

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 2.00 pm on 10 December 2021 at Woodhatch, 11 Cockshot Hill, Reigate.

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
- * Mark Sugden

Co-opted Members:

- * Borough Councillor Mark Maddox, Borough & Districts
- * Borough Councillor Steve Williams, Borough & Districts
- * Kelvin Menon, Employers
- * Philip Walker, Employees

138/21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

An apology for absence was received from Richard Tear.

An apology for lateness was received from Steve Williams who arrived at 2:14pm during public questions item.

George Potter attended remotely.

139/21 MINUTES OF THE PREVIOUS MEETING: 10 SEPTEMBER 2021 [Item 2]

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

140/21 DECLARATIONS OF INTEREST [Item 3]

There were none.

141/21 QUESTIONS AND PETITIONS [Item 4]

There were questions from members of the public. These and the responses were published as a supplement to the agenda. Supplementary questions and responses were: -

1. Lucianna Cole asked if it was a good time to establish a communication working group to included members of the Pension Fund, to establish good practice and issues of interest for stakeholders? The Asst Director - LGPS Senior Officer responded that this would be for the communications team to decide their own policy in the interests of all.

2. Ian Chappell – Based on Client Earth’s appraisal of Shell’s greenwashing did the Fund trust Shell to provide high quality data on a continued basis and that the Fund consider a rigorous process that could verify the data on the grey risks groups. The Chairman confirmed that these points would be taken away for consideration. The Assistant Director - LGPS Senior Officer stated that constructive discussions had taken place with Mr Chappell and that these would continue.

3. Jenifer Condit - My question referenced specifically the funding of tar sands and coal extraction by Barclays, because BCPP has stated that it should not invest in companies involved substantially in these businesses. It seems that Barclays is, in effect, an intermediary in continuing BCPP’s support of these businesses against its express statement that these businesses are ‘over-the-line’ in an ESG sense for BCPP’s portfolios.
Some of BCPP’s peers (including Brunel, and Nest) are in fact putting Barclays’ financing of these particularly dirty fossil fuel businesses under the microscope, asking for an elimination of such exposures by end-2023. I’ll be happy to send on an article discussing this from the journal, Pension Age from earlier this year. Will the Pension Fund urge Border to Coast to support this initiative in its engagement activities in 2022?
The Chairman confirmed that this was a good point and discussions would be had with Border to Coast on the issues raised as well as the LAPFF.

4. Janice Baker asked which other local authorities in the Border to Coast Partnership have been working in a similar way to Surrey in seeking to frame a robust responsible investment policy and could it be a collaborative undertaking? The Chairman confirmed that Surrey work co-operatively with partners through Border to Coast. The Asst Director - LGPS Senior Officer explained in more detail how the collaborative work was undertaken with Border to Coast.

142/21 PENSION FUND COMMITTEE- FORWARD PLAN [Item 5]

Speakers:

Chairman

Key points raised during the discussion:

143/21 The Chairman referred to the LGPS update that had been sent to Members outside of this meeting and welcomed comments/questions on it.

Resolved:

That the Forward Plan be noted.

143/21 RESPONSIBLE INVESTMENT POLICY [Item 6]

Speakers:

Neil Mason, Assistant Director - LGPS Senior Officer

Sam Wreford, Mercer

Key points raised during the discussion:

1. The Assistant Director introduced the published report which provided details of the progress made in developing the Surrey Pension Fund's standalone Responsible Investment Policy, consistent with the actions agreed in the Pension Fund Committee meeting of 10 September 2020 and a sub-Committee meeting of 19 November 2021.
2. Mercer gave a more detailed precis of the summary and key messages of the report and more explanation of the metrics that will be used and assessed. There needed to be a minimum of three metrics used and it had been agreed that there would be two backward-looking metrics and two forward-looking metrics. Implied temperature rise would be one of the forward-looking metrics and data quality. Engagement was needed with the fund managers to get data on all the portfolio because at present there was only access to some of the portfolio.
3. The Assistant Director - LGPS Senior Officer explained that a further sub-committee would be arranged once data was received from Mercer and further recommendation brought back to the Committee in March 2022. He also reflected on outcome of Mercers work so far and it would appear that most carbon risk on the portfolio was from passive emerging markets and mitigations could be put in place.
4. A Member discussed several elements of the report around setting target dates, investment in fossil fuels in relation to the zero carbon investment targets, exclusions and engagement.

Actions/ further information to be provided:

None.

Resolved:

1. That the progress of the sub-committee on drafting a Responsible Investment Policy for further consideration be noted.
2. Approved that officers work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to establish a total emissions and Weight Adjusted Carbon Intensity (WACI) for backward looking metrics and portfolio aligned, implied temperature rise and data quality for forward looking metrics in respect of the Fund's Taskforce for Climate Related Financial Disclosures (TCFD) report.
3. Approved that officers work with the sub-committee, the independent investment advisor, investment consultant and Border to Coast to model a low carbon transition plan, applying scenario analysis using the agreed TCFD metrics based on dates of 2030, 2040 and 2050.
4. That the revised Border to Coast Responsible Investment (RI) Policy 2022 and Corporate Governance & Voting Guidelines 2022 was supported, subject to the continuing work between the Fund and Border to Coast to align approaches consistent with the Fund's standalone Responsible Investment Policy currently in design stage.

144/21 INVESTMENT STRATEGY REVIEW [Item 7]**Speakers:**

Neil Mason, Assistant Director for Pensions
Steve Turner, Mercer

Key points raised during the discussion:

1. Mercer introduced a report which provided the high-level project plan for the review of the Fund's Investment Strategy, in accordance with the 2022 valuation, taking it to account its investment core beliefs and in line with Border to Coast's asset offerings. He highlighted the outline of the Plan as contained in the report.
2. The Asst Director - LGPS Senior Officer explained that decisions from 2019 were still being implemented and reiterated the length of time it could take to implement changes to the asset allocation.

Actions/ further information to be provided:

None

Resolved:

1. That the high-level project plan for the Investment Strategy Review be approved.

145/21 COMPETITION AND MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES [Item 8]**Speakers:**

Neil Mason, Assistant Director - LGPS Senior Officer

Key points raised during the discussion:

1. The Asst Director - LGPS Senior Officer explained that Local Government Pension Schemes (LGPS) were required to set strategic objectives for their Investment Consultant (IC) Provider and monitor their performance against these objectives at least every three years.
2. The Chairman agreed that it would be good practice to look at this annually and that further work was to take place in this area.

Actions/ further information to be provided:

None.

Resolved:

1. That the Strategic Objectives for Investment Consultants of the Fund in line with Competition and Markets Authority Requirements be noted.
2. That compliance against the strategic objectives by the Investment Consultant provider for 2021 be noted, with an annual review of performance to be established.
3. That the submission of the Competition and Markets Authority Compliance Statement and Certificate for 2021 be approved.

146/21 LOCAL PENSION BOARD UPDATE [Item 9]

Speakers:

Tim Evans, Independent Chairman of the Local Pension Board
Collette Hollands, Head of Service Delivery

Key points raised during the discussion:

1. The Chairman of the Local Pension Board presented a report which provided a summary of administration and governance issues reviewed by the Local Pension Board at its last meeting. He highlighted the Turnaround Programme which was now in Phase 2 and was an extensive exercise over a long period of time. He summarised the administration performance and stated that the presentation of performance statistics was to be improved.
2. The Asst Director - LGPS Senior Officer provided an update on Phase 1 of the Turnaround Programme regarding transitions made and new appointments of officers.
3. The Chairman stated the importance of the move to a sovereign status and stressed the substantial challenges ahead with regards to annual programme and McCloud for example, where special teams would need to be set up. He thanked the Board for the detailed monitoring.
4. The Committee considered the risk register that was now a combined register of administration and governance and had been overhauled as a result. The Chairman requested that a note be added to Risk A12 in that it was more than GMP liabilities and was also about equalisation. He advised that advice was still awaited on sex equalisation and there was still a way to go on that.
5. The Committee were reminded to undertake the Pension's Regulator Public Sector Toolkit as a part of the requirements for knowledge and understanding.

Actions/ further information to be provided:

The Chairman requested that a note be added to Risk A12 in that GMP liabilities also included equalisation.

Resolved:

1. That the minutes of the Local Pension Board meeting of 5 August 2021 be noted.
2. That the following changes to the administration risk register were approved:
 - i- Risk A2 Lack of process ownership leads to ineffective processes and errors,
 - ii- A3 Failure to follow up on outstanding issues results in inefficiency and damaged reputation.
 - iii- A4 Lack of capability of the admin system leads to inefficiency and disruption,
 - iv- A7 Unstructured training leads to underdeveloped workforce resulting in inefficiency,

- v- A10 Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance,
- vi- A11 Failure to get on top of the backlog leads to resource issues and management distractions,
- vii- A12 Failure to identify GMP liability leads to ongoing costs for the pension fund,
- viii- A14 Lack of productivity leads to impaired performance,
- ix- A19 The Pensions Payroll process had migrated onto the Altair system from SAP in Nov 17. The risk of errors in the current processes are increased by the core Altair payroll system not being integrated with the BACS generator application meaning items have to be recorded twice.
- x- A20 Head of Pension Administration leaving the Council may dilute the organisation's collective knowledge and impact on decision making,
- xi- A23 Management control of backlog leads to inaccurate Key Performance Indicators (KPI's) leading to a loss of confidence in levels of assurance from the Pensions Administration team and new risk and
- xii- A24, Management control of backlog leads to inaccurate Key Performance Indicators (KPI's) leading to a loss of confidence in levels of assurance from the Pensions Administration team.

147/21 COMPANY ENGAGEMENT & VOTING [Item 10]

Speakers:

Ayaz Malik, Senior Pensions Finance Specialist
 Neil Mason. Asst Director - LGPS Senior Officer
 Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Committee considered a report that summarised 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) had been involved in. The Fund was a member of LAPFF so enhanced its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco had been appointed to provide BCPP's voting and engagement services so acted in accordance with BCPP's Responsible Investment Policy, which was reviewed and approved every year by all 11 partner funds within the Pool.
2. The Chairman stated that perhaps a conversation was needed with the LAPFF regarding Barclays in relation to the public question heard earlier in the meeting. Another Member also suggested communicating with them about other clearing banks and understanding rationale for including HSBC in this quarter report.
3. The Asst Director - LGPS Senior Officer reminded the Committee that the LAPFF had presented in November's AGM and he was happy to invite representatives to a future meeting. He stated that the LAPFF had said they would be happy for further engagement with Surrey and that he would sound out Members of the Board and Committee for possible membership of the LAPFF.

4. The Committee asked for further information around the voting with regards to the options being voted on, what was successful and the individual voting. The Asst Director - LGPS Senior Officer stated that this information was in the public domain and that he would direct Members to it outside of the meeting. One Member requested that the information be contained with reports to meeting regardless of extra papers that would involve as the reports received were just reports of activity but not achievements.

Actions/ further information to be provided:

The Asst Director - LGPS Senior Officer to liaise with Members on what further information should be contained within reports and that could be directed outside of the meeting.

Resolved:

1. That the ESG Factors were fundamental to the Fund's approach was reaffirmed as consistent with the Mission Statement through;
 - a) Continuing to enhance its own Responsible Investment approach, its Company Engagement policy, and Sustainable Development Goals (SDGs) alignment.
 - b) Acknowledging the outcomes achieved for quarter ending 30 September 2021 by Robeco in their Active Ownership approach and the LAPFF in its Engagement with multinational companies as at 30 September 2021.

148/21 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 11]

Speakers:

Ayaz Malik, Senior Pensions Finance Specialist
Neil Mason. Asst Director - LGPS Senior Officer

Key points raised during the discussion:

1. The Committee considered a summary of all management issues that need to be brought to the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.
2. Members requested and were provided with further information around the following topics:
 - The transfer out of diversified growth funds
 - Freedom of information requests numbers which differed month to month and tended to be about private equity
 - Long term Performance which seemed satisfactory, and
 - Stock fund lending

Actions/ further information to be provided:

That a briefing note be provided to the Committee on stock funding, namely how it works and the benefits and risks of doing so.

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.

149/21 EXCLUSION OF THE PUBLIC [Item 12]

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**150/21 COMPANY ENGAGEMENT & VOTING [Item 13]****Speakers:**

Ayaz Malik, Senior Pensions Finance Specialist

Key points raised during the discussion:

Further to Minute 147/21 the Committee considered a Part 2 annex to the submitted report.

Actions/ further information to be provided:

None.

Resolved:

See Minute 147/21

151/21 INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 14]**Speakers:**

Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

Further to Minute 148/21 the Committee considered two Part 2 annexes to the submitted report.

Actions/ further information to be provided:

The Chairman requested that a summary report of investments be submitted to the Committee when this was next on the agenda.

Resolved:

See Minute 148/21

152/21 BORDER TO COAST UPDATE [Item 15]**Speakers:**

Neil Mason, Assistant Director - LGPS Senior Officer
Andrew Stone, Border to Coast
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

The Committee considered a Part 2 update report which explained that Border to Coast Pension Partnership was now an established fully regulated asset management company. The Surrey Pension Fund started transitioning assets in quarter four of 2018 and would continue this through 2021. This update paper provided an investment and governance update.

Actions/ further information to be provided:

None.

Resolved:

1. That the background and progress of Border to Coast activity, including details of the following be noted:
 - a) Meetings since the last Pension Fund Committee meeting of 10 September.
 - b) Border to Coast Joint Committee (JC) meeting of 23 November 2021.
 - a) Details of the Border to Coast Asset Transfer Planning 2022-2025
 - b) Details of changes to key personnel at Border to Coast.
 - c) Update on the multi-asset credit transition.
 - d) Update on the UK Equity Alpha Fund.
 - e) Update on the Alternatives Series 2 launch, including climate opportunities.

153/21 DATE OF NEXT MEETING [Item 17]

The date of the meeting was NOTED.

Meeting ended at: 4.00 pm

Chairman

