

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 12.45 pm on 10 March 2023 at Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

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

Co-opted Members:

- Robert King, Borough & Districts
- * Steve Williams, Borough & Districts
- * Kelvin Menon, Employers
- Philip Walker, Employees

1/23 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Tim Evans (Chairman of the Local Pension Board), Philip Walker, Richard Tear and Robert King.

2/23 MINUTES OF THE PREVIOUS MEETING - 16 DECEMBER 2022 [Item 2]

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

3/23 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/23 QUESTIONS AND PETITIONS [Item 4]

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

1. Jennifer Condit stated on behalf of Kevin Clarke - Kevin's question is predicated on the idea that pensioners may not entirely understand how to use your website and he notes that while there is more information on the website related to your investments and you do say that you will be publishing all of the comments about the RI consultation on the website. His concern is that Members may nonetheless not understand that it's there, so his request is that in the next round of the newsletter that you're sending to Members, would the committee please consider including? The LGPS Senior Officer explained that one of the key priorities of the pension funds, new strategic plan is a customer insights programme. So, there is work within the customer services team to reach out to customers, members and to the employers to find out what they want, whether they're

satisfied with the communications and the engagement that the Fund is currently providing. This was very much at the forefront in our strategic plan this year.

2. Luciana Cole stated that she was concerned with the lack of urgency, given how urgently we needed climate action and asked if there was scope to speed up this work with the potential to escalate before the end of 2023 if engagement wasn't getting the desired results.
The Chair acknowledged the issue and reported that this was being looked at later this afternoon with Border to Coast. The LGPS Senior Officer stated that Surrey was one of 11 partner funds and had a contributing role through the Joint Committee in the formation of Border Coast responsible investment policy. Officers had pressed for more information on the escalation process and would continue to do so.
3. Jennifer Condit asked on behalf of Lindsey Coeur-Belle if the committee agree with her view that without addressing climate change in a robust fashion via a fossil fuel emission that the possibility of attaining any of the other 16 UN sustainable Development Goals will be very much more difficult, if not impossible, and hence her view that dealing with number 13 climate change must have priority.
The Chair stated that the committee had debated the comparatives of merits of one versus the other but was keen that they looked at this together.
One Member stated that he was sympathetic to that question and later on in the agenda when the responsible investment strategy was to be discussed he would raise this whole question of divestment again.
4. Jackie Macey asked whether the committee feels that now is the time for the steps set out in the engagement plan to be implemented with a speed that reflects the urgency of the climate emergency we are all facing?
The Chairman responded that this was a matter of growing importance, and this was going to be looked at, and accelerated.
5. Jennifer Condit stated she was particularly interested in looking at holdings at Newton Investment Management. She had attempted her own estimate of what the fossil fuel holdings of the Surrey Pension fund were which she thought was about £75 million. It seems to her that based on the disclosures that only the £8 million invested in Shell via Newton was in the committee's direct control. In other words, all the other fossil fuel holdings are in some sort of collective investment scheme. Consequently, she wondered whether reducing the fossil fuel exposure of this fund would be the goal.
The Chairman responded that he thought the figures calculated were broadly correct and the challenge for the committee was that the direction of travel was towards pooled funds, such as Border to Coast Pensions Partnership (BCPP). A government consultation coming out shortly is expected to re-emphasise the importance of local authority pooling. On top of BCPP, the Fund owns LGIM funds which are also pooled funds. The question of reducing fossil fuel exposure is quite a difficult issue that all the pools will be facing and in a pool it is more difficult for us to have a direct influence on that. We will speak with Newton but probably we are looking to move more of our funds into BCPP over time.
The Chairman responded that he thought the figures calculated were correct and the challenge for the committee was that the direction was

going towards pooled farms. With Border to Coast that's the direction of government and there's a consultation coming out shortly that we expect that to be pushed even further down the road. On top of Border to Coast, we have the LGIM funds the pooled funds in that regard. It was thought that this would be quite a difficult issue that all the pools will be facing and would be much more difficult for us to have direct influence on that. We will speak with Newton but probably we are looking to move more of our funds into BCPP in the course of time.

5/23 ACTION TRACKING AND WORKPLAN [Item 5]

Speakers:

Nick Harrison, Chair
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. Tracker item A3/22 – the Chairman stated we had received further information regarding Investments financing Russian carbon projects and it would send this to Members.
2. The LGPS Senior Officer highlighted the importance of the Strategic three-year Plan.

Actions/ further information to be provided:

The Chairman to provide Committee with further information on investment financing of Russian carbon projects.

Resolved:

The Committee noted the Tracker and Workplan.

6/23 SUMMARY OF THE LOCAL PENSION BOARD REPORT [Item 6]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted a few items from the report: -
 - the Committee had asked the Board to look at the risk of inflation and that was covered on page 24 and was represented through the risk register and the heat map.
 - page 25 of the submitted report discussed the transition to a new Surrey-wide computer system. We were currently on the SAP system and would be transferring to the new Unit 4 system. The Board did voice concerns on the project plan. Officers had met with Unit 4 team in the week and produced our own list of assurance criteria that we would need to see met. Colleagues were working to provide us with the necessary assurance, and this would be reported back to the Board.
 - Tom Lewis had been appointed as permanent head of service delivery.

Actions/ further information to be provided:

None.

Resolved:

1. The Committee noted the support of the Local Pension Board for the following policies and approved the:
 - Communications Policy
 - Training Policy

7/23 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 7]**Speakers:**

Neil Mason, LGPS Senior Officer

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship explained that the funding level had risen to 124%. That was a function of the liabilities coming down and then in the last quarter, assets picking up. He further explained the volatility of the funding level changing with interest rates changes. The Fund had in the last quarter also outperformed its benchmark.
2. The Committee discussed the funding level and the discount rate and asked if the actuary was going to recommend action to equalise the balance between income and expenditure. It was explained that the funding level was intrinsically linked to the increase in the discount rate. The discount rate was based on meeting funding objectives over the three-year period so there would not be any adjustments at this point.
3. A Member asked a question about the cash flow which now was positive and whether there was any indication that maybe it would not stay positive in the short to medium term, bearing in mind the expected large increase in benefits due to inflation. He also asked whether members would leave due to cost of living crisis and what difference that would make? The Head of Investment & Stewardship explained that there was a paper presented at the last meeting for the cash flow analysis. Income would be taken from the CBRE property investment and also from the Multi Asset Credit Fund with BCPP. In respect to the cost of living crisis, the high level view was that there hadn't been an material impact yet with people looking to opt out or looking at 50/50 options.

Actions/ further information to be provided:

None.

Resolved:

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

8/23 RESPONSIBLE INVESTMENT 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 gave a detailed precis of the submitted report which came in three sections:

- Consultation feedback
- Net zero date setting, and
- Key priorities for the Responsible Investment Policy

He highlighted the following areas:

- a) There was an excellent response rate to the consultation with high agreement. However, upon analysis it was shown that there was a more neutral response to the engagement and divestment questions. It was thought that there may be an issue with the wording and therefore it was proposed to re-look of the divestment policy to ensure it was as clear as possible.
 - b) Mercer were expected to report back to the subcommittee on 10 May with more data and information on the Fund's investment strategy and potential dates for achieving net zero.
 - c) The voting policy was out of date and a session would be arranged to consider updating it.
2. A Member raised concerns regarding divestment as the RI policy as it stood allowed investment in companies whose principal business was the extraction of fossil fuels. He stated that the question in the consultation that was headed up as "divestment" but was actually about "engagement with consequences". He was concerned that the public and partners had not been consulted on divestment.
 3. Another Member agreed and stated that the policy should include some reasonable common sense exclusions as a whole. And as fossil fuels only accounted for 4% of the fund he wanted to see it rewritten to include wording on when and where we will operate a policy of exclusions.
 4. There was considerable debate on what exclusions members may wish to see in the policy and one member stated that there were already some agreed exclusions, and these should be included. A few members were uneasy about approving any change to the wording so it was agreed that the wording on engagement with consequences would be re-submitted to the Pension Fund Committee for approval but in the meantime could be discussed by the sub-committee.
 5. A change to recommendation number 2 was proposed such that the wording in the policy regarding "engagement with consequences" would be reviewed and would incorporate current investment exclusions. The Committee were split in their agreement of this and following a vote, the proposed wording change to recommendation 2, as set out below, was agreed.
 6. The proposed wording is to ensure that the escalation process is clearer and to specify the categories of investments currently excluded from the portfolio. The draft wording is to be reviewed the RI subcommittee and then brought back to the Pension Fund Committee for final approval.

Actions/ further information to be provided:

None.

Resolved:

1. That the recommendation of the Responsible Investment Sub Committee (RISC), that the RI Policy be approved was accepted.
2. That Officers and Consultant review the wording within the RI Policy regarding engagement with consequences to make clearer the escalation process and the categories of investments excluded from the portfolio, the proposed wording then be put to the Surrey County Council Pension Fund Committee, was approved.
3. That the net zero brief agreed by the RISC be noted.
4. That the decision of the RISC to appoint Mercer to answer the net zero brief be noted.
5. That officers continue to work with the RISC, investment consultant and independent advisor to facilitate this process.
6. That the priority elements regarding implementation of the RI Policy for 2023/4 be approved.

9/23 COMPANY ENGAGEMENT & VOTING [Item 9]**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship summarised the submitted report by explaining that it had been a very quiet period for voting. No shareholder resolutions passed and no management resolutions failed. Through this period there was one vote where Surrey voted against management that did get over 20% support; that was at Microsoft asking for a report on greater tax transparency.

Actions/ further information to be provided:

None.

Resolved:

1. The Committee reaffirmed the Fund's belief that the United Nations Sustainable Development Goals (UN SDGs) represent an appropriate foundation in terms of the Fund's overall Responsible Investment (RI) approach.
2. The Committee reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Mission Statement through:
 - a) Continuing to enhance its own RI approach, its company engagement policy, and SDG alignment.
 - b) Acknowledging the outcomes achieved for quarter ended 31 December 2022 by Robeco in their Active Ownership approach and the LAPFF in its engagement with multinational companies.
 - c) Note the voting by the Fund in the quarter ended 31 December 2022

10/23 ASSET CLASS FOCUS - CREDIT MARKETS [Item 10]**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship

Anthony Fletcher – Independent Advisor, MJ Hudson
Milo Kerr – Border to Coast

Key points raised during the discussion:

1. The Head of Investment & Stewardship explained that the fund had 10.8% in the multi asset credit fund of Border to Coast and 2.4% in gilts at the current time, both underweight target asset allocations. Therefore, a recommendation was being made that those weightings and the nature of the investments should be reviewed.
2. The Independent Advisor gave a detailed precis of the submitted report which included:-
 - That he was not satisfied with the report from BCPP and gave a detailed explanation why.
 - Only two of the managers had outperformed over 12 months and those were the high yield manager and the emerging debt hard currency manager. All the other managers underperformed.
 - It was still too early to compare the performance of BCPP to the “cash plus benchmark” but he thought it was perfectly reasonable to expect the managers they had selected to have outperformed.
 - He pointed out a few areas of the BCPP presentation that were lacking in detail and analysis.
3. BCPP responded to the comments made:-
 - They were mindful that, in this instance, they didn't appropriately present the latest positioning of the fund and how they had made decisions.
 - The new CIO had joined in January and had a priority to evolve the presentation performance and the level of transparency to investors. The importance of providing the right information and transparency to allow an assessment of strategy was understood.

Actions/ further information to be provided:

None.

Resolved:

1. That the Fund's credit market holdings, respective funds' investment performance, and review by the Fund's independent investment adviser be noted.
2. That officers, investment consultant and investment advisor be approved to review the Fund's weighting to credit markets and the nature of those investments.

The Committee took a comfort break at 14.25pm and reconvened at 14.35pm. George Potter returned to the table.

11/23 2021/22 EXTERNAL AUDIT UPDATE [Item 11]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted a few details from the external audit update report which included: -
 - There was an approved set of accounts for the County Council and the Pension Fund.
 - There were significant delays across public sector audits, not just pension funds. For pension funds, this was particularly in respect of the valuation of Level 3 assets.
 - There were also delays in the audit this year due to the change in the staff of the pensions team.
 - The Audit and Governance Committee had approved the financial statements for the Council and the Pension Fund for the year, which had both received an unqualified opinion from the external auditor.

Actions/ further information to be provided:

None.

Resolved:

That the status of the External Audit work be noted and to delegate authority to the Chair of the Pension Fund Committee for final approval of the accounts and compliance with any other process required by the Council Audit & Governance committee.

12/23 2022 VALUATION [Item 12]**Speakers:**

Paul Titcomb, Head of Accounting and Governance

Key points raised during the discussion:

1. The Chairman introduced the report which provided an update on the progress of the 2022 triennial valuation being undertaken by the Fund actuary, Hymans Robertson. He recognised that there had been a lot of work by the Accounting and Governance Team and thanked them.
2. The Head of Accounting and Governance stated that the key activities remained on track for year end. All the individual rate schedules had been circulated to employers. He also highlighted the newly formed Customer Relationship Team, which was leading these discussions.

Actions/ further information to be provided:

None.

Resolved:

1. That the progress made on the actuarial work during 2022/23 be noted.

13/23 PROGRESS OF THE 2023/24 BUSINESS PLAN [Item 13]**Speakers:**

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted several areas of the report including:-
 - A permanent leadership team was now in place and are currently reviewing the three year strategic plan, incorporating specific activities into the annual business plan. It would be helpful to the committee to focus in on the key deliverables this year.
 - This key area of focus for the team was to resolve some legacy processing backlogs A backlog plan is being worked up and the Pension Committee and Pension Board will be updated on progress.
2. A Member asked if the Team were geared up sufficiently to deliver acceptable progress with the backlogs given there are a number of projects within the change management projects pipeline as well as business as usual. The LGPS Senior Officer responded that all of those were in focus and was happy to share the project timeline so Members could see the breadth of activities.

Actions/ further information to be provided:

That the LGPS Senior Officer share the Project Team pipelines with the Committee Members.

Resolved:

1. That the report be noted.

14/23 COMMUNICATIONS POLICY 2023/2024 [Item 14]**Speakers:**

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer reported that the communications policy had been presented to the Pension Board.

Actions/ further information to be provided:

None.

Resolved:

1. That the Communications Policy, which has been ratified by the Local Pension Board, be approved.

15/23 TRAINING POLICY 2023/2024 [Item 15]**Speakers:**

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer introduced a report that detailed the Pension Fund training policy and stated that:-

- He thanked Members who had engaged with the training which was an essential for meeting the role of this committee.
 - On the National knowledge assessment, only 16 of 89 funds actually took part: Surrey finished mid table.
 - Following feedback from the National Knowledge Assessment, members would be provided with tailored training and development plans.
 - Members were encouraged to attend the Pensions and Lifetime Saving Association Local Government conference which takes place on 26 June in Cheltenham
2. The Chairman stated that he was pleased that we contributed to this knowledge assessment. It was disappointing that this Committee and indeed the Board didn't perform as well as the previous Committee and Board; he highlighted that they were at the end of their four-year term and this Committee were only at the beginning of a four-year term.

Actions/ further information to be provided:

None.

Resolved:

1. That the training policy, which had been ratified by the Local Pension Board, be agreed and that all members should prioritise attendance at training events wherever practicable.

16/23 LGPS UPDATE (BACKGROUND PAPER) [Item 16]

Speakers:

Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted the following:
 - The government had delayed the roll out of the pensions dashboard. Officers were extremely keen that the pensions dashboard programme goes ahead.
 - The change to the CARE revaluation day had been brought about because of the scheme year and the tax year having potentially different rates of indexation. The Government sought to align those to ensure consistency.

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted.

17/23 EXCLUSION OF THE PUBLIC [Item 17]

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

18/23 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 18]

Key points raised during the discussion:

1. The Committee noted the Part 2 annex to item 7.

Actions/ further information to be provided:

None.

Resolved:

That the Part 2 annex to item 7 be noted (see minute 7/23)

19/23 RESPONSIBLE INVESTMENT UPDATE [Item 19]

Speakers:

Steve Turner, Mercer

Key points raised during the discussion:

1. The Committee noted the Part 2 annexes to item 9.

Actions/ further information to be provided:

None.

Resolved:

That the Part 2 annex to item 9 be noted (see minute 9/23).

20/23 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE [Item 20]

Speakers:

Neil Mason, LGPS Senior Officer

Rachel Ewell, CEO Border Coast

Key points raised during the discussion:

1. The Committee considered a Part 2 report which gave an update of current activity being undertaken by the Border to Coast Pensions Partnership (BCPP).
2. An invitation for the Border to Coast Conference on the 28 and 29 September would be sent to all Members of the Pension Board and Pension Committee, who were urged to attend.
3. The CEO for BCPP provided a detailed powerpoint presentation on their Strategic Plan.
4. A Member stated that he would welcome a more detailed discussion at the September meeting regarding setting more ambitious responsible investment targets with BCPP.

Actions/ further information to be provided:

None.

Resolved:

1. That the shareholder approval of the Border to Coast Strategic Plan 2023-26 be noted.
2. That details of the Border to Coast Strategic Review 2025-2030 be noted.
3. That the completion of the restructuring of the Border to Coast Global Equity Alpha Fund and post trade report be noted.
4. That the schedule of activity of Border to Coast since the last Committee meeting of 16 December 2022 until the end of the calendar year be noted.
- 5.

George Potter left the room before the recommendations were taken and returned at 3.40pm during the item on Investment Strategy Review.

21/23 REAL ESTATE UPDATE [Item 21]**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship
Steve Turner, Mercer

Key points raised during the discussion:

1. The Committee considered a Part 2 report that detailed how Border to Coast Pension Partnership (BCPP) was developing a range of Real Estate funds for Partner Funds to invest in. Government guidance required LGPS to use pooling when products were available.

Actions/ further information to be provided:

None.

Resolved:

1. That the previous delegation of authority to officers and the Chair to transition the Fund's Real estate asset allocation to BCPP, gained in September 2020, subject to necessary conditions being met was noted.
2. That the training update provided by BCPP on the development of the Real Estate product offering within the asset pool and the summary presentation be noted.

22/23 INVESTMENT STRATEGY REVIEW, CURRENCY HEDGING [Item 22]**Speakers:**

Lloyd Whitworth, Head of Investment & Stewardship
Steve Turner, Mercer

Key points raised during the discussion:

1. The Committee considered a Part 2 report that provided a review of its Investment Strategy in accordance with the 2022 valuation, taking into account its investment core beliefs and in line with the asset offerings of Border to Coast Pensions Partnership (BCPP). The report included an analysis on the currency hedging policy and process.

Actions/ further information to be provided:

None.

Resolved:

1. That the existing currency hedging policy and process be noted.
2. That continuation of the current policy be approved.

23/23 PUBLICITY OF PART 2 ITEMS [Item 23]

The Committee agreed to keep the confidential items in Part 2.

24/23 DATE OF NEXT MEETING [Item 24]

The date of the meeting was noted.

Meeting ended at: 3.46 pm

Chairman

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