

**SURREY COUNTY COUNCIL****SURREY PENSION FUND COMMITTEE****DATE: 8 SEPTEMBER 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL****SUBJECT: ASSET CLASS FOCUS – UK REAL ESTATE & LISTED ALTERNATIVES****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 Real Estate.

**RECOMMENDATIONS:**

It is recommended that the Committee:

1. note the Fund's Real Estate 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 Real Estate exposure is derived through investment in a fund-of-funds with CBRE. As at 30 June 2023 the weighting to Real Estate in the Fund was 5.7%. The target weight within the current investment strategy asset allocation is 7.3%
2. The mandate commenced April 2004 and is invested in UK and Global property funds. Currency exposure is unhedged and performance is measured in sterling.
3. As at 30 June 2023, the asset split between UK and Global property funds was 73% UK and Cash and 27% Global. This is approximate to the desired split of 75% UK and cash and 25% Global which was reconfirmed at the June 2023 Committee meeting.
4. The performance objective at the mandate level is to outperform the MSCI/AREF UK QPFI All Balanced Property Fund Index by at least 0.5% p.a. gross of cash and fees over three-year rolling periods. For the UK Real Estate exposure the benchmark is also the MSCI/AREF UK QPFI All Balanced

Property Fund Index, whilst the performance objective for the Global Alpha Fund is to deliver returns of 9-11%.

5. Using CBRE's business day 10 analysis for the year to 31 March 2023, the total mandate returned -9.3% in sterling, compared to the benchmark return of -14.5%. The 3-year return was 2.8% p.a. in sterling compared to 2.6% for the benchmark.
6. The exposure to global Real Estate is expected to transition to Border to Coast Pension Partnership (BCPP) from CBRE once the BCPP fund has met all necessary conditions. The launch will be in accordance with the phasing previously presented by BCPP and accepted by the Committee in June 2023.
7. The reviews by the Independent Advisor can be found in Annexe 1 and Annexe 2. Annexe 1 covers performance and positioning of the current Real Estate exposure, and also reviews the progress made by BCPP in developing their own Global and UK Real Estate Funds. Annexe 2 covers a review of BCPP's Listed Alternatives Fund.

#### **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 FINANCE, CORPORATE AND COMMERCIAL COMMENTARY**

11. The Director Finance, Corporate and 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 Real Estate holdings with a performance review report to be brought to the committee on an annual basis.
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### **Contact Officer:**

Lloyd Whitworth, Head of Investment & Stewardship

### **Consulted:**

Pension Fund Committee Chair

### **Annexes:**

1. Real Estate Report from the Independent Investment Advisor – Annexe 1
2. Listed Alternatives Report from the Independent Investment – Annexe 2

### **Sources/background papers:**

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