

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 11 December 2020 at Remote via Microsoft Teams.

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

Elected Members:

- * Ms Charlotte Morley
- * Mr Tim Evans (Chairman)
- * Mr Ben Carasco (Vice-Chairman)
- * Mr John Beckett
- * Mr David Mansfield
- * Mrs Hazel Watson

Co-opted Members:

- * Kelvin Menon
- * Borough Councillor Ruth Mitchell, Hersham
- * District Councillor Tony Elias, Bletchingley and Nutfield
- * Philip Walker, Employees

62/20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apology was received from Mr David Mansfield.

63/20 MINUTES OF THE PREVIOUS MEETING [11 SEPTEMBER 2020] [Item 2]

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

64/20 DECLARATIONS OF INTEREST [Item 3]

There were none.

65/20 QUESTIONS AND PETITIONS [Item 4]

There were six public questions – these and the responses were published as a supplement to the agenda.

Supplementary questions and responses:

- 1) Helena Ritter asked if the Committee would consider disinvesting in companies where it was shown that engagement on core beliefs was not successful and used Shell as an example. The Chairman confirmed that that would be the case for any stock.
- 2) Ian Chappell asked a supplementary about the justification for the Committee taking risks given the two facts that in the last three year the market in fuels and reduced 45% and in the same period oil had increased 33%. The Chairman responded that this question had been answered several times and explanations given on how the Committee engages with investment managers and how investment decisions are

made. He also invited questioners to stay for item 12 on the agenda which would give them more information.

- 3) Jenifer Condit asked the Committee when having taken the first step in investing in the low carbon fund, did the Committee not think it should go further and at least move the Rafi money over to low carbon? The Chairman stated that he was happy with both fund returns and explained that different funds had different risks over long and short term periods. The Strategic Finance Manager (Pensions) stated that the Rafi fund was based on a multi factor approach in passive investing and the low carbon fund was based on a market cap therefore both had different risk characteristics. He also stated that there were more developments within LGIM looking at a more flexible ESG approach which officers were exploring. In addition, a review of the approach to active/passive investments is expected to be included in the 2021/22 Fund business plan .
- 4) Anna Humphris stated that at the beginning of the year BP made a green sustainability announcement but most recently have announced new investments in fossil fuels and therefore what were the Committee going to do with regard to their investment in BP? The Chairman stated that the answer was the same as already given and the Committee would consider its engagement and investments in a measured way as previously explained.
- 5) Isobel Griffiths stated that the only direct communication she gets is an annual email telling her that the annual benefit statement was available to view. She did not get the employee newsletter, could not view the employer newsletter and did not receive any information on investments. She therefore asked the Committee to communicate at least annually with members on where the money was being invested and particularly showing how much was invested in green versus fossil fuels. The Chairman stated that the information was no secret and the Committee papers were public. The Strategic Finance Manager (Pensions) recognised that more could be done and that the Fund was looking at various ways to improve communication with the membership.

66/20 LOCAL PENSION BOARD [Item 5]

Speakers:

Mr Nick Harrison, Chairman Surrey Local Pension Board

Key points raised during the discussion:

1. Mr Nick Harrison introduced the Local Pension Board report and some of his highlights included:
 - The Annual Benefit Statement had been a successful exercise
 - The procurement of software was proceeding satisfactorily
 - The Board's concern about the exit cap
 - Small changes had been made to the risk register
 - The Board would be looking at the help desk backlog before the next meeting.
 - The Board would be looking at the Communication Strategy at its next meeting and will bring any recommendations to the Committee.

2. The Chairman thanked the Board for their work.

Actions/ further information to be provided:

None.

Resolved:

1. That the minutes of the Local Pension Board meeting of 12 November 2020 be noted.
2. That the following minor changes to the risk register: risks A21 the McCloud judgement, A22 migrating from County Hall, and A23 management of the backlog in the Administration Risk Register be approved.
3. That the Local Board's concern at the position that the Fund has been placed in due to conflicts between the Restriction of Public Sector Exit Payments Regulations 2020 and the Local Government Pension Scheme Regulations 2013 be noted.

67/20 CASHFLOW ANALYSIS [Item 6]

Speakers:

Ayaz Malik - Pensions Finance Specialist

Key points raised during the discussion:

1. The Committee considered a report that detailed the cash flow analysis for the Fund.
2. The Committee agreed that cashflow detail now be subsumed within the main Investment Manager Issues and Performance and Assets/Liabilities Update report rather than as a separate item.

Actions/ further information to be provided:

That this is no longer treated as a separate agenda item but the information subsumed with the main Investment Manager Issues and Performance and Assets/Liabilities Update report.

Resolved:

1. That the cash-flow position for quarters one and two be noted.
2. That no change was required to the investment or funding strategy as result of the current cash-flow position.

68/20 MINISTRY OF HOUSING COMMUNITIES AND LOCAL GOVERNMENT - CONSULTATION ON THE REFORM OF LOCAL GOVERNMENT EXIT PAYMENTS [Item 8]

Speakers:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Strategic Finance Manager reported that this was not the first consultation on this issue and that, in the Council's response, disappointment was expressed at the fact that that previous comments

and recommendations made did not appear to have been taken into account in this consultation.

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted.

69/20 EXIT CAP DECISIONS [Item 7]

Speakers:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The report Strategic Finance Manager (Pensions) provided an introduction to the Pension Fund Committee with details of urgent decisions made regarding the processing of exit payments for eligible local government employees, including that which required an officer delegated decision from the Executive Director of Resources (Section 151 officer) and Director of Law and Governance (Monitoring Officer) in consultation with the Chairman of the Pension Fund Committee. He also reported that this was not the first consultation and that a response had been sent about being unhappy that previous comments made were not taken into account.
2. In response to a query about the strain on the Pension Fund the Strategic Finance Manager (Pensions) explained that there would only be additional strain for those above the £75k limit.

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted.
2. The Committee noted the Local Board's concern at the position that the Fund has been placed in due to conflicts between the Restriction of Public Sector Exit Payments Regulations 2020 and the Local Government Pension Scheme Regulations 2013.

70/20 MINISTRY OF HOUSING COMMUNITIES AND LOCAL GOVERNMENT - CONSULTATION ON AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME STATUTORY UNDERPIN [Item 9]

Speakers:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. There was no further discussion on this report which the Committee noted.

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted.

71/20 DEPARTMENT FOR WORK AND PENSIONS - CONSULTATION ON TAKING ACTION ON CLIMATE RISK: IMPROVING GOVERNANCE AND REPORTING BY OCCUPATIONAL PENSION SCHEMES [Item 11]

Speakers:

Mamon Zaman, Senior Pensions Finance Specialist

Key points raised during the discussion:

1. The Senior Pensions Finance Specialist introduced a report that provided details of the Department for Work and Pension's (DWP) consultation on Taking Action on Climate Risk: Improving Governance and Reporting by Occupational Pension Schemes and the response from Surrey. Surrey had supported all of the recommendations of the international industry-led Task Force on Climate-related Financial Disclosures (TCFD).

Actions/ further information to be provided:

None.

Resolved:

1. That the report be noted.

72/20 NATIONAL KNOWLEDGE ASSESSMENT (NKA) RESULTS AND TRAINING PLAN [Item 10]

Speakers:

Ayaz Malik - Pensions Finance Specialist

Key points raised during the discussion:

1. The Pensions Finance Specialist introduced a report that set out the results of the National Knowledge Assessment (NKA) conducted by Hymans Robertson. The aim of NKA was to identify where there were gaps in knowledge in Pension Fund Committee Members to assist in devising an appropriate training plan. The score for the Committee was high but it had been identified that there was an improvement needed in knowledge of the actuarial methodology.
2. The Chairman highlighted the proposed training plan for 2021/22.

Actions/ further information to be provided:

None.

Resolved:

1. That the report and annex be noted.
2. That the proposed 2021/22 training plan be approved.

73/20 INVESTMENT CORE BELIEFS AND THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS [Item 12]

Speakers:

Neil Mason - Strategic Finance Manager (Pensions)

David Crum - Minerva

Key points raised during the discussion:

1. The Committee welcomed this report and recognised the need to amend the Investment Strategy Statement to ensure the approach to Sustainable Development Goals was incorporated. There was also a need to design an engagement framework to enable clear communications to Managers on the Fund's requirements. It was also stated that the need to work closely with Border to Coast on ESG matters was crucial. Having commissioned this report meant that the Fund could progress with an evidence base.
2. David Crum gave praise to Surrey for being the first LGPS to undertake this exercise and the Strategic Finance Manager (Pensions) stated that the good work has been recognised nationally.
3. The Committee thanked Minerva, Jane Firth and Anthony Fletcher for the good work done.

Actions/ further information to be provided:

None.

Resolved:

1. That having considered all aspects of incorporating ESG considerations into the investment approach, and in acknowledgement that there is no universally agreed approach in this area, the use of UN SDGs, to provide a forward thinking and comprehensive approach in referencing the transition to sustainability within the Fund's investment strategy statement, was appropriate.
2. That the Minerva Report provides sufficient assurance to enable a decision to move to the next stage of more detailed preparation and implementation was agreed.
3. That further action be requested from officers and, where appropriate, advisors, to cover the following areas:
 - Draft relevant changes to the Investment strategy statement
 - Develop SDG into an engagement framework for companies as well as Investment Manager activity
 - Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers
 - Work with Border to Coast on developing an SDG approach to Pooled assets
4. That officers provide the following updates for the next meeting:
 - Presentation of an implementation plan
 - Propose the method by which progress on implementation is incorporated as part of all future investment strategy reviews
 - Propose the timeline for the assessment and ongoing viability and effectiveness of this approach

74/20 COMPANY ENGAGEMENT & VOTING [Item 13]

Speakers:

Mamon Zaman - Senior Pensions Finance Specialist

Jane Firth – BCPP

Sarah Wilson – BCPP

Key points raised during the discussion:

1. The Senior Pensions Finance Specialist introduced a report and explained that the reason for their being no management votes on the voting outcomes was that it was a quiet period for contentious votes.
2. Jane Firth updated the Committee on the Robeco themes explaining that there were two new climate related themes announced; engagement with financial sector on carbon reduction and working towards an acceleration of the Paris Agreement.
3. There was some discussion about how the proposal of resolutions was conducted and by whom.

Actions/ further information to be provided:

None.

Resolved:

1. That ESG Factors were fundamental to the Fund's approach was confirmed as consistent with the Mission Statement through;
 - Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment, referenced in the Investment Core Beliefs & SDG Mapping report.
 - Applauding the outcomes achieved for quarter ending 30 September 2020 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 September 2020.

75/20 RESPONSIBLE INVESTMENT POLICY REVIEW [Item 14]

Speakers:

Mamon Zaman - Senior Pensions Finance Specialist

Jane Firth – Border to Coast

Key points raised during the discussion:

1. Jane Firth, Border to Coast, introduced the reviewed responsible investment policy and the corporate governance and voting guidelines. She highlighted the changes that had been made and reported that:
 - Most changes were minor amendments or additions.
 - Additional context added to private markets
 - Climate change – looking to develop as separate policy next year
 - Extra points on reporting had been added to both policies; one major one was how to vote against the chair

- Minor modifications made to voting guidelines but wanted to highlight diversity and to broaden that out.
- Have been clear on opposing political donations

Actions/ further information to be provided:

None.

Resolved:

1. That the revised BCPP Responsible Investment (RI) Policy 2021 and Corporate Governance & Voting Guidelines 2021 be approved.
2. That the continuing work to be carried out by officers in collaboration with BCPP and partner funds, with the principle of embedding a consistent approach to Responsible Investment approach between the Fund and BCPP be approved.

Mr John Beckett left the meeting at 11.34am.

76/20 EXCLUSION OF THE PUBLIC [Item 15]

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.

11.34 The Committee adjourned for six minutes for a comfort break.

77/20 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 16]

Speakers:

Mamon Zaman - Senior Pensions Finance Specialist

Anthony Fletcher - Independent Advisor

Mr Nick Harrison, Chairman, Surrey Local Pension Board

Neil Mason - Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Senior Pensions Finance Specialist introduced a Part 2 report that detailed manager and performance issues and highlighted the funding level.
2. In response to a Member question about Fund comparisons with LGPS peers the Strategic Finance Manager (Pensions) explained that it was of limited value due to the differing membership and liability profiles.
3. The Board discussed detailed information given against the benchmarks keeping in mind the need to view as long term.

Actions/ further information to be provided:

None.

Resolved:

1. 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.

78/20 PRIVATE MARKET REVIEW [Item 17]

Speakers:

Mamon Zaman - Senior Pensions Finance Specialist
 Anthony Fletcher - Independent Advisor
 Neil Mason, Strategic Finance Manager (Pensions)
 Steve Turner - Mercer

Key points raised during the discussion:

1. The Senior Pensions Finance Specialist introduced a Part 2 report and explained that it was part of the Annual Business Plan to review as part of good governance.
2. The Independent Advisor gave a precis of each manager including the positive and negative elements of each.
3. Steve Turner reported that due diligence had been done for Darwin and he would share with the Board.

Actions/ further information to be provided:

None.

Resolved:

1. The Committee noted the Fund's Private Market holdings, respective funds' investment performance and review from the Fund's and independent investment adviser.
2. That the Fund continue to commit to drawdowns of the existing private equity infrastructure, and private debt and consider new opportunities to the Pension Fund Committee for approval as and when they arise.

Ms Charlotte Morley left the meeting at 12.05pm.

79/20 BORDER TO COAST UPDATE [Item 19]

Speakers:

Neil Mason - Strategic Finance Manager (Pensions)
 Andrew Stone – BCPP

Key points raised during the discussion:

1. The Board discussed a Part 2 report that set out the progress made by the Officer Operations Group (OOG), Joint Committee (JC) and Border to Coast Pension Partnership Shareholder Board.

Actions/ further information to be provided:

None.

Resolved:

1. The Committee noted the recent updates in Border to Coast Pension Partnership (BCPP) activity, including details of the BCCP joint committee meetings of 1 October and 24 November 2020.

80/20 PROVISION OF INVESTMENT ADVICE AND CONSULTATION SERVICES [Item 18]

Speakers:

Neil Mason, Strategic Finance Manager (Pensions)

Key points raised during the discussion:

1. The Committee discussed this Part 2 report that set out the current arrangements for investment consultancy services and independent investment advice. The contract for investment consultancy was due to expire in April 2021. A sub-committee was sought to take this forward with officers and due to a number of Members having to leave the meeting it was agreed to seek volunteers outside of the meeting.

Actions/ further information to be provided:

That the Strategic Finance Manager seek volunteer Members for the sub-committee following the meeting.

Resolved:

That a sub-committee be convened to work with officers in the following areas:

- Consider the arrangements in place for investment consultancy services and independent investment advice and identify any areas for potential improvement;
- The procurement of investment consultancy services and independent investment advice.

81/20 PUBLICITY OF PART 2 ITEMS [Item 20]

Resolved:

That no Part 2 papers be released to the public.

82/20 DATE OF NEXT MEETING [Item 21]

The date of the meeting was NOTED.

Meeting ended at: 12.28 pm

Chairman