



The Surrey Local Pension Board 12 November 2020

Summary of the Pension Fund Committee virtual meeting of 11 September 2020

Recommendations:

1. The Board is asked to **note** the content of this report.

Detail:

Introduction

2. The Pension Fund Committee met virtually via MS Teams on 11 September 2020. This report provides a summary of this meeting and any resolutions made.

Local Pension Board report

3. The Pension Fund Committee (Committee) received the report from the Local Pension Board (shown as Annexe 1).
4. The Director for Corporate Finance reported that a Programme Manager, Sonia Sharma, had been recruited in June and that there had been changes implemented in the administration service, mostly around governance arrangements and setting up projects to move the service into a better position (this issue is addressed in a separate report in this meeting).
5. The report discussed the National Knowledge Assessment and training policy, where the generally good performance of Committee and Local Board members was noted. The results were being extracted and work would be undertaken produce a draft training plan to be presented to the December Committee meeting.
6. The Committee resolved the following:
 - To approve the proposed change to the risk register, as noted in the Risk Register section of the report.

2019 Valuation update – Implementation of multiple investment strategies

7. The report set out the work undertaken so far on multiple employer strategies.
8. The outcomes of the implementation project and high-level future considerations to help improve funding outcomes for employers and the Fund as a whole are summarised as follows. The employers are allocated into three different investment strategies as shown in the table below:

| Strategy | General investment characteristics | Employer group(s) | Number of employers | Asset value (£m) |
|----------------------------|---|---|---------------------|------------------|
| Core Strategy | The Fund's main strategy | All open employers and those with a guarantee (e.g. TABs) | 324 | 3,643.7 |
| Closed employers' strategy | Reduced allocation to equities over the Core Strategy. Lower volatility to protect against poor funding outcomes and focus on funding stability over returns. | All closed employers who will exit on a gilts cessation basis | 18 | 92.1 |
| Exited employers' strategy | No allocation to equities, focus on low risk assets (e.g. gilts) to protect funding position | All exited employers who have exited on a gilts cessation basis | 24 | 87.9 |

9. The Fund actuary explained that strategies were used to assist employers meet their funding objectives.
10. Future training would be offered by the Fund actuary to Committee and Local Board members on the actuarial method that underpins the multiple investment strategies.

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

11. A report from Minerva, the Fund's appointed UN SDG consultant, highlighted the strong Environmental, Social and Governance (ESG) credentials of the Fund and that work commissioned on mapping showed 70% coverage against the United Nations Sustainable Development Goals (UN SDGs) benchmark, the World Benchmarking Alliance Sustainable Development Goals 2000 Index (WBA SDG). The WBA SDG is compiled of 2,000 companies identified as most likely to be able to advance the delivery of the SDG's

12. A workshop for members was scheduled to examine details of the SDG mapping and how it reflected the current and/or possible future expression of the Committee's core investment beliefs.
13. Using the findings from the workshop, Minerva, in consultation with the Fund's investment consultant, independent advisor and officers, would produce a report for the December Committee meeting that would outline suggestions for further actions from the Fund, to enable closer alignment with the UN SDGs to be achieved.

Investment manager issues and performance and asset/liabilities update

14. The main findings of the report were that the Fund's value as at 30 June 2020 was £4.307bn and its liabilities were £4.409bn, making the funding level 97.7%.

Company engagement and voting

15. The report explained that a co-signed letter had been written to the Brazilian embassy in relation to deforestation in Brazil. Investor groups had since met with Brazilian authorities to discuss further outcomes. A positive short-term outcome was that Brazil banned forest fires for the four months of dry season and set up military operations due to this investor pressure. Due to the success of this investor dialogue, a working group had been set up to continue this work going forward, of which the Fund has chosen to participate in going forward.
16. Minerva updated the Committee that they had still been unable to go back to the office to check through the paperwork regarding a gap in voting due to an internal administrative error that had occurred within Minerva's voting services that led to the voting service being switched off without the Fund's consultation between December 2019 and March 2020. They had provided analysis on meetings missed. There had been 45 companies meetings where Surrey votes were not cast. Of those meetings there were:
 - 782 individual resolutions that Surrey could have voted on
 - 702 of those Surrey would have voted in favour
 - 56 Surrey would have voted against
 - There would have been very few abstentions
 - There were no instances where Surrey's vote, if given, would have swayed the outcome on those resolutions one way or another
17. New elements had also been introduced to the stock lending support service so they could identify contentious upcoming meetings which may have an impact on stock lending so that clients could exercise their right to vote to retain the revenue of stock lending or to maintain the balance. Apologies were given but lessons had been learned and things were back on track.

Taskforce for climate related financial disclosure report (TCFD) 2019/20

18. The Committee approved a report that summarised the Fund's first report complying with the TCFD. The report supported the Fund's Strategic Investment Objectives, with particular focus on how it fulfilled its role as a Responsible Investor (it is shown as Annexe 2).

Border to Coast update

19. It was reported that the Border to Coast Joint Committee had resolved the following governance matters:
- Cllr Tim Evans be appointed Chair of the Joint Committee for the ensuing year
 - Cllr David Coupe be appointed Vice-Chair of the Joint Committee for the ensuing year;
 - Cllr Anne Walsh be the Committee's nomination as a Non-Executive Director to the Border to Coast Board.
20. That four specialist satellite managers had been appointed to support PIMCO as the core multi-asset credit (MAC) manager. These covered the following specialist areas of credit:
- High yield manager;
 - Loans manager;
 - Emerging market debt manager;
 - Securitised credit manager.
21. The MAC fund is intended to meet requirements for higher return, harder to access, credit investments that offer diversification from public equity markets. Credit managers may add value through security selection (relative outperformance of selection bonds) or through credit asset allocation (outperformance of credit asset class).
22. The Executive Director of Finance, in consultation with the Chairman of the Pension Fund Committee, will only approve the transition of the MAC portion of the Surrey Pension Fund portfolio national pool when its design has been established to the satisfaction of officers and its advisors and assuming that the "necessary conditions" of governance have been satisfied.
23. The Committee approved the delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the property portion of the Surrey Pension Fund portfolio to the UK and Global property sub-funds of the Border to Coast Pensions Partnership (BCPP) national pool 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. The Fund has approximately 6% of the current portfolio invested in property.

Investment strategy review

24. The Fund's investment consultant, Mercer, noted the long term strategy for property and was not envisaging any new changes in the next 12-18 months due to the structural difficulties as a result of Covid-19 with the UK market reliant on the affected high street, retail, leisure, hotels and office sectors; an increase in the property allocation to global markets to 50% of the property portfolio would address that as the US/EU markets were exposed to residential areas – less affected by the pandemic.

25. The Committee approved the increase in property allocation to global property assets to 50% of the property portfolio.

26. It was noted that at the last year's strategy review the Committee agreed to material changes. Proposals for exploring proxy alternatives for the agreed asset allocation were accepted, due to the time lag for achieving private market allocation and the delay until all relevant sub funds had been designed at Border to Coast.

Report contact: Neil Mason, Strategic Finance Manager (Pensions)

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

Sources/background papers:

1. Draft Statement of Accounts
https://www.surreycc.gov.uk/_data/assets/pdf_file/0009/227385/Statement-of-Accounts-2019-20-DRAFT.pdf

Annexes:

1. Local Pension Board committee report
2. TCFD report

This page is intentionally left blank