



## **The Surrey Local Pension Board 5 August 2021**

### **Summary of the Pension Fund Committee virtual meeting of 9 July 2021**

#### **Recommendations:**

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

#### **Detail:**

##### **Introduction**

2. The new Pension Fund Committee (Committee) met on 9 July 2021. This report provides a summary of this meeting and any decisions made.

##### **Local Pension Board report**

3. The Local Pension Board (Board) report provides a summary of administration and governance issues reviewed by the Board at its last meeting for noting or action by the Pension Fund Committee.
4. There was no Board report as the Board had not met since its meeting of 11 February 2021. However, the Committee were provided with details of the February meeting to allow them to further understand the workings of the Board (this can be found in the background papers to this paper). [08 - Local Pension Board.pdf \(surreycc.gov.uk\)](#).

##### **Forward plan**

5. The Committee noted the 2021/22 Forward Plan for the Committee. The Forward Plan is included as Annexe 1.

## **2021/22 Business Plan**

6. The Committee noted the 2021/22 Business Plan for the Fund. Item 17 of the Governance objectives to be enhanced to include wider GDPR risks. The Business Plan is included as Annexe 2.

### **Investment and funding report**

7. The main findings of the report were that the Fund's value as at 31 March 2021 was £4.944bn and its liabilities were £5.136bn, making the funding level 96%.
8. Cash flow also remains positive. Half-yearly (quarters three-four) cash-flow is +£12,441,982.

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

9. The Committee of the previous County Council had determined the following:
  - a) To request further action from officers and, where appropriate, advisors, to cover the following areas:
    - i- Draft relevant changes to the Investment strategy.
    - ii- Develop SDG into an engagement framework for companies as well as Investment Manager activity.
    - iii- Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers.
    - iv- Work with Border to Coast on developing SDG approach to Pooled assets.
  - b) To agree that officers provide the following updates for the next meeting:
    - i- Presentation of an implementation plan.
    - ii- Propose the method by which progress on implementation is incorporated as part of all future investment strategy reviews.
    - iii- Propose the timeline for the assessment and ongoing viability and effectiveness of this approach.
10. In order to meet the instructions of the Committee of the previous County Council, officers had prepared the following:
  - a) A proposed revised Investment Strategy Statement.
  - b) The proposed structure for a standalone Responsible Investment Policy
  - c) A proposal for the internal transition of RAFI multi-factor and low carbon indexed equity assets with Legal and General Investment Management (LGIM) to the Future World Fund, with reference to the report from the investment consultant.

11. As a new Committee was in its first formal meeting, it was agreed, in order to consider the proposals and wider context of the background to them, that dedicated information sessions be convened for the Committee (these have been scheduled for 6 August 2021 and 3 September 2021). Validated recommendations would then be brought to the next Committee meeting of 10 September 2021).

### **Company engagement and voting**

12. The report summarised the 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) have been involved in. The

13. Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide BCPP's voting and engagement services so acts in accordance with BCPP's Responsible Investment Policy, which is reviewed and approved every year by all 11 partner funds within the Pool.

14. The Committee resolved the following:

- a) That ESG Factors were fundamental to the Fund's approach was confirmed as consistent with the Mission Statement through;
  - i- Continuing to enhance its own Responsible Investment Approach, its Company Engagement policy, and SDG alignment, referenced in the Investment Core Beliefs & SDG Mapping report.
  - ii- Acknowledging 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. a working group had been set up to continue this work going forward, of which the Fund has chosen to participate in going forward.

### **Pension Fund accounts**

15. The Committee received the draft 2020/21 Pension Fund Accounts. These were approved subject to an unqualified audit (the 2020/21 accounts are included as background papers).

### **Governance Compliance Statement**

16. The Committee were presented with and approved the Governance Compliance Statement (the Governance Compliance Statement is included as Annexe 3).
17. The Fund is required to publish a Governance Compliance Statement under regulation 55 of the LGPS Regulations.
18. It was noted that the policy will need to be kept under review as the Scheme Advisory Board (SAB) Good Governance phase III report recommends that the Governance Compliance Statement should be reviewed annually.
19. It was further noted that the SAB has asked the Ministry of Housing, Communities and Local Government (MHCLG) to produce new statutory guidance on Governance Compliance Statements.
20. The Fund's policy will be reviewed when the new statutory guidance is published.

### **Scheme Advisory Board Good Governance Phase III report**

21. The Committee were provided with details of the Good Governance Phase III report, published in February 2021. A dedicated paper on this is included in the agenda of this Board meeting.

### **Consultation responses**

22. The Committee heard responses for Surrey County Council on the following consultations:
  - a) Her Majesty's Treasury (HMT) consultation on increasing the normal minimum pension age.
  - b) The Department of Work and Pension's (DWP's) consultation on giving trustees more powers to combat scams.
  - c) The Pension Regulator's (tPR's) consultation on consolidating its existing codes into a single code of practice.

### **Border to Coast update**

23. The Committee approved the following:
  - a) To note the background and progress of BCPP activity, including details of the BCPP Joint Committee meeting of 9 March 2021.
  - b) The delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the proposed allocations to private markets portion of the Surrey Pension Fund portfolio to the Listed Alternatives sub-fund of the BCPP 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.

24. As this was the first time the new Committee had met, they were provided with the background to and progress of the Border to Coast pool to date. This background is replicated for the benefit of several new members of the Board.
25. Following three years of consultation, in October 2015, the then Chancellor of the Exchequer set out the final stages of the plans to legislate that all assets of the 89 Local Government Pension Funds in England and Wales be pooled into a small number of larger asset pools. In response to this, on 15 July 2016, eight separate investment pools submitted proposals to Government with the Surrey Fund being included within the submission for BCCP.
26. The legislation (LGPS Investment Regulations 2016) that mandates pooling came into effect on 1 November 2016. Following this, on 12 December 2016, Government gave its support to the governance structures and operating principles as proposed in the 15 July 2016 submission for the creation of the BCCP.
27. BCCP is formed of 11 Local Government Pension Funds with combined assets of over £43.9 billion (at 31 March 2020) as set out in the table below:

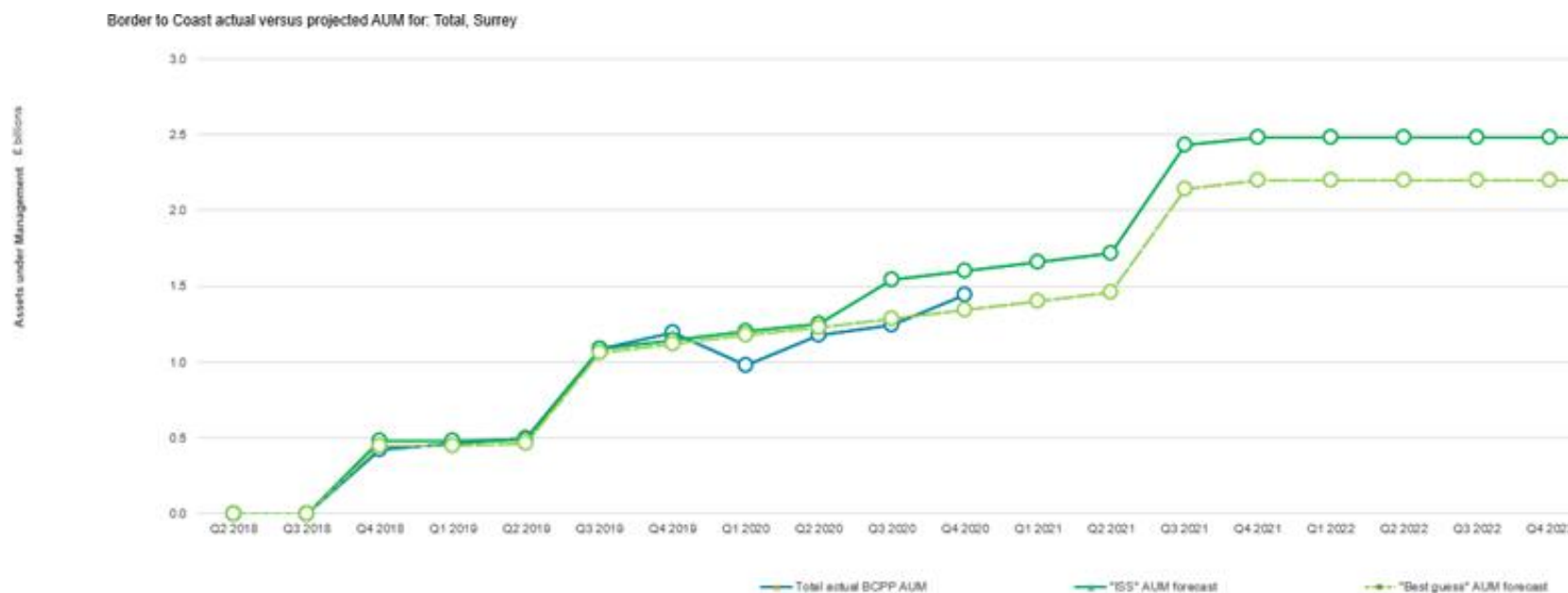
<b>BCCP Partners:</b>	<b>Fund Value at 31 March 2020 (£bn)</b>
Bedfordshire Pension Fund	2.2
Cumbria Pension Fund	2.6
Durham Pension Fund	2.8
East Riding Pension Fund	4.5
Lincolnshire Pension Fund	2.2
North Yorkshire Pension Fund	3.3
South Yorkshire Pension Fund	8.2
Surrey Pension Fund	3.9
Teesside Pension Fund	3.7
Tyne and Wear Pension Fund	8.5
Warwickshire Pension Fund	2.0
<b>BCCP TOTAL</b>	<b>43.9</b>

28. Whilst fund assets will be transitioned into BCCP, the Surrey Fund, through delegated responsibilities to the Pension Fund Committee, retains sovereign responsibility for setting the investment strategy and asset allocation of the pension fund.
29. The Fund made its first transition of assets to BCCP in November 2018. This consisted of the UK active equity portion of the Fund (c£472m), which was transitioned to the BCCP UK Listed Equity Alpha Fund.
30. The Fund made a further transition of assets to BCCP in November 2019. This consisted of an element of the Global active equity portion of the Fund (c£548m), which was transitioned to the BCCP UK Listed Equity Alpha Fund.
31. The Fund has also made a commitment to the alternatives offerings from BCCP in private equity, infrastructure and private credit.

32. The graph below shows how the Fund is tracking in transitions to BCPP versus its assets under management (AUM).

- The solid green line is the expected transition based on the 2019/20 Investment Strategy Statement (“ISS”) and the 2020 Border to Coast budgeting forecasts agreed with the Partner Funds.
- The dotted green line is the best estimate of transition based on ongoing discussions between BCPP and Fund Officers. This can differ from the ISS view due to differences between tactical and strategic asset allocation; Partner Funds not allocating in full; and/or assumed timing of transition. This is not the same as committed assets (which follow the due diligence and Pension Committee process) and may also change as Partner Funds review their ISS.
- The blue line is actual AUM transferred to date (this is subject to market value fluctuations).

33. A modest gap has emerged between ISS projections and commitments due to a lack of investment in index linked bonds – the Fund had elected not to invest in this asset class but the ISS still shows an allocation to it (subject to approval to change by the Pension Fund Committee).



34. The Fund has the following work in pipeline with BCPP (the draft governance timeline for these launches is shown below):

- a) Further commitments to alternatives, Multi-asset credit, Listed alternatives, Emerging market external equity, Regional alpha global equity, Global real estate, UK real estate equity.

#### **Investment consultant firm procurement**

35. Decisions on investment strategy require guidance from an investment professional.

36. The Committee received a report setting out the assessment criteria, scoring and recommendation of the procurement exercise to appoint a firm of investment consultant for the Pension Fund.

37. The Committee approved the re-appointment of Mercer as the Fund Investment consultant, as the supplier that achieved the highest score, on a 3-year contract with an option to extend for 2 year, with effect from July 2021, in line with the LGPS Frameworks document

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#### **Sources/background papers:**

1. Local Pension Board meeting of 11 February 2021. [08 - Local Pension Board.pdf \(surreycc.gov.uk\)](#).
2. Draft Statement of Pension Fund accounts (p 129-176)  
[https://www.surreycc.gov.uk/\\_data/assets/pdf\\_file/0010/263782/0.-Statement-of-Accounts-2020-21-Draft-as-Published.pdf](https://www.surreycc.gov.uk/_data/assets/pdf_file/0010/263782/0.-Statement-of-Accounts-2020-21-Draft-as-Published.pdf)
3. The HMT consultation on Increasing the Normal Minimum Pension Age [Increasing the normal minimum pension age: consultation on implementation - GOV.UK \(www.gov.uk\)](#)
4. The DWP consultation on pension scams [Pension scams: empowering trustees and protecting members consultation - GOV.UK \(www.gov.uk\)](#)
5. The tPR's consultation on a single code of practice [Single code of practice consultation | The Pensions Regulator](#)
6. The BCPP website [Border to Coast Pensions Partnership](#)
7. The BCPP JC website [Browse meetings - BCPP Joint Committee - South Yorkshire Joint Secretariat](#)

#### **Annexes:**

1. Committee Forward Plan
2. Surrey Pension Fund Business Plan for 2021/22
3. The Governance Compliance Statement

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