

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 10 MARCH 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL****SUBJECT: UKRAINE CRISIS – URGENT DECISION****SUMMARY OF ISSUE:**

This is a paper to recommend how the Pension Fund Committee responds to the catastrophic recent events in Ukraine.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Note the contents of this report.
2. Approve the proposed next steps and accompanying statement in response to the crisis.

REASON FOR THE URGENT DECISION:

Recent events in Ukraine represent a geo-political crisis. Officers, in consultation with the Chairman of the Committee have taken advice from the Fund's managers, consultants and advisors to inform the Fund's response. This culminated in a meeting of the Joint Committee of Border to Coast on 8 March 2022. This paper reflects this dialogue and the need for the Committee to decide on next steps as a matter of urgency.

DETAILS:**Background**

1. Below are some established facts about the current crisis in Ukraine:
 - a) Economic sanctions are placed on Russia and Belarus;
 - b) The above are varied and supported by nations at different levels/timings;
 - c) Currency fluctuations are significant in relation to the Russian Rouble;
 - d) Public listed companies values have plummeted;
 - e) Russian companies listed on the FTSE 100 have dropped by c70% in February, as a result they will inevitably be removed from the FTSE 100.
2. The Local Government Pension Scheme Advisory Board have published this statement on 28th February 2022:

“In the light of events in Ukraine and resultant extant and potential sanctions by the UK government any LGPS funds who are not already doing so are advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken.”

The Surrey Pension Fund exposure to assets affected by the crisis

3. The Fund has very minor exposure to direct holdings in regions connected to the conflict (less than 0.0025% of the Fund as at 24 February 2022 (c£12m based on a fund value of £5b)) through its Multi-asset credit (MAC) fund with Border to Coast and indexed funds with LGIM.

a) Border to Coast MAC Fund:

- i- Russia: 1.2%, – sovereign bonds, VEB, Gazprom, Lukoil
- ii- Belarus: <0.1%, – sovereign bond
- iii- Ukraine: 0.4%.

Formal fair value pricing of the MAC Fund will only take place at the monthly trading date.

- b) LGIM World Emerging Markets Equity index Fund: Overall direct exposure of 1.67%:

Aeroflot PJSC, Alrosa PJSC, Bashneft PJSC, Credit Bank of Moscow PJSC, Federal Grid Co Unified Energy System PJSC, Gazprom PJSC, Inter RAO UES PJSC, LUKOIL PJSC, M.Video PJSC, Magnit PJSC, Magnitogorsk Iron & Steel Works PJSC, MMC Norilsk Nickel PJSC, Mobile TeleSystems PJSC, Moscow Exchange MICEX-RTS PJSC, Mosenergo PJSC, Novatek PJSC, Novolipetsk Steel PJSC, PhosAgro PJSC, Polyus PJSC, Rospadskaya OJS, Rosneft Oil Co PJSC, ROSSETI PJSC, Rostelecom PJSC, RusHydro PJSC, Sberbank of Russia PJSC, Segezha Group PJSC, Severstal PAO, Sistema PJSFC, Sovcomflot PJSC, Surgutneftegas PJSC, Tatneft PJSC, Transneft PJSC, Unipro PJSC, United Co RUSAL International PJSC, VTB Bank PJSC.

- c) Future World Emerging Markets Equity Index – Overall direct exposure of 0.112%:

Alrosa PJSC, Gazprom Neft PJSC, Gazprom PJSC, LUKOIL PJSC, MMC Norilsk Nickel PJSC, Mobile TeleSystems PJSC, Novatek PJSC, Novolipetsk Steel PJSC, PIK Group PJSC, Polyus PJSC, Rosneft Oil Co PJSC, Sberbank of Russia PJSC, Severstal PAO, Surgutneftegas PJSC, Tatneft PJSC, United Co RUSAL International PJSC.

In line with LGIM's fair value pricing policy the value of Russian assets has been pro-actively written down over the past few days. As of close 2nd March, the decision of the fair value pricing committee was to price Russian equity securities at zero. These assets will remain held but with a zero value. Once the index prices the assets at zero, both the portfolio and index will be aligned meaning that there is no ongoing increase in tracking error for the portfolios.

4. The Fund has no exposure to direct holdings in regions connected to the conflict in its mandates with CBRE, Newton or in its private market portfolio.
5. We are in the process of examining our indirect exposure to Russia (e.g. BP and Shell) across our portfolios. We are working towards having an update available for the Committee as soon as possible.

Sanction & impact on trading

6. HM Government's has announced sanctions on Russia. This is aimed at encouraging Russia to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine.
7. Due to these sanctions and reciprocal actions taken by the Russian Government, it is not currently possible to sell any listed Russian equities, or Russian Government Bonds. This is likely to be the case for the next six months at least, until the sanctions are formally reviewed.
8. The two Index providers detailed below are the Indices that are used for the two above LGIM indexed funds that Surrey have exposure to:
 - a) FTSE – will be deleting Russian classified equities with an effective date of close 4th March 2022, at a price of zero;
 - b) Solactive - will be deleting Russian securities at the close 9th March, and at a price of zero.

Next steps

9. The Surrey Pension Fund is aware that there is a high level of interest in our investments in Russia and our response to the invasion of Ukraine.
10. In this fast-evolving situation, it is proposed that officers will continue to monitor events, in consultation with the Fund's asset managers, consultant and advisors and to keep the committee informed.
11. It is also proposed that the committee agrees to the following statement in response to the crisis:

“The Surrey Pension Fund is saddened by and strongly condemn the invasion of Ukraine by Russia. Given the current circumstances we have immediately suspended making any further investments in Russia and continue to review our existing investments including our approach to exiting in due course as and when markets permit. This is above and beyond the UK sanctions currently in place.”

CONSULTATION:

12. The Chairman of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

13. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

14. Financial and value for money implications are contained within the report.

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

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

and that private equity has been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

16. The Monitoring Officer has been consulted.

EQUALITIES AND DIVERSITY

17. The review of the Fund's investment programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

19. The following next steps are planned:
- a) Officers will continue to monitor events, in consultation with the Fund's asset managers, consultant and advisors and to keep the committee informed.

Contact Officer:

Neil Mason, Assistant Director – LGPS Senior Officer

Consulted:

Pension Fund Committee Chairman

Annexes:

N/A

Sources/background papers: