

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 16 JUNE 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL****SUBJECT: ASSET CLASS FOCUS – EQUITY****SUMMARY OF ISSUE:**

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes. This paper concentrates on Equities.

RECOMMENDATIONS:

It is recommended that:

The Committee note the Fund's Equity holdings, respective funds' investment performance and review from the Fund's independent investment adviser.

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. The Fund's listed equity exposure is derived from holdings in equity funds that have underlying investments in the shares of companies listed on stock exchanges. These investments would tend to be classified as higher risk, with the expected return coming from both capital appreciation (a rising share price) and dividend income. Both the share price and dividend income can rise and fall over time.
2. The Fund currently has a target allocation of 54.8% of the portfolio to listed equities.
3. The investments are split between actively managed funds and passive funds. Actively managed funds attempt to outperform their respective benchmarks by owning more or less of each individual constituent of the benchmark. There are active decisions made about whether to own each company and to what extent. The passively managed funds attempt to match the performance of the underlying benchmark as closely as possible. The Fund's passive investments tend to replicate the benchmark by holding most, if not all, of the constituent companies. The opportunity of significant outperformance is forgone, but fees are considerably lower.
4. The Fund's passive funds are managed by Legal and General Investment Management (LGIM), and the active funds are managed by Border to Coast

(BCPP) and Newton Investment Management. As at 31 March 2023, BCPP managed £1,490m (including the Listed Alternatives Fund) in equities for the Fund, LGIM £1,323m, and Newton £491m.

5. The LGIM fees range from 0.75bp to 4bp and the manager is seen as one of the leading proponents of responsible investing globally. The Fund's largest investment with LGIM is in the Future World Global Index Fund, which amounted to £926m as at 31 March 2023. This fund incorporates 34 different ESG factors to tilt the portfolio's investments.
6. Border to Coast do not directly buy company shares for Global Equity Alpha or UK Equity Alpha, but instead allocate investment to external managers for active management. There are 4 external managers in the UK Equity Alpha Fund, having seen UBS removed during the year and replaced by Lindsell Train and Redwheel. There are 7 managers in the Global Equity Alpha Fund after the addition of GSAM for Emerging Markets excluding China, and FountainCap for Chinese exposure. The blending of various investment styles aims to improve risk adjusted returns.

UK Equity Alpha Manager	Investment Style	Percentage Allocation as at 31 March 2023
Redwheel	Intrinsic Value	32%
Baillie Gifford	Growth	31%
Janus Henderson	Small Cap	11%
Lindsell Train	Quality	26%

Global Equity Alpha Manager	Investment Style	Percentage Allocation as at 31 March 2022
Loomis Sayles	Quality Growth	23%
NinetyOne - Franchise	Quality	19%
NinetyOne - Value	Value	18%
Harris	Intrinsic Value	27%
Lindsell Train	Quality	10%
GSAM	EM ex China	2%
FountainCap	China	1%

7. The equity asset class report by the Fund's Independent Investment Advisor is in Annexe 1.

CONSULTATION:

8. The Chair of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

9. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

11. The Director of Corporate Finance & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered, and that equities have been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

13. 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

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

WHAT HAPPENS NEXT

15. The following next steps are planned:
 - a) Continued monitoring of equity holdings with a performance review report to be brought to the committee on an annual basis.

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: None

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