 20]**Resolved:**

That none of the Part 2 items be shared with the public.

41/22 DATE OF NEXT MEETING [Item 21]

The date of the meeting was NOTED.

Meeting ended at: 12.50 pm

Chairman

