

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: 15 NOVEMBER 2013

LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER

SUBJECT: MANAGER ISSUES AND INVESTMENT PERFORMANCE



SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1. approve the report and the decisions as laid out;
2. formally approve that the Surrey Pension Fund make a USD 25m commitment to the Global Clean Energy and Infrastructure Fund;
3. formally approve that the Surrey Pension Fund make a £20m commitment to the Darwin Property Fund.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

DETAILS:**1) Manager Issues during the Quarter**

Manager	Issue	Status/Action Required
CBRE	Revised Investment Management Agreement (IMA)	Officers have received a revised IMA following the change to the manager benchmark outperformance requirement. This has been signed and returned.
LGIM	Possible Rebalancing	Members are invited to discuss the question of rebalancing in line asset allocation being outside of the policy control limits. The asset allocation at 30 September 2013 and 31 October 2013 are shown in Annex 1.
Standard Life	Secondary Opportunities Fund	Officers submitted the necessary signed paperwork within the necessary deadlines for the Secondary Opportunities Fund. Confirmation of acceptance by Standard Life has been received by officers.
Capital Dynamics	Clean Energy and Infrastructure Fund	Officers submitted the necessary signed paperwork within the necessary deadlines for the Clean Energy and Infrastructure Fund. Confirmation of acceptance by Capital Dynamics has been received by officers. Formal acceptance by the Board is required and included as part of this report's recommendations.
Darwin	Property Fund	Officers submitted the necessary signed paperwork within the necessary deadlines for the Property Fund. Confirmation of acceptance by Darwin has been received by officers. Formal acceptance by the Board is required and included as part of this report's recommendations.
Majedie	Client meeting	Update included in minutes of external fund manager meetings held on 7 November 2013. Notes to be distributed on day of Board meeting.
Baillie Gifford	Client meeting	Update included in minutes of external fund manager meetings held on 7 November 2013. Notes to be distributed on day of Board meeting.
UBS	Client meeting	Update included in minutes of external fund manager meetings held on 7 November 2013. Notes to be distributed on day of Board meeting.

Western	Client meeting	Update included in minutes of external fund manager meetings held on 7 November 2013. Notes to be distributed on day of Board meeting.
Franklin Templeton	Presentation	Managers will be presenting at the Board meeting on 15 November 2013.
Mirabaud	Presentation	Managers will be presenting at the Board meeting on 15 November 2013.

2) Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund since the last meeting.

Date	Requestor	Organisation	Request	Response
July -13	Company	Investor Data Services	Investment Management Association comparative disclosure tables from March 2000 to June 2013 including manager fees and individual broker names	Limited response from September 2007 to March 2013 with fees and broker names redacted
July-13	Company	Proxy Insight Ltd	Proxy voting records for 2012/13 calendar year	Provided as requested

3) Future Pension Fund Board Meetings/Pension Fund AGM

The schedule of meetings for 2013 and 2014 is as follows:

- 15 Nov 2013: Board meeting hosted at County Hall.
- 22 Nov 2013: Pension Fund Annual Meeting hosted at County Hall.
- 14 Feb 2014: Board meeting hosted at County Hall.
- 23 May 2014: Board meeting hosted at County Hall.
- 19 Sep 2014: Board meeting hosted at County Hall
- 21 Nov 2014: Board meeting hosted at County Hall.

4) Auto Enrolment

Auto enrolment statistics at 31 July 2013 are set out below

LGPS Auto Enrolment Statistics as at 31 July 2013

Number Auto Enrolled	1,795
Number Opted Out	632
Total Remaining in Scheme	1,163
Total Annual Pay	£19.2m
Total Employer Contributions	£3.3m
Total Employee Contributions	£1.1m
Total	£4.4m

The actuary has assessed the auto-enrolment effect on the overall long term cash flow and maturity implications. In summary, it will help cash flow but will not have a significant impact on maturity.

Current net cash flow is around £35m to £40m per annum. This excludes investment income and is simply the difference between income (contributions and transfers in) and expenditure (benefits paid and transfers out). This ignores exceptional events, for example, the Probation transfer.

The contribution income seems to be holding up well and is still increasing by about £3m per annum. However, benefits paid are increasing at a faster rate of around £7m per annum. Broadly, if this trend continues, the Fund will become close to cash flow neutral in around ten years.

The impact of auto-enrolment is relatively small and would serve to increase this time horizon by around a year or two, allowing for a similar retention from the other councils and employers once their members are also auto-enrolled.

In relation to maturity, this will have little impact in the short term as these members will not have any past service and so the active liability will remain much the same. Over time, these auto-enrolled members will build up some benefits and increase the active liability but this will not be material, i.e., it may add about £5m to £6m of active liability per annum which the actuary regards as relatively insignificant.

5) Stock Lending

Northern Trust (NT) have issued a final contract with regard to the stock lending process. This has been scrutinised by the Fund's advisor and negotiations with NT concluded. The stock lending programme is due to start from 11 November 2013.

Report of the Pension Fund & Treasury Manager

Internally Managed Cash

The internally managed cash balances of the Pension Fund are currently around £3.7m currently financed via a temporary three-month £20m loan at 0.6% interest. It is anticipated that the cash flow positive nature of pensions operations will replenish the Fund's cash position by 31 January 2014.

Private Equity Opportunities

There are no opportunities to report this quarter.

Actuarial Update

The process of data transfer to the Fund's actuary for the triennial actuarial valuation as at 31 March 2013 is now complete. Officers have received an initial actuarial report that assessed the funding level at 31 March 2013 at 72.3%, up from 72.0% at 31 March 2010.

The actuary will make a presentation of his initial findings at the Board meeting on 15 November 2013. The actuary will also attend the Pension Fund Annual Meeting on 22 November 2013.

The Pension Fund and Treasury Manager has been in regular contact with the Surrey Treasurers Association to keep them apprised of progress. A meeting for the Surrey District and Borough Councils was hosted at County Hall on 8 November 2013 with the actuary in attendance.

The Pension Fund and Treasury Manager will officially report on the final actuarial results and report at the Pension Board meeting of 14 February 2014.

Governance Strategies and Policies

All outstanding papers have now been drafted and presented to the Board, apart from the Pensions Administration Service Level Agreement. This will be presented to the Board for the 14 February 2014 meeting. The Pensions Administration Strategy is part of the 15 November 2013 agenda.

Fund Manager Meetings on 7 November 2013

Notes of the fund manager meetings of 7 November 2013 will be distributed on the day of the Board meeting on 15 November 2013.

LGC Fund of the Year

Two submissions for the LGC Awards 2013 under the categories Large Fund of the Year and Corporate Governance have been lodged. The results will be announced on 11 December 2013. Surrey won the LGC Award for Medium Fund of the Year in 2010.

Report of the Pension Fund & Treasury Manager

Financial and Performance Report

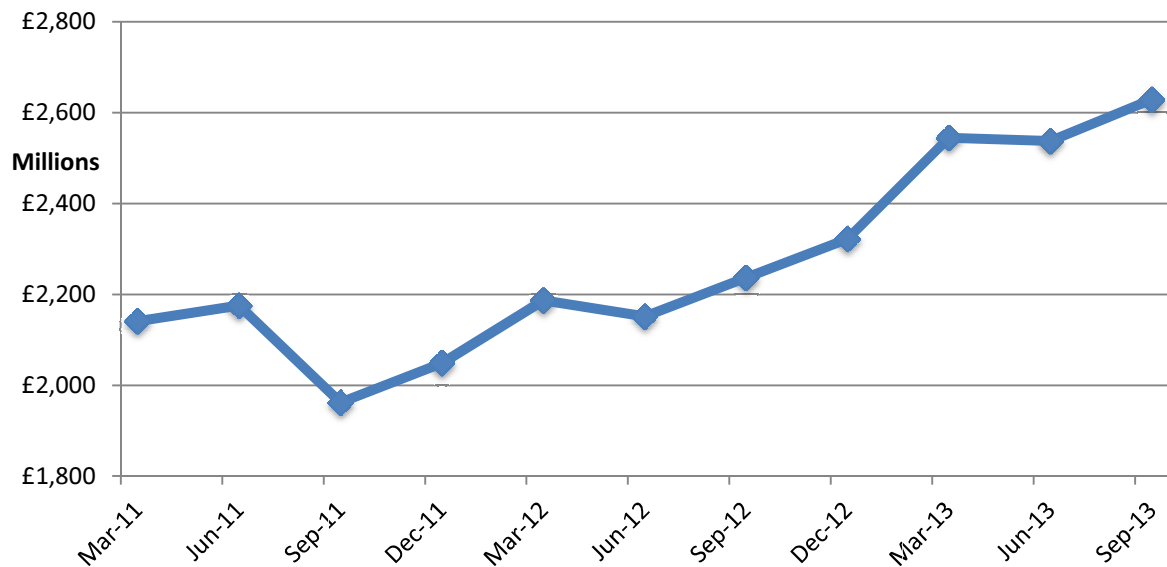
1. Market Value

The value of the Fund was £2,629.1m at 30 September 2013 compared with £2,537.5m at 30 June 2013. Investment performance was +3.3%

The increase is attributed as follows:

	£m
MARKET VALUE AT 30/06/2013	2,537.5
Contributions less benefits and net transfer values	6.6
Investment income received	17.4
Investment expenses paid	-1.6
Market Movements	69.9
Market Value at 30/09/2013	2,629.1
Estimated Market Value at 31/10/2013	2,706.4

Total Fund Value

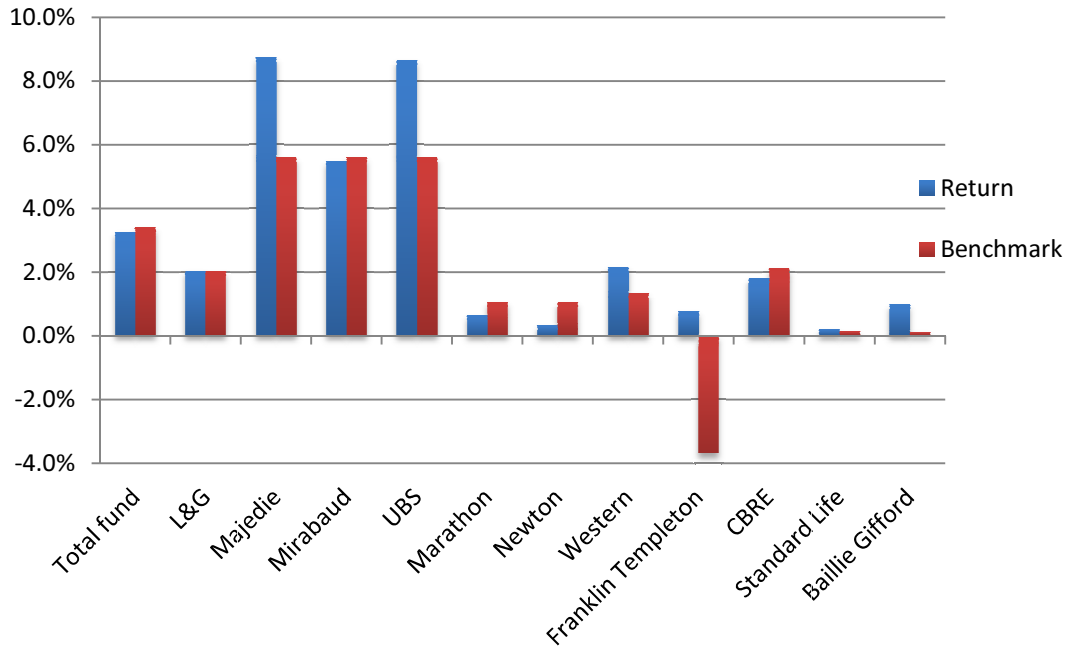


2. Fund Performance

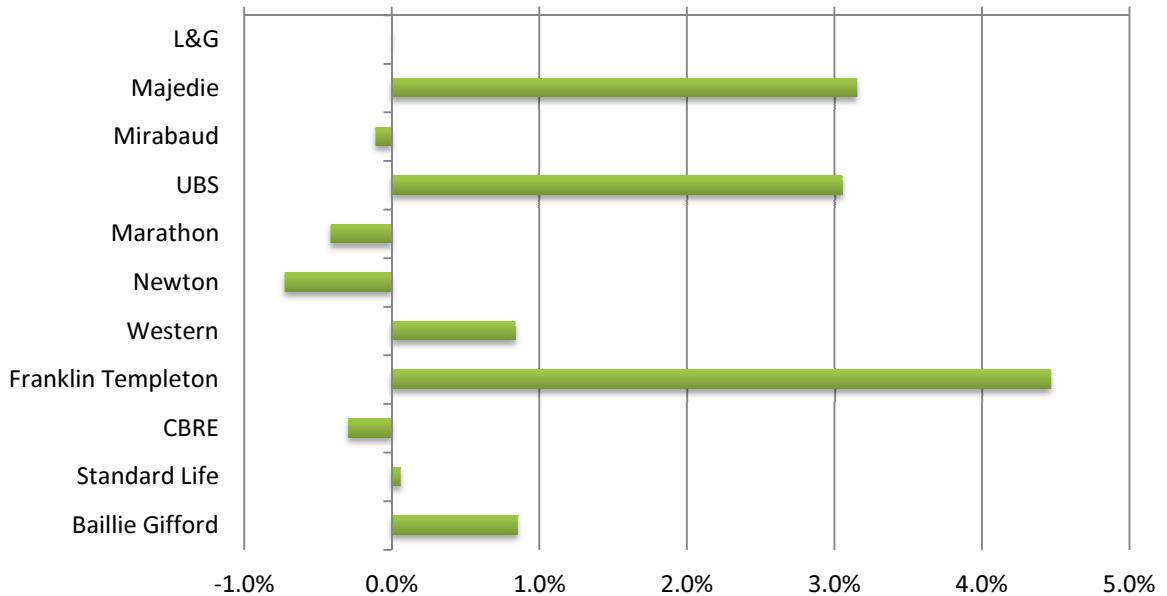
Summary of Quarterly Results

Overall, the total fund returned +3.3% in Q2 2013/14 just below benchmark return of 3.4%

Q2 Performance



Q2 Relative Performance to Benchmark



Relative to their specific benchmark, Franklin Templeton secured the highest performance for Q2, alongside continued strong performance by UBS and Majedie, both recording over 3% relative quarterly outperformance.

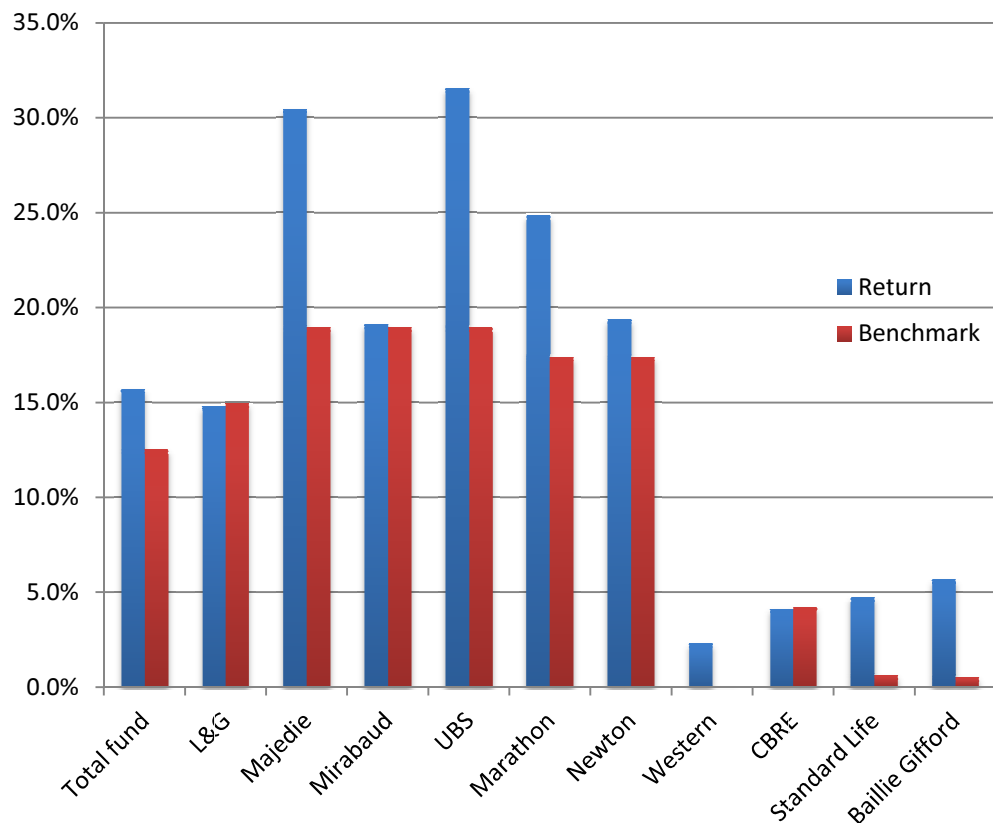
The below table shows manager performance for Q2 against manager specific benchmarks using custodian data.

Manager	Performance %	Benchmark %
Total Fund	3.3	3.4
L&G	2.0	2.0
Majedie	8.7	5.6
Mirabaud	5.5	5.6
UBS	8.6	5.6
Marathon	0.6	1.1
Newton	0.3	1.1
Western	2.2	1.3
Franklin Templeton	0.8	-3.7
CBRE	1.8	2.1
Standard Life	0.2	0.1
Baillie Gifford	1.0	0.1

Summary of Full Year Results

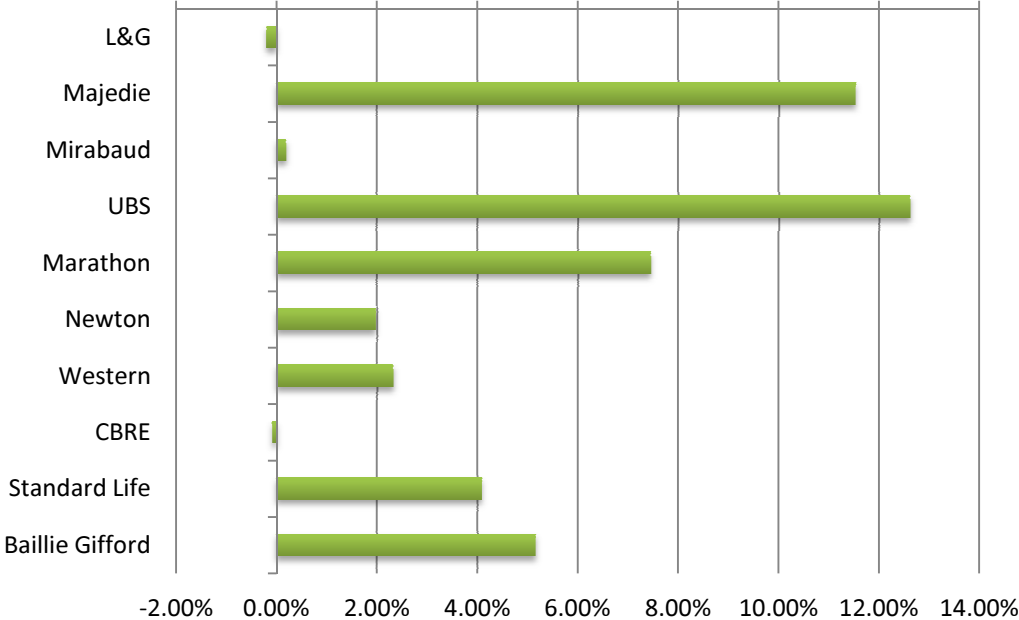
Over the past 12 months to 30 September 2013, the Fund returned 15.7% overall surpassing the benchmark return of 12.5%.

Rolling Full Year Performance



Equities provided substantial investment returns over the period with significant above benchmark returns from active UK equity managers UBS and Majedie. Overseas equity through both passive and active management produced strong returns during the previous year.

Full Year Relative Performance to Benchmark

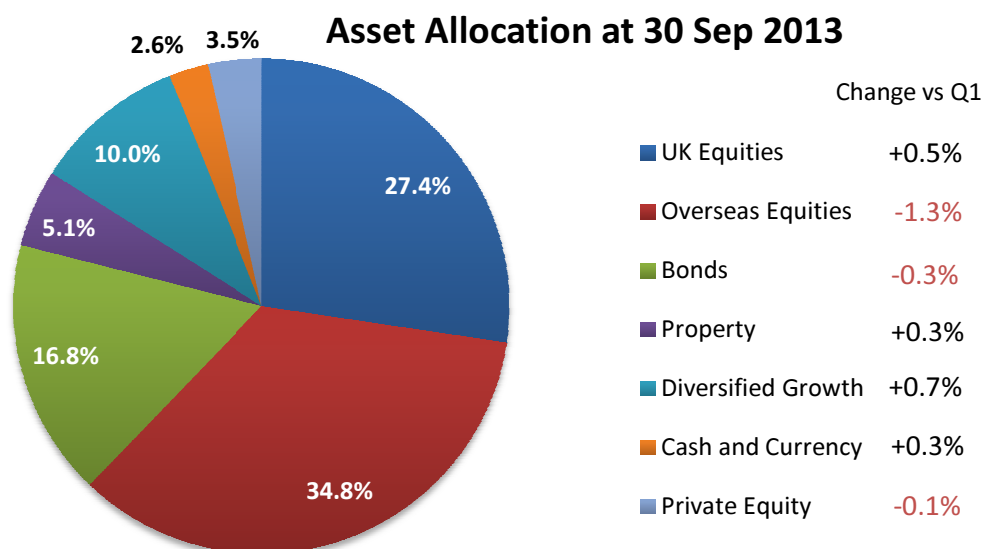


The below table shows manger performance for the year to 30 September 2013 against manager specific benchmarks using custodian data.

Manager	Performance %	Benchmark %
Total Fund	15.7	12.5
L&G	14.8	15.0
Majedie	30.5	18.9
Mirabaud	19.1	18.9
UBS	31.5	18.9
Marathon	24.8	17.4
Newton	19.4	17.4
Western	2.3	0.0
CBRE	4.1	4.2
Standard Life	4.7	0.6
Baillie Gifford	5.7	0.5

3. Asset Allocation

The graph and table below summarise the asset allocation of the managed elements of the fund, excluding private equity holdings and internally held cash balances.



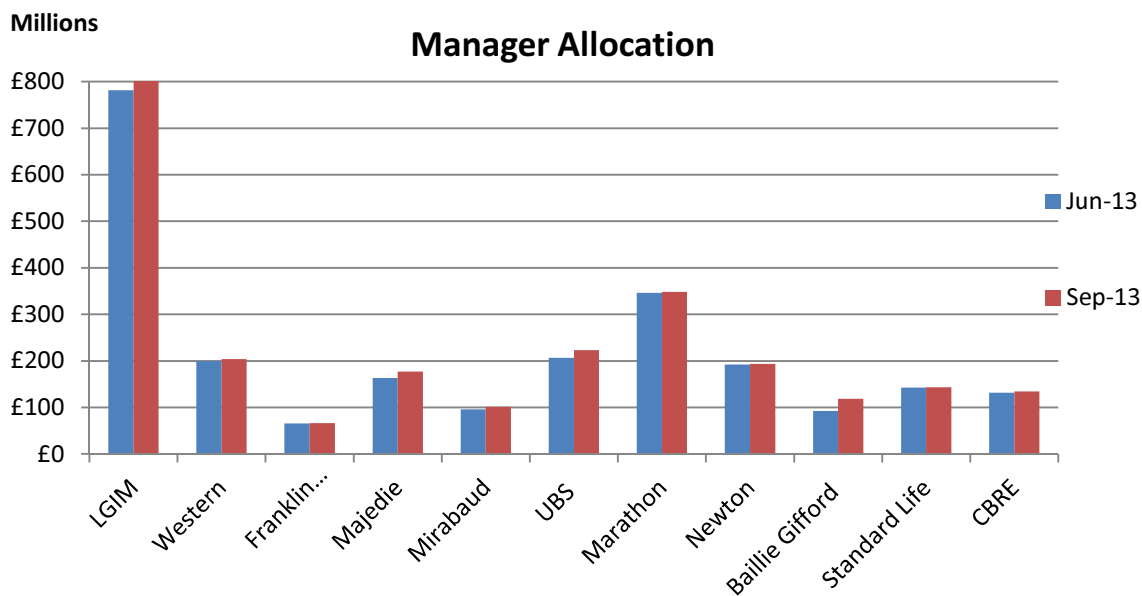
The table below compares the actual asset allocation as at 30 June 2013 against that target asset weightings.

	TOTAL FUND	Actual	Target	Last Quarter	
	£m	%	%	£m	%
Fixed Interest					
UK Government	119.1	4.4	5.0	108.3	4.2
UK Non-Government	159.5	6.1	7.6	165.9	6.5
Overseas	0.0	0.0	0.0	4.6	0.2
Total Return	66.4	2.5	2.7	65.9	2.6
Index Linked	96.4	3.7	3.8	90.1	3.6
Equities					
UK	719.2	27.4	27.5	680.7	26.8
Overseas	915.1	34.8	32.3	915.8	36.1
Property Unit Trusts	132.8	5.1	6.6	121.4	4.8
Diversified growth	262.0	10.0	9.5	235.6	9.3
Cash	49.3	1.9	0.0	65.7	2.6
Currency hedge	18.2	0.6	0.0	-7.6	-0.3
Private Equity	91.1	3.5	5.0	91.1	3.6
TOTAL	2,629.1	100.0	100.0	2,537.5	100.0

This table includes private equity and cash held by investment managers separately.

4. Manager Allocation

The graph below shows the current manager allocation.



The table below includes the actual and target manager allocation weightings for those investments managed through the custodian Northern Trust as at 30 September 2013. This excludes the internal cash and private equity portfolio.

Investment Manager	Asset Class	Market Value £m	Actual Allocation %	Target Allocation %
LGIM	Multi-Asset	817.8	32.3	33.0
Western	Bonds	203.9	8.1	8.25
Franklin Templeton	Bonds	66.4	2.6	2.75
Majedie	UK Equity	177.2	7.0	7.0
Mirabaud	UK Equity	101.6	4.0	4.0
UBS	UK Equity	223.3	8.8	8.0
Marathon	Global Equity	348.2	13.8	12.0
Newton	Global Equity	193.5	7.7	8.0
Baillie Gifford	Diversified Growth	118.8	4.7	4.0
Standard Life	Diversified Growth	143.2	5.7	6.0
CBRE	Property	134.2	5.3	7.0
	Residual Cash	0.9	0.0	0.0
TOTAL		2,529.0	100.0	100.0

5. Fees

The following table shows a breakdown of fees due for Q2 2013/14.

Manager	MV 30/06/13 £m	Fee Q2 £	Annualised Average Fee %
LGIM	817.8	179,692	0.09
Western	203.9	118,340	0.23
Franklin Templeton	66.4	84,444	0.51
Majedie**	177.2	599,917	1.35
Mirabaud*	101.6	152,238	0.59
UBS**	223.3	1,169,261	2.09
Marathon	348.2	334,289	0.47
Newton	193.5	121,641	0.25
Baillie Gifford*	118.8	139,677	0.47
Standard Life*	143.2	251,746	0.70
CBRE*	134.2	66,465	0.20
Total		3,217,711	0.52

*Estimated

**Includes annual performance fee

CONSULTATION:

6 The Chairman of the Pension Fund Board has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

7 Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

8 Financial and value for money implications are discussed within the report.

CHIEF FINANCE OFFICER COMMENTARY

9 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

11 The approval of the various options will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13 The following next steps are planned:

- Implementation of the various recommendation approvals.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)
020 8541 9894
phil.triggs@surreycc.gov.uk

Consulted:

Pension Fund Board Chairman

Annexes:

1. Asset Allocation Policy and Actual as at 30 September 2013 and 31 October 2013

Sources/background papers:

None

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