

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE:** 10 MARCH 2023**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL**SUBJECT:** ASSET CLASS FOCUS – CREDIT MARKETS**SUMMARY OF ISSUE:**

As part of good governance, the Pension Fund Committee (Committee) periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes each quarter. This quarter the paper concentrates on credit markets.

RECOMMENDATIONS:

It is recommended that the Committee:

1. Note the Fund's credit market holdings, respective funds' investment performance and review from the Fund's independent investment adviser.
2. Approve officers, investment consultant and investment advisor to review the Fund's weighting to credit markets and the nature of those investments.

REASON FOR RECOMMENDATIONS:

A solid framework of review is required to benefit from this long-term asset category. This is consistent with Fund's strategic investment objectives.

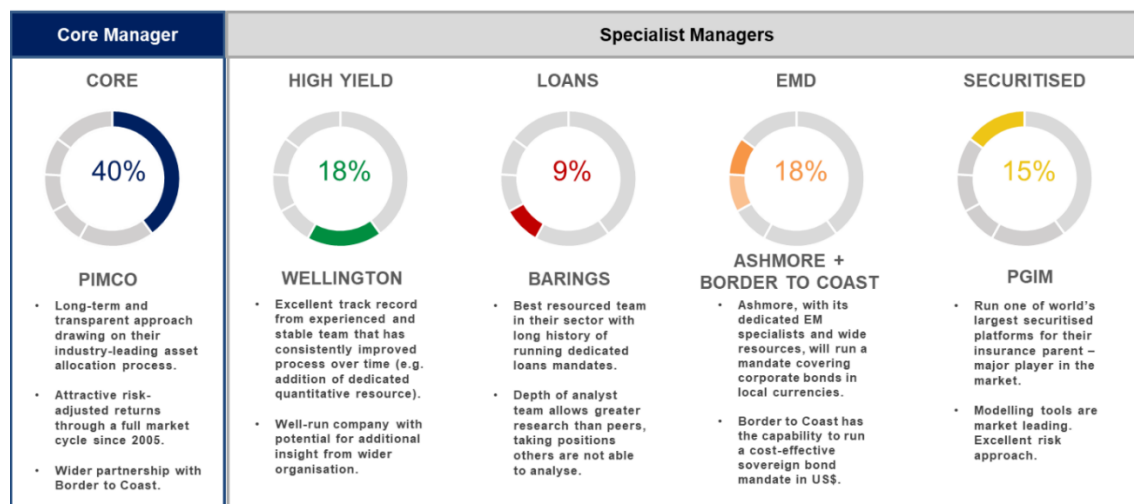
DETAILS:**Background**

1. A fixed-income investment is a debt instrument that investors use to loan money to a company or country in exchange for interest payments. A fixed-interest investment pays a defined rate of interest over the life of the investment. The face value is returned when the investment matures.
2. The Fund (£5.1bn) currently has a target allocation of 17.6% of the portfolio to fixed-interest investments. This is made up of 12.1% to Multi-asset credit (MAC) and 5.5% to gilts. The current Fund positioning is 10.8% (£550m) in MAC and 2.4% (£124m) in gilts.

Multi-asset credit

3. The Fund has a 12.1% strategic allocation to MAC. MAC seeks to achieve a diversified fixed interest approach by investing in a range of geographies, asset classes and credit instruments.

4. The Fund completed its transition into the Border to Coast MAC fund (MAC fund) on 11 November 2021. The MAC fund aims to provide a total return which outperforms the total return of SONIA (cash) plus 3.5% per annum over rolling five years periods (net of management fees).
5. The MAC fund has a core/satellite fund management design, as follows:



6. The Chair of the Committee, Independent Investment Advisor, Assistant Director - LGPS Senior Officer and Head of Investment & Stewardship met with the Border to Coast MAC fund portfolio management team on 11 February 2023. A review of the MAC fund from the Fund's independent investment advisor is included as Annexe 1.
7. Officers, investment consultant and independent advisor to consider the exposure to MAC in light of current position and target weight.

Gilts

8. Government bonds issued by the UK Government as gilts.
9. The Fund's target asset allocation to gilts is 5.5%. Conventional gilts are nominal bonds that promise to pay a fixed coupon rate at set time intervals. When a conventional gilt matures, its holder receives the last coupon and the principal.
10. An allocation to gilts has been retained to match tailored employer strategies.
11. The investment consultant, independent advisor and actuary will review the gilt position, having considered the employer strategies, and will report back on a recommended weighting.

CONSULTATION:

12. The Chair of the Committee 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 markets have been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

16. There are no legal implications or legislative requirements associated with this report.

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. Review of MAC and gilt allocation after consideration by independent advisor, investment consultant and actuary.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Consulted:

Pension Fund Committee Chair

Annexes:

1. Summary report from the Fund's Independent Investment Advisor – Annexe 1

Sources/background papers:

This page is intentionally left blank