

SURREY PENSION FUND (“THE FUND”) INVESTMENT STRATEGY REVIEW PROPOSAL & SCOPE

Background

- The funding level and deficit have materially improved since the valuation in 2013 due to a combination of reasons, the main ones being: asset returns being above expectations, positive membership experience and the change in actuarial discount rate / basis. In particular, the change in the latter is significant and means that the requirements of the Fund from a return generation and risk management perspective are likely to be different from when a gilts-plus approach to setting the discount rate was used.
- We are also cognisant of the changes to the Pensions Committee, which would also suggest that a reassessment of the broad investment strategy to confirm that it is still fit-for-purpose and aligned with Committee members’ investment beliefs would be a timely exercise.
- This is particularly relevant, given the work that the Pensions Board is undertaking at present in relation to Environmental, Social and Governance (“ESG”) Considerations.

Proposal

- We believe that there are three steps of the investment strategy review process:
 1. Understand the Committee’s **investment beliefs** and the Fund’s **circumstances**.
 2. Consider how these beliefs and circumstances feed through to **investment principles**.
 3. **Implement** the investment principles through a suitably constructed investment strategy.
- The first two steps of the process consider the broad investment strategy (which still falls under the remit of the Committee after pooling), whilst the implementation stage is likely to require some collaboration between the Committee and the Border to Coast pool. This is certainly the case in the medium and longer-term. However, it may be the case that, following the review, there is a need to implement an investment strategy change (e.g. to benefit from attractive market conditions) because suitable investment options are not available at the right time for the Fund. We think it is natural to consider steps 1 and 2 as part of our initial strategy review, which is consistent with our understanding of the views of the Committee at the most recent meeting.
- The review will propose some core investment principles, based on the Investment Strategy Statement (“ISS”) but also provide some areas for the Committee to propose their own beliefs or principles and facilitate a discussion at the meeting.
- By way of an example, one area for consideration might be the following:

1. **Circumstance:** The funding level has improved due, in part, to strong equity market performance since 2009.
 2. **Principle:** Following periods of strong funding level improvements, it may be appropriate to de-risk the investment strategy to the extent that this continues to support the funding policy.
 3. **Implement:** Consider at what funding position de-risking may be appropriate, and how this de-risking could be achieved.
- Another example of the Fund's circumstances which will be considered in the change in actuarial approach, and how this should impact the investment principles. This will also encompass economic and market circumstances, particularly around Brexit, the result of the UK election and uncertainty associated with the Trump presidency.
 - It is important to stress that we will suggest principles in the knowledge that some may be agreed and some may not. Our focus is to provoke a discussion and help the Committee reach its own conclusions on the key investment principles.
 - Depending on the outcome of the meeting, it will be necessary to have a follow up presentation to discuss the implementation of any changes that arise from the discussion. This follow-up presentation would cover the more quantitative analysis into a possible "straw man" portfolio which would reflect the beliefs and principles agreed at the first meeting. We have not included a proposal for these next steps in this document, given we won't know what these will include until after the meeting.

Timescales

- We would expect to be able to deliver the review within 4 weeks of agreement to proceed, providing ample time to consider before the next Committee meeting on 8 September 2017.

Proposed Fees

- The proposed fee for the review would be £8,000 (ex VAT). Liaison with Hymans and potential discussions with Officers and the Independent Advisor would be charged for in addition on time cost basis. Advice and assistance with any additional discussions on implementation would be subject to separate fees.

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