

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE:** 12 JUNE 2020**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**SUBJECT:** CORONAVIRUS RESPONSE INCLUDING MARKET UPDATE**SUMMARY OF ISSUE:**

Strategic objectives			
Investment	Funding	Governance	Delivery

This report provides an update on the Surrey Pension Fund's (the Fund's) risk based response to the Coronavirus crisis. It also provides an update on the market outlook and proposed actions that the Fund should take.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the Surrey Pension Fund Coronavirus Plan (included as annexe 1).
2. Note the Surrey Pension Fund Coronavirus risk register (the latest version of which is included as annexe 2).
3. Note the Investment Market Update provided by Mercer (included as annexe 3) and approve the following recommendations:
 - Continue with the key strategic changes to the portfolio approved by the pension fund committee, at its meeting of 13 September 2019;
 - Prioritise topping up multi asset credit as part of standard portfolio rebalancing;
 - Continue with a review of the gilts allocation, in accordance with the approval of the pension fund committee, at its meeting of 13 March 2020;
 - Review the allocation to UK and global property as part of the planned transition to BCPP property funds.

REASON FOR RECOMMENDATIONS:

Recommendations are consistent with the Fund's investment, funding, governance and delivery strategic objectives.

DETAILS:

The Surrey Pension Fund Coronavirus Plan

1. The Surrey Pension Fund Coronavirus Plan (the Coronavirus Plan), establishes the key principles which underpin the Fund's approach to managing the Fund during the Coronavirus crisis. These being:
 - Continuity of service to members, employers, pension fund committee and local pension board;
 - Colleague, employer & supplies welfare;
 - Social responsibility.
2. In accordance with Surrey County Council policy, the Surrey Pension Fund team is working from home. All ICT issues are managed by the corporate ICT team of Surrey County Council. The Surrey team have experience of working in an agile way and no business interruption is expected.
3. There are no current reports of sickness within the team. In the event of sickness to individual team members, business continuity steps have been established with Border to Coast, Fund managers, advisors and the custodian.
4. Communications have been regular and appropriate in response to the crisis. The Fund website has been regularly updated to include frequently asked questions. In addition Pension Fund Committee and Local Board members have received a weekly email, including market and administration updates.
5. The Coronavirus Plan details the risk based approach to the crisis, broken in to the four service areas of the Fund's Business Plan:
 - Funding;
 - Investment;
 - Governance;
 - Delivery.

The Surrey Pension Fund Coronavirus risk register

6. A detailed response to these four service areas is outlined in the Surrey Pension Fund Coronavirus risk register. This register is reviewed as and when required and at least on a weekly basis, when it is shared with Chairman of the Pension Fund Committee and Local Pension Board.
 - (i) Funding risk
7. The Fund will continue with its existing funding strategy for as long as possible.

8. The following funding risks have been identified, assessed and treated or tolerated, where appropriate:

- Contribution rates for employers are unaffordable due to business interruption;
- Investment downside risk has changed;
- Business continuity failures mean employers are unable to meet contribution payment deadlines;
- Employers unable to meet exit debt;
- Current discount rate inappropriate for new or exiting employers.

9. No residual funding risks have been classified as red (high risk).

(ii) Investment risk

10. An enforced sale of assets is not envisaged, as there are sufficient cash reserves available to pay pensions for over six months, even if worst case scenarios for our contributing employers transpire.

11. There are no current plans to reconsider the existing investment strategy. The Fund is in regular consultation with Border to Coast, its investment consultant, independent advisor and fund actuary.

12. The following investment risks have been identified, assessed and treated or tolerated, where appropriate:

- Planned strategic changes no longer appropriate;
- Assets no longer aligned with benchmark/risk position;
- Market distortions;
- Fire sale of assets;
- Illiquidity in alternative assets;
- Failure to meet private market demands of asset allocation due to reduced deal flow.

13. No residual investment risks have been classified as red (high risk).

(iii) Governance risk

14. The constitution allows for much of business as usual to continue remotely.

15. Activity with Border to Coast will continue remotely. Currently there are no changes to the Border to Coast governance plan for 2020/21, however, this is under review in line with evolving circumstances.

16. The following governance risks have been identified, assessed and treated or tolerated, where appropriate:

- Committee and Local Board meetings disrupted;
 - Governance with Border to Coast disrupted.
17. No residual governance risks have been classified as red (high risk).
- (iv) Delivery risks
18. There is a risk of failure to delivery objectives of the Pension Fund Business Plan within agreed timescales. Business Plan tasks will be prioritised on an ongoing basis.
19. There is a need to focus on our core / key functions and accept that, in some circumstances, other work may not be able to be completed.
20. The following delivery risks have been identified, assessed and treated or tolerated, where appropriate:
- Pension administration disruption;
 - Issues with IT & software system providers;
 - KPIs deteriorate and volume of work in certain areas increases;
 - Pension Fund Team functionality diminished through sickness or emergency redeployment;
 - Failure to delivery objectives of the Pension Fund Business Plan within agreed timescales;
 - Pension projects delay;
 - Investment operations delay;
 - Accounts closure delay;
 - Pension members concerned about market volatility;
 - Pension Fund Committee and Local Pension Board concerned about market volatility and business continuity;
 - Process gaps in Ill health retirement process leads to additional disputes.
21. The Head of Pension Administration has identified the following issues relating to the delivery of administration:
- The shift to home working is a significant change for our team;
 - Reliance will be placed on IT solutions;
 - The Helpdesk phone system needs a suitably configured building;
 - Processes are being revised to eliminate the need for paper and signatures;
 - Secure email is being used, instead of sending out letters.
22. The following top three immediate administration priorities have been identified:
- Deaths (including any dependent's benefits);
 - Retirements (all types, from ill-health to bringing deferred members into payment, as well as employer estimates);
 - Refunds (due to the cash impact for the individual).

23. No residual delivery risks have been classified as red (high risk).

Market update

24. As noted in the Investment manager issues and performance and asset/liabilities update report, the Fund has suffered significant losses as a result of reactions of the markets to Covid 19 and as of 31 March 2020, the value of the portfolio was c£3.8b. This position has recovered somewhat from these lows and, as of 31 May 2020, was c£4.1b.

25. The Fund's investment consultant, Mercer, have provided a Coronavirus investment market update. This is broken in to the following sections:

- Market reaction to date within liquid markets;
- Consideration of possible shapes of economic recovery;
- Views on all current and prospective asset classes in the Fund's portfolio;
- Recommendations on what the Fund should do at the current time.

(i) Market reaction to date within liquid markets

26. Mercer provide a summary of the Coronavirus impact, across the following assets classes:

- Global equity: all markets have suffered losses, with UK equity remaining most depressed. The global low carbon allocation in the Fund's portfolio has performed relatively well, due to its low exposure fossil fuel companies;
- Credit: credit spreads across credit markets rose dramatically and are still significant;
- UK Gilts: gilt yields have reached unprecedented levels;
- UK foreign exchange: sterling has fallen sharply against other major currencies;

(ii) Potential recovery shapes

27. Mercer have outlined the following potential "alphabet" recovery shapes, to which they have attributed a subjective probability percentage:

- V shaped recovery: social distancing measures return to normal by Q4 2020 (25% probability);
- W shaped recovery: a second wave forces further lockdowns in Q1 2021, after social distancing is relaxed (40% probability);
- U shaped recovery: lockdown remains in place for most of 2020 (25% probability);
- L shaped recovery: similar to U shape, but, lockdown is over a longer period (10%).

(iii) Views on all current and prospective asset classes in the Fund's portfolio

28. Mercer have rated all assets in the current and target allocation asset allocation, by reference to "no long term issues", "short term concerns" and "long term concerns".

29. Mercer do not have “long term concerns” over any assets in the portfolio.

30. Mercer have “short term concerns” over the following assets:

- UK & global equity;
- RAFI equity;
- Emerging market equity;
- Diversified growth;
- Total return bonds;
- Property;
- Private equity;
- Gilts.

31. Mercer have “no long term issues” over the following assets:

- Low carbon equity;
- Multi asset credit;
- Infrastructure;
- Private debt;
- Corporate bonds.

(iv) Recommendations on what the Fund should do at the current time

32. Mercer provided the following recommendations:

- Despite the increased economic uncertainty, continue with the key strategic changes to the portfolio approved by the pension fund committee, at its meeting of 13 September 2019;
- Prioritising the topping multi asset credit as part of standard portfolio rebalancing;
- Continue with a review of the gilts allocation, in accordance with the approval of the pension fund committee, at its meeting of 13 March 2020;
- Review the allocation to UK and global property as part of the planned transition to BCPP property funds.

(v) The Independent advisor's view

33. The Fund’s Independent Advisor, Anthony Fletcher, is broadly supportive of the Mercer report and recommendations. His report is included as annex 4.

CONSULTATION:

34. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

35. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

36. Financial and value for money implications are discussed within the report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

37. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

38. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

39. There are no equality or diversity issues.

OTHER IMPLICATIONS

40. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

41. The following next steps are planned:

- Officers to continue to monitor the Coronavirus risk register and report to the Chairman of the Pension Fund Committee and Local Pension Board on a weekly basis.
- Officers to work with the investment consultant, independent advisor and BCPP (where appropriate) to implement the strategic investment objectives.

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions)

Consulted:

Pension Fund Committee Chairman

Annexes:

1. The Surrey Pension Fund Coronavirus Plan
2. The Surrey Pension Fund Coronavirus risk register
3. Investment Market Update (Mercer) (Part 2)
4. Independent Advisor view (Part 2)

Sources/background papers:

None.

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