

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 20 September 2013 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on Friday, 15 November 2013.

Elected Members:

- * Ms Denise Le Gal (Chairman)
- * Mr Nick Skellett CBE (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Mike Goodman
- * Mr John Orrick
- * Mr Stuart Selleck

Co-opted Members:

- * Mr Tony Elias, District Representative
- * Judith Glover, Borough/District Councils
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- Philip Walker, Employees

In attendance:

Paul Baker, Pensions Manager
Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Sheila Little, Chief Finance Officer (Section 151 Officer) – for Minutes 20/13-30/13
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager – Pension Fund & Treasury
Steve Turner, Partner, Mercer

20/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Philip Walker.

21/13 MINUTES OF THE PREVIOUS MEETING: 31 MAY 2013 [Item 2]

The minutes were agreed as an accurate record of the meeting.

22/13 DECLARATIONS OF INTEREST [Item 3]

There were none.

23/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

24/13 AFFIRMATION OF DISCUSSIONS HELD AT THE INFORMAL BOARD MEETING OF 31 MAY 2013 [Item 5]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Chairman introduced the report.

Actions/Further Information to be Provided:

None.

RESOLVED:

- i. To **APPROVE** the notes of the Board's informal London meeting of 31 May 2013.
- ii. To **AGREE** to amend CBRE's benchmark outperformance requirement to +0.5% per annum (gross of fees) over rolling three-year periods with the injection of a further £25m;
- iii. To **AGREE** that a breach in the control range on the asset allocation categories as shown in the newly approved Statement of Investment Principles (SIP) would not stipulate that steps be taken immediately to restore parity, but that this breach would necessitate discussion amongst the Chairmen and officers and, where appropriate, the Pension Fund Board;
- iv. To **AGREE** that the Fund should continue to ensure a diverse portfolio of assets to mitigate risk and volatility of returns;
- v. To **AGREE** to balance the portfolio by removing £25m from LGIM's passive mandate and transferring to Baillie Gifford Diversified Growth Fund; and
- vi. To **REVISIT** discussions concerning the transfer of £50m from LGIM's passive mandate and transferring to the Standard Life GARS Fund, subject to the outcome of discussions with Standard Life at Item 13 on the agenda.

Next Steps:

None.

25/13 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report, explaining to Members an issue with a recent Board decision to subscribe to the BlackRock DivPep V Fund. While the Board had previously agreed to invest USD 20m, BlackRock's understanding was that the Board was going to invest £20m. The structured fee level was higher for investing with USD 20m, so officers held back from confirming subscribing to this fund. Following a discussion, the Board agreed not to go ahead with the BlackRock DivPep V Fund investment.

2. The Pensions Manager explained the auto enrolment statistics. Members queried the effect on cash flow but the Pensions Manager stated that this wouldn't be known until mid-November. The Chief Finance Officer informed the Board that the People, Performance and Development Committee had built £1m into the Medium Term Financial Plan based on an opt-out rate of 10%. This would need to be reviewed as opt-out had been higher than 10%.
3. At the previous Surrey Pension Fund Board meeting, it had been agreed that a stock lending programme with Northern Trust should commence. The legal agreement was being scrutinised by Mercer. The Mercer representative highlighted a clause regarding indemnification which was very advantageous to Northern Trust. Negotiations are ongoing and the outcome will be reported to the next Board meeting.
4. There was a debate regarding the Standard Life Capital Secondary Opportunities Fund. The Surrey Pension Fund Adviser stated that the concept of focusing on secondary opportunities was good. The Mercer stated that it would be useful to have an indication from Standard Life regarding the level of discounts that it thought was available in the market. However, he was comfortable with Standard Life as a private equity manager and was supportive of the proposal to invest. The Board was informed that Standard Life had presented to a number of local authority pension funds on this opportunity but it was not known whether any had bought in. There was some concern that the total exposure to Standard Life would be high if this investment was made. The Strategic Manager, Pension Fund and Treasury informed the Board that the Secondary Opportunities were specifically for private equity products while GARS was concerned with the Diversified Growth fund, a separate entity. The Chairman questioned whether the Board would be taking a credit risk by investing in the Fund. The Mercer representative explained that there would be some credit risk as the opportunities are generally off-shore and so do not have as much protection. The Chief Finance Officer pointed out that the Pension Fund was underweight on the private equity asset class. It was agreed to defer a decision on this investment until after meeting with Standard Life at Item 13.
5. There was a discussion with regard to a proposed investment in the Capital Dynamics Global Clean Energy and Infrastructure Fund. The Board expressed concern that the fee was a little high as some other similar funds dealing with solar energy have a fee of 50-60bps. It was agreed that it would be worthwhile to test whether Capital Dynamics would be prepared to negotiate on fees.
6. The Strategic Manager, Pension Fund and Treasury introduced the Darwin Property Fund investment opportunity. He explained that it is a property type opportunity, but which had a number of characteristics in common with private equity. The Mercer representative explained that the people running the Darwin Group were experts in the field and that Mercer considered this to be an interesting return opportunity. The fund however, had a number of very specific risks, which needed to be clearly understood by the Board. The Chairman informed the Board that some other local authority pension funds had already invested in this Fund. There was some concern that the current management was not tied into the Fund and could leave while the Pension Fund is locked in for ten years. The Chairman pointed out that this was a private equity investment and investors were usually in these for the

long term. The Strategic Manager, Pension Fund and Treasury stated that the documentation listed a penalty cost if the Pension Fund disinvested before the end of five years. The Board went on to debate fee levels, the duration of any lock-in time and the amount to be invested.

7. The Strategic Manager, Pension Fund and Treasury informed the Board that an initial report from the actuary suggested that the Pension Fund is now at least 70% funded. Following the full results, the contribution rate would be reviewed. The actuary would attend the Board meeting on 15 November 2013 and the AGM on 22 November 2013. Before that, he would communicate with the Borough and District Councils and other scheme employers.
8. The Surrey Pension Fund Adviser reported back on his meetings with Fund Managers. He stated that Franklin Templeton had recorded good results overall. He was slightly uncomfortable with the level of fees. The Surrey Pension Fund Adviser also reported that the new Fund Managers for UBS had had a good year. The Chairman highlighted that the UBS contract had been under watch two years ago and had been kept on after UBS agreed to a reduction in fees, so the Pension Fund was receiving good value. The Surrey Pension Fund Adviser reported that Majedie had also seen good performance over the past year. Majedie was particularly good at sensing market changes and repositioning its fund. The Surrey Pension Fund Adviser reported that Marathon was also doing well. It had benefited from a strong process for cash flow and income generation. It is playing different parts of the economic cycle.
9. The Strategic Manager, Pension Fund and Treasury introduced the Financial and Performance Report and informed the Board that the current estimated market value of the Fund had since improved further from the reported value on page 47 of the report. A question was raised over what value Mirabaud was adding to the overall Pension Fund portfolio.
10. The Strategic Manager, Pension Fund and Treasury highlighted that the Pension Fund was slightly overweight on equities. The Chairman stated that she was not currently worried about this position.
11. Members queried the fee levels for Fund Managers as listed on page 52. The Mercer representative informed the Board that it would need to look at the added value of Fund Managers and that many of them had outperformed their benchmarks net of fees. The Chairman assured the Board that the Surrey Pension Fund was not soft on its investment managers.

Actions/Further Information to be Provided:

The Pensions Administration Strategy and the Pensions Administration Service Level Agreement to be presented to the Board on 15 November 2013.

RESOLVED:

- vii. To **APPROVE** the report and the decisions as laid out;
- viii. To not go ahead with the investment of USD 20m in BlackRock DivPep V Fund;
- ix. To negotiate for a desired fee level of 125bps before bringing back a recommendation to the Board to make a USD 25m commitment to the Global Clean Energy and Infrastructure Fund;

- x. To negotiate the fee level before bringing back a recommendation to the Board to make a £20m commitment to the Darwin Property Fund, with a lock-in period of nine years.

Next Steps:

None.

26/13 PENSION FUND RISK REGISTER [Item 7]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report, clarifying that there had been no changes to the Risk Register since the previous meeting.
2. There was a discussion about including the residual risk following mitigating actions. Officers agreed to do this for future reports.

Actions/Further Information to be Provided:

Officers to evaluate the residual risk following mitigating actions and include this as a column within the Risk Register.

RESOLVED:

To **NOTE** the Risk Register.

Next Steps:

None.

27/13 KEY PERFORMANCE INDICATORS [Item 8]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report. He pointed out that, with regard to the data quality indicator, the interim feedback from the actuarial evaluation suggested that the data provided by the pensions team had been of a very high quality. The team was talking to the actuary about what method can be used to evaluate data quality. This information will be used to inform a method for measuring performance on data quality within the Pension Fund. The Pensions Manager suggested that this will probably be an annual measurement.
2. The Strategic Manager, Pension Fund and Treasury informed the Board that a mechanism would be devised to allow the customer service indicators to be measured. The Chairman suggested that officers speak to the team who undertakes the employee survey. The Pensions Manager pointed out that the member satisfaction survey results may be influenced by attitudes towards different employers within the Fund. This would need to be addressed in the development and evaluation of a survey.

Actions/Further Information to be Provided:

None.

RESOLVED:

To **APPROVE** the KPI statement format.

Next Steps:

None.

28/13 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 9]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report, outlining changes from the previous Statement of Investment Principles.
2. There was a query over why the Borough/District representatives, the external employer representative and the Fund Member representative were listed as Co-opted Members. It was explained that the Board is a County Council committee to which non-Councillors can be co-opted. There was a query about the composition of Local Committees which the Regulatory Committee Manager agreed to respond to.

Actions/Further Information to be Provided:

Regulatory Committee Manager to respond to a Member regarding the composition of Local Committees.

RESOLVED:

- i. To **APPROVE** the revised Statement of Investment Principles;
- ii. To **AGREE** that a breach in the asset allocation control range of greater than +/- 3.0% will not require steps to be taken immediately to restore parity, but require that the breach will necessitate discussion amongst the Chairman and officers and, where appropriate, the Pension Fund Board.

Next Steps:

None.

29/13 LGPS: CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME [Item 10]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report.

2. The Chairman informed the Board that the Government had established a LGPS Advisory Board on which she sat. The Government believes that if Pension Funds are pooled it will reduce the cost of administering them. However, current data does not suggest that there is any correlation between the size of the Pension Fund, associated investment management fees and investment performance. The Mercer representative confirmed that many consultees were saying the same thing.
3. The Chairman suggested that the Government was taking a London-centric view of Pension Funds. In London there are many very small Funds which are not comparable with a Fund such as the Surrey Pension Fund.
4. Members suggested that forcing Pension Funds into a few super-Funds would be a mistake. The only positive would be a possible saving on fees but the data has already shown this to be unlikely.
5. Members also argued that pooling Pension Funds would be unfair on taxpayers in different areas as some Funds have not been managed as effectively as others. This would lead to some areas seeing taxes rise to support Funds which have not been effectively managed. The Surrey Pension Fund Adviser informed the Board that when mergers were first discussed it did mean that assets and liabilities would be merged. It now only refers to assets but the Board needs to be clear on this in its response.
6. The Chairman informed the Board of a requirement under the Pensions Act to establish a Pension Fund Scrutiny Board to oversee the operation and decision making of the Pension Fund Board. This would require the establishment of a further Board which would be difficult to find members for.

Actions/Further Information to be Provided:

None.

RESOLVED:

To **DELEGATE** the drafting of a formal response to the LGPS Call for Evidence on the Future Structure of the Local Government Pension Scheme to the Chief Finance Officer, in consultation with the Chairman of the Surrey Pension Fund Board, taking into account the views and observations of the Board.

Next Steps:

A further report to the Surrey Pension Fund Board following proposals due to be published before the end of 2013.

The Surrey Pension Fund Board adjourned its meeting at 11.30am for a short break and reconvened at 11.35am.

Item 11 was deferred to follow Item 14.

30/13 LIABILITY MANAGEMENT, INFRASTRUCTURE DEBT [Item 12]

Declarations of Interest:

None.

Also in attendance:

Toby Buscombe, Principal, Mercer
 Marc Devereux, Principal, Mercer

Key Points Raised During the Discussion:

1. The Mercer representatives provided a presentation on liability risk management and infrastructure (slides attached as Annex 1).
2. It was suggested that Risk Ref. 2 within the Risk Register – bond yields fall leading to an increase in value of liabilities – was a crucial risk to watch and that mitigating actions should be developed further based on the information provided during Mercer's presentation.
3. There was general support for the concept of dynamically de-risking by setting trigger levels but not at this time.
4. The Chairman suggested that the Board needed a more detailed discussion on equity derivatives in the future.
5. The Board considered the investment in Funds managing infrastructure debt. It was informed that while the management of infrastructure debt was a relatively recent phenomenon with only a limited number of fund managers focusing on this area, each of those managers had very specific strategies. Due diligence would need to be exercised and risk controls developed if investing in these Funds. The Chairman pointed out that the credit analysis was key. The Mercer representatives added the need to ensure that the portfolio was well-diversified and that the Manager has the ability and track record to enforce when required.

Actions/Further Information to be Provided:

To schedule a discussion on equity derivatives.

RESOLVED:

To **NOTE** the presentation on Liability Risk Management and Infrastructure Debt.

Next Steps:

None.

The Surrey Pension Fund Board adjourned its meeting at 12.55pm for lunch and reconvened at 1.27pm.

John Orrick and Sheila Little sent apologies for absence from the afternoon session.

31/13 PRESENTATION: STANDARD LIFE [Item 13]**Declarations of Interest:**

None.

Also in attendance:

Dale MacLennan, Investment Director, Standard Life
 Neil Richardson, Investment Director, Standard Life

Key Points Raised During the Discussion:

1. The Standard Life representatives gave a presentation. They assured the Board that the departure of Euan Munro as the Director of Multi-Asset Investing and Fixed Income at Standard Life had not been a surprise and that the team was capable of continuing without him. The name and brand was still attracting the best people to work within the team. The Board was informed that Euan Munro had in recent years taken on board other responsibilities and had not been as involved as he had been when the team was first put together. The Standard Life representatives agreed that Guy Stern's style was different from Euan Munro's but that he had been working on the product since 2008 and knew and understood its strengths. He was also keen to be as inclusive as possible. In response to concerns raised that Euan Munro may wish to take people with him to his new company, the Standard Life representatives considered that this was unlikely, although could not be ruled out. It was also pointed out that morale was high in the team and there was no feeling that anyone wished to leave. Members suggested that if the Board was investing in a Fund because of one person, that strategy should be reviewed. It was clarified that investment in Standard Life had not been on the basis of Euan Munro being in the lead post. It was recognised that Standard Life had a well-resourced team, with significant experience. In response to a query about Guy Stern's new responsibilities, it was clarified that he had not taken on all of Euan Munro's previous responsibilities and so would still be involved in the day to day running of the team.

RESOLVED: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the rest of Item 13 and for Item 14 on the grounds that they involve the likely disclosure of exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act.

THE REST OF ITEM 13 AND ITEM 14 WAS CONSIDERED IN PRIVATE BY THE SELECT COMMITTEE. HOWEVER, THE INFORMATION SET OUT BELOW IS NOT CONFIDENTIAL.

2. Following further discussion based on a confidential presentation (slides attached as Annex 2), the Standard Life representatives left the meeting.

Tony Elias left the meeting.

3. The Board discussed the various investment opportunities with Standard Life. The Strategic Manager, Pension Fund & Treasury tabled a paper which outlined the Pension Fund's exposure to Standard Life (attached as Annex 3).

Actions/Further Information to be Provided:

None.

RESOLVED:

To **AGREE** that the Surrey Pension Fund make a USD 20m commitment to the Standard Life Secondary Opportunities Fund.

Next Steps:

None.

32/13 PRESENTATION: CBRE [Item 14]**Declarations of Interest:**

None.

Also in attendance:

Alex Bignell, Head of UK, CBRE

DJ Dhananjai, Director, CBRE

Max Johnson, Director, CBRE

Key Points Raised During the Discussion:

1. The CBRE representatives gave a confidential presentation (slides attached as Annex 4).

Actions/Further Information to be Provided:

None.

RESOLVED:

To **NOTE** the CBRE presentation.

Next Steps:

None.

RESOLVED:

- i. To go back into public session (Part One);
- ii. That the items considered under Part Two of the agenda should remain confidential and not be made available to the press and public.

33/13 SURREY PENSION FUND ACCOUNTS 2012/13 [Item 11]**Declarations of Interest:**

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report. He explained that Jon Evans had been responsible for preparing the Financial Statements and had since departed his role. The recently appointed Senior Accountant, Alex Moylan, had taken responsibility for steering the Accounts through the external audit process. The External Auditors had made no recommendations, with only some minor adjustments made following discussions.
2. The Strategic Manager, Pension Fund and Treasury showed the Board a mock up of the cover of the Pension Fund's Annual Report.

Actions/Further Information to be Provided:

None.

RESOLVED:

- i. To **NOTE** and **APPROVE** the financial statements;
- ii. To **NOTE** the content of the Audit Findings for Surrey Pension Fund Report;
- iii. To commend Jon Evans and Alex Moylan for their excellent work in the production and audit of the accounts; and

- iv. To **NOTE** the Letter of Representation.

Next Steps:

None.

34/13 PRESENTATION: MANIFEST [Item 15]

This item was **WITHDRAWN**.

35/13 THE STEWARDSHIP CODE [Item 16]

Declarations of Interest:

None.

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the report and informed the Board that, since its last meeting, an external governance adviser had been appointed.

Actions/Further Information to be Provided:

None.

RESOLVED:

To **ADOPT** The Stewardship Code and **APPROVE** the Fund's commitment to the Code.

Next Steps:

Compliance with the Code is kept under regular review and progress reported to the Board where appropriate.

36/13 DATE OF NEXT MEETING [Item 17]

The date of the next meeting was noted.

Meeting ended at: 3.25 pm

Chairman

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