

**SURREY COUNTY COUNCIL****SURREY PENSION FUND COMMITTEE****DATE: 22 MARCH 2024****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE CORPORATE AND 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.

**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**

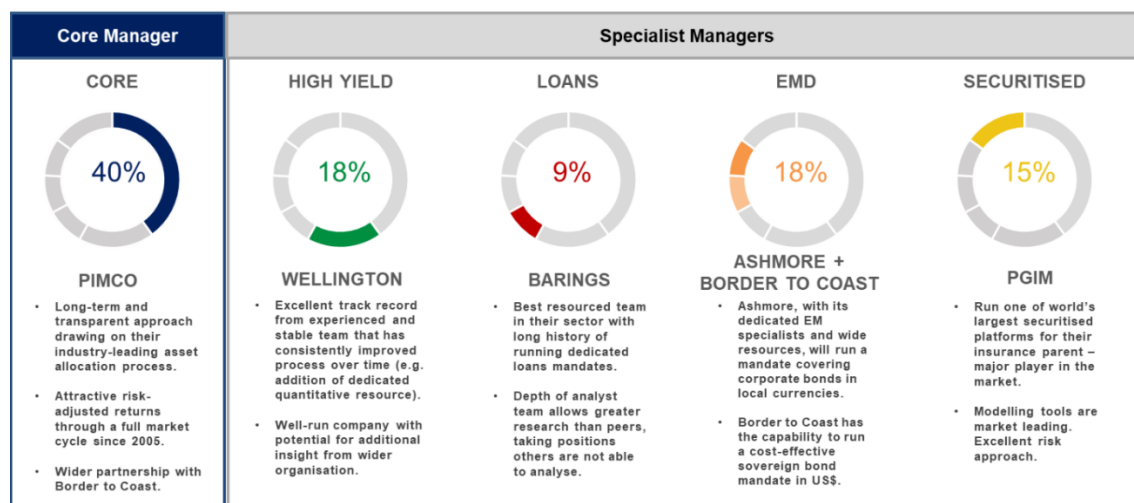
1. A fixed-income investment is a debt instrument that investors use to loan money to a company or country in exchange for interest payments. A fixed-interest investment pays a defined rate of interest over the life of the investment. The face value is returned when the investment matures.
2. The Fund (£5.6bn) currently has a target allocation of 16.9% of the portfolio to fixed-interest investments. This is made up of 15.1% to multi-asset credit and 1.8% to gilts. The current Fund positioning is 14.0% (£779m) in multi-asset credit and 2.3% (£129m) in gilts.

**Multi-asset credit**

3. Multi-asset credit seeks to achieve a diversified fixed interest approach by investing in a range of geographies and credit instruments.
4. The Fund completed its transition into the Border to Coast Pensions Partnership (BCPP) Multi-Asset Credit fund (MAC) on 11 November 2021. MAC 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. Following a review of the Fund's employer strategies, it was agreed at the 16 June 2023 Committee meeting that the target asset allocation for MAC should increase from 12.1% to 15.1%. The Fund has been steadily buying into MAC to move the exposure to this new target. As at 31 December 2023, the Fund's exposure was 14.0%. A further purchase of MAC was carried out in January 2024 such that the weight is now at target.
6. MAC has a core/satellite fund management design, as follows:



7. The Chair of the Committee, Independent Investment Advisor, Assistant Director - LGPS Senior Officer and Head of Investment & Stewardship met with the BCPP MAC portfolio management team on 9 February 2024. A review of MAC from the Fund's independent investment advisor is included as Annexe 1.

### Gilts

8. Gilts are government bonds issued by the UK Government.
9. The Fund's target asset allocation to gilts is 1.8%. 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. Index-linked gilts differ from conventional gilts in that both the semi-annual coupon payments and the principal payment are adjusted in line with movements in the General Index of Retail Prices in the UK (also known as the RPI).
10. Following a review of the Fund's employer strategies, it was agreed at the 16 June 2023 Committee meeting that the target asset allocation for gilts should reduce from 5.5% to 1.8%. The Fund's exposure was already approximate to the new target.
11. The gilt exposure was previously held directly by the Fund through individual conventional gilts. However, at the 8 September 2023 Committee meeting it was agreed that these gilts should be sold and the Fund should invest through a passive conventional gilt fund managed by Legal & General

Investment Management (LGIM), reducing cost and aligning to the Fund's liabilities. This switch took place in November 2023. The Fund is now invested in the LGIM Over 15 Year Gilts Index Fund.

12. Also approved at the September meeting was the automated switch from the LGIM Over 15 Year Gilts Index Fund to the LGIM All Stocks Index-Linked Gilts Index Fund if two predefined conditions are met.
13. The two criteria are a) The real redemption yield on the FTA All Stocks Index-Linked Gilts Index is in excess of 0%, and b) The FTA Over 15 Year Gilts Total Return Index has outperformed the FTA All Stocks Index-Linked Gilts Total Return Index by 15% since July 2023.
14. A review of gilts from the Fund's independent investment advisor is included as Annexe 1.

#### **CONSULTATION:**

15. The Chair of the Committee has been consulted on the report.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

16. Risk related issues are contained within the report.

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

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

#### **DIRECTOR OF FINANCE CORPORATE AND COMMERCIAL COMMENTARY**

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

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

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

#### **EQUALITIES AND DIVERSITY**

20. 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**

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

#### **WHAT HAPPENS NEXT**

22. The following next steps are planned:
  - a. Ongoing review of performance of the credit investments.

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**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:**