Annexe 2

MJ HUDSON Allenbridge

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Surrey Pension Fund Committee

Manager Review Meeting Minutes

25th July 2023

Attendees

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Neil Mason, Assistant Director – LGPS Senior Officer
Lloyd Whitworth - Head of Investment and Stewardship
Mel Butler – Investment Strategy Manager

Anthony Fletcher, Independent Adviser

Background

The purpose of this meeting was to receive an update from BCPP on the performance, activity and outlook for the Listed Alternatives Fund managed on behalf of the Surrey Pension Fund.

BCPP

Mark Lyon – Deputy CIO
Ryan Boothroyd – Portfolio Manager
Milo Kerr – Head of Client Relations

13

Mandate summary

In February 2022 Surrey invested in the BCPP Listed Alternatives Fund (LAF). The investment objective is to produce a long-term return in line with global equity markets by investing in a diversified portfolio of alternative assets. The Fund aims to generate returns with less volatility and provide investors with a higher level of income than broader equity markets.

Performance

In the 3 months to the end of June 2023 the fund returned +0.22% compared to the benchmark return of +3.26%. Over 12 months the fund delivered -2.2% and the benchmark +11.3%. Since inception in February 2022 the fund has returned -3.6% and the benchmark +4.3%. The funds benchmark is the MSCI All Country World Index.

Surrey's objective

The objective was to have a sufficiently liquid investment vehicle that reflected the performance and risk characteristics of unlisted private market assets such as Private Debt, and Equity and Infrastructure, rather than the pooled diversified growth funds (DGF's) that were owned at the time by Surrey. These DGF's were invested predominantly in listed equity and bond markets. It was understood that there would be "basis risk" between the returns of the LAF and both listed and unlisted assets.

Unlisted assets are often re-valued based on estimates of a change in value, by price discovery ie when they are sold, or valued at purchase cost. Listed Alternatives are priced based on supply and demand and the markets perception of changes in intrinsic value in the same way as listed equity and bond markets. Hence at times of increased uncertainty the price may not properly reflect the real value of the underlying investments and may be more volatile due to their potential lack of liquidity.

Market Background

The period over which we are comparing the performance of the LAF, to the MSCI ACWI has been unfortunate in a number of ways. The inception of the fund was immediately before Russia invaded Ukraine; the resulting shock to global markets caused equity and bond markets to fall in price. Increased food and energy inflation caused central banks to respond with rapid increases interest rates. This has led to a marked increase in bond yields, which was quickly reflected in the value of the assets owned by the LAF but not immediately in the value of the unlisted private market assets the fund was designed to mimic.

In 2023 the underperformance of the fund relative to the MSCI ACWI, has been further influenced by the performance of what are now being called the "magnificent 7"; or what used to be referred to as the "FAANG". The magnificent 7 stocks are Apple, Alphabet, Amazon, Meta, Microsoft, Tesla and Nvidia. Year to date these 7 companies are responsible for almost 95% of the performance of the US stock markets, and because the US represents 65% of the MSCI ACWI, the vast majority of the performance of that global index. If you did not hold these stocks in your US and Global equity portfolio's your performance may have been negative year to date. The LAF would not have been expected to hold these companies even though it chose to have its performance compared to an index that did.

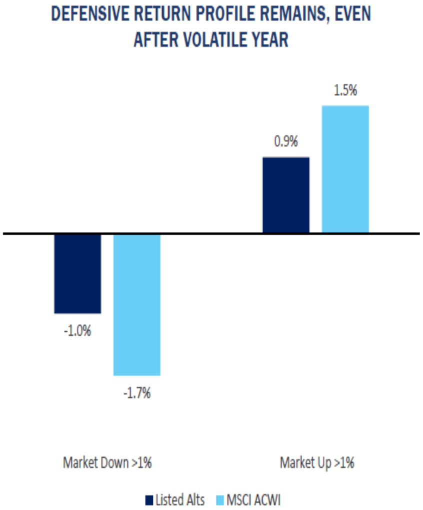
However, there is also a new opportunity for investors, the rise in interest rates and bond yields means that investors do not need to sacrifice liquidity for the higher income offered by less-liquid assets classes, like those that are owned by the LAF. As a result, cash and short maturity bonds may provide a "parking place" for money waiting to be drawn down by Surrey's private market managers.

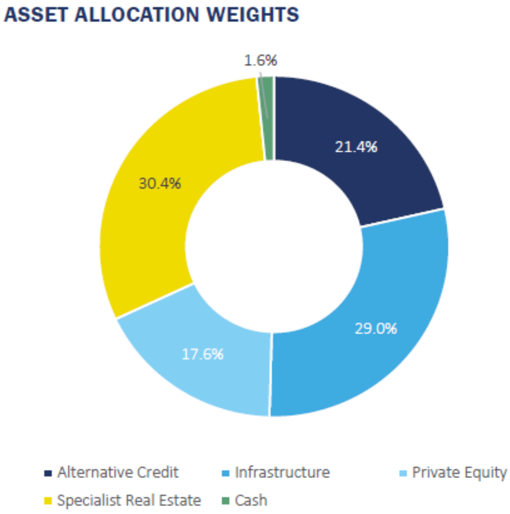
Current positioning

The current positioning of the fund is set out below, as can be seen in the left hand table the fund has a higher yield, lower volatility and lower value at risk than global equity. The middle chart seeks to further confirm the fund's defensive characteristics when compared to MSCI ACWI. The right chart shows the funds asset allocation, as can be
13 seen the highest weight is to Specialist Real Estate funds and trusts. While a number of the investment vehicles in this allocation will have underlying assets with "infrastructure and debt like" characteristics, they are still considered by the market as real estate assets.

KEY CHARACTERISTICS VS. GLOBAL EQUITIES

	LISTED ALTERNATIVES	GLOBAL EQUITIES
Positions	50	2,900
Dividend Yield	4.8%	2.1%
Volatility	12.9%	17.1%
Value-at-Risk	28.5%	35.7%





Source BCPP 30th June 2023

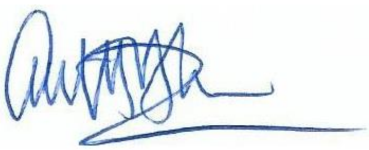
Adviser View

To be honest I believe BCPP have been unlucky with the launch of this fund and the market conditions that have led to its performance. I believe they have looked carefully at the experience of the period since inception and presented a reasonable defence of the fund's past and possible future long term performance. The point about the magnificent 7, is my observation against their chosen benchmark.

However, I believe they did not pay enough attention to Surrey's needs for liquidity to fund private market drawdowns, but again maybe they did not anticipate the speed and magnitude of the drawdowns, when compared to historical experience.

Furthermore, I believe that we (the advisers and Surrey) may have compromised too much for the sake of pooling in the design of the fund. At the outset Surrey wanted a fund that mimicked it's private markets allocation, roughly 1/3 private equity, 1/3 private debt and 1/3 Infrastructure. But Surrey accepted the feedback from other partner funds about their needs and BCPP's assertion that there was insufficient market depth and breadth in that allocation, and hence the need to add "real estate assets" with similar characteristics to achieve the desired risk, return and liquidity requirements.

However, Surrey was clear with BCPP that the LAF would be used to fund drawdowns to unlisted private market assets and after that to keep the actual allocation to private markets neutral to the strategic allocation. This message may not have been fully appreciated by BCPP in the portfolio construction.



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