

**SURREY COUNTY COUNCIL****SURREY PENSION FUND COMMITTEE****DATE: 21 JUNE 2024****LEAD OFFICER: ANNA D'ALESSANDRO, INTERIM EXECUTIVE DIRECTOR  
FINANCE AND CORPORATE SERVICES****SUBJECT: INVESTMENT MANAGER PERFORMANCE AND  
ASSET/LIABILITIES UPDATE****SUMMARY OF ISSUE:**

This report is a summary of manager issues for the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

**RECOMMENDATIONS:**

It is recommended that the Committee:

- 1) Notes the main findings of the report in relation to the Fund's valuation and funding level, performance returns and asset allocation.

**REASON FOR RECOMMENDATIONS:**

To assess and acknowledge performance of the Fund's investment managers against the Fund's target returns, and whether it is meeting its Strategic Investment objective.

**DETAILS:****Funding Level**

1. The funding level is derived as the ratio of the value of the Fund's assets to the value of its liabilities. The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. The Fund's assets are used to pay member benefits accrued to date.
2. For the purpose of providing the quarterly funding updates following the 2022 valuation, it is appropriate (and the Fund Actuary's recommendation) that the 70% level of prudence remains fixed in the determination of the discount rate. This dynamic discount rate each quarter-end would therefore reflect the change in investment return expectations since the 2022 valuation date.
3. Assessing the liabilities using the dynamic discount rate also ensures that the factors leading to a change in asset values are being reflected in liability values. There is not a direct relationship (ie assets and liabilities do not react in the exact same way to changes in market conditions) but measuring the liabilities using the dynamic discount rate means that the assets and liabilities are being measured on a consistent market basis over time.

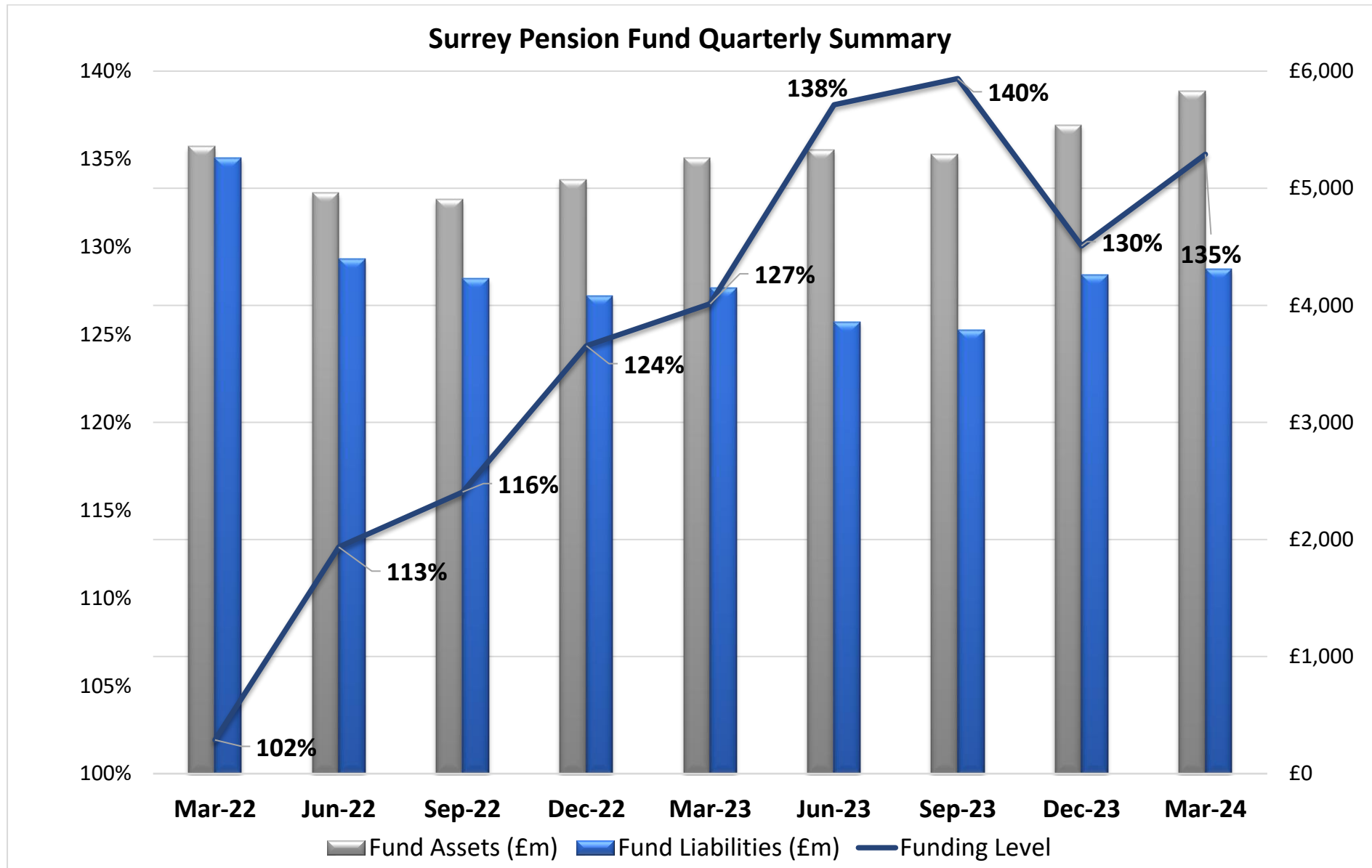
#### 4. Results and assumptions

Dynamic Discount Rate	31 March 2022	31 December 2023	31 March 2024
Assets (£bn)	5.36	5.54	5.83
Past service liabilities (£bn)	5.26	4.26	4.30
<b>Surplus (£bn)</b>	<b>0.10</b>	<b>1.28</b>	<b>1.52</b>
Funding level	102%	130%	135%
<b>Assumptions</b>			
Discount Rate	4.4%	6.1%	6.3%
Salary Increases	3.7%	3.2%	3.4%
Pension Increases	2.7%	2.2%	2.4%
Likelihood of success	70%	70%	70%
Required return to be 100% funded	4.3%	4.5%	4.5%

- The liability values in the above table as at 31 December 2023 and 31 March 2024 make allowances for both the April 2023 Pension Increase Order of 10.1% and the April 2024 Pension Increase Order of 6.7%.
- The funding level has increased over the quarter from 31 December 2023. Liability values are broadly unchanged since 31 December 2023 however, a return of around 5.3% was achieved on the Fund's assets over the quarter which explains the rise in the funding level.
- The net position has increased from a surplus of £1.28bn at 31 December 2023 to a surplus of £1.52bn at 31 March 2024.
- The improvement in the funding level since the 2022 valuation, whilst welcome, is primarily due to an increase in the expected rate of future investment returns, i.e. the discount rate. In the absence of these higher return expectations, it is likely that the funding level would have fallen since the 2022 valuation due to higher than expected inflation experience and lower than expected asset returns. To illustrate this, the required return (the level of returns required to ensure the Fund remains 100% funded) is higher as at 31 March 2024 (4.5%) than it was as at 31 March 2022 (4.3%) i.e. higher asset returns are now required to maintain a funding level of 100%.
- For comparison purposes, the actuaries have also estimated the updated funding position of the Fund as 31 March 2024 based on the fixed discount rate of 4.4%, which was set at the 31 March 2022 valuation. See table below.

Static Discount Rate	31 March 2024
Assets (£bn)	5.83
Past service liabilities (£bn)	5.97
<b>Surplus (Deficit) (£bn)</b>	<b>(0.15)</b>
Funding level	98%
<b>Assumptions</b>	
Discount Rate	4.4%
Salary Increases	3.4%
Pension Increases	2.4%
Likelihood of success	88%

10. The graph below shows the development of the funding ratio since the last valuation.



## Market Review

---

11. Global equities rose over the first quarter, driven by resilient US economic data and hopes that major central banks will begin to cut interest rates during 2024. US equities performed strongly, with the S&P 500 and Nasdaq indices hitting record highs. Economic data was strong, with fourth-quarter GDP surprising to the upside and the composite purchasing managers' index (PMI) hitting an eight-month high in February. However, inflation remained elevated, contributing to the US Federal Reserve (Fed) holding interest rates at 5.25%–5.5% at its January and March meetings.
12. European equities rose but trailed the global index, weighed down slightly by signs of economic weakness. Eurozone inflation continued to fall, declining to 2.4% in March. Like the Fed, the European Central Bank maintained interest rates during its first-quarter meetings, but officials hinted at a potential June rate cut.
13. UK equities were likewise weighed down by weak economic data, falling in January and February before joining the global rally in March and ultimately rising over the period. Markets are now expecting three interest rate cuts over the course of the year.
14. Japanese stocks performed especially strongly, with the Nikkei index hitting a 34-year high in March as the Bank of Japan (BoJ) raised its short-term rate to 0%–0.1%, seeing the end of eight years of negative interest rates in the country. Emerging markets rose modestly but underperformed global equities.
15. Government bond yields rose, and so prices fell, over the first quarter of 2024. Benchmark 10-year yields in the US, the UK, Germany and Japan all ended the quarter higher. Yields on the 10-year US treasury rose from 3.87% to 4.21%. Early year hopes for as many as seven 2024 rate cuts by the Fed were pulled back, with expectations for the first rate cut pushed out to June.
16. Ten-year gilt yields rose from 3.60% to 3.94%. UK inflation continued its downward trend to 3.4% in February, but core inflation came in at 4.5%. On the announcement of fourth-quarter GDP data (-0.3%), it emerged that the UK was in a technical recession in the latter half of 2023.
17. In line with government bond yields, corporate credit yields rose in the US, eurozone and the UK. However, credit spreads over government debt tightened.
18. The US dollar rose against the euro, sterling and Japanese yen over the first quarter of 2024. This was driven in part by expectations that other major central banks may start cutting interest rates before the Fed. Ongoing global geopolitical tensions further added to the currency's safe-haven appeal.
19. Sterling fell slightly against the US dollar but rose against the euro and the yen. The yen fell against the US dollar, the euro and sterling, as markets had already anticipated the rate hike. BoJ officials have since signalled a willingness to intervene in markets to stabilise the currency if required.

## Performance Review

---

20. Overall, the Fund returned 5.28% in Q4 2023/24 (January-March 2024), in comparison with the benchmark of 6.65%.
21. Whilst it was another strong quarter for absolute performance from all the listed equity mandates, the performance from the actively managed equity mandates was mixed. The standout positive performance came from Newton Global Equity, which returned an absolute 11.87%, outperforming its benchmark by 2.68% in the process. This mandate is now ahead of benchmark over all periods. BCPP Emerging Markets

Alpha also outperformed, by 1.12%. Disappointingly, BCPP Global Equity Alpha (BCPP Global) and BCPP UK Equity Alpha (BCPP UK) continued to underperform and are now behind benchmark over all periods since inception. BCPP Global is underweight a relatively narrow range of companies that continued to perform very strongly whilst UK Alpha has a bias to Mid and Small Cap. companies.

22. As discussed in the market review, Government bond prices fell over the quarter, producing a negative return for the Gilts Index Fund. However, the Multi-Asset Credit fund had a positive return of 1.78% as credit spreads narrowed, although this was still behind the cash-based benchmark.
23. As discussed last quarter, the private market exposure continues to drive the Fund's overall relative underperformance as its return is failing to keep pace with the listed equity benchmark. BCPP Listed Alternatives Fund had another extremely poor quarter. However, the Fund's exposure to this fund is now down to approximately £50m after a sale completed during the first quarter of 2024/25.

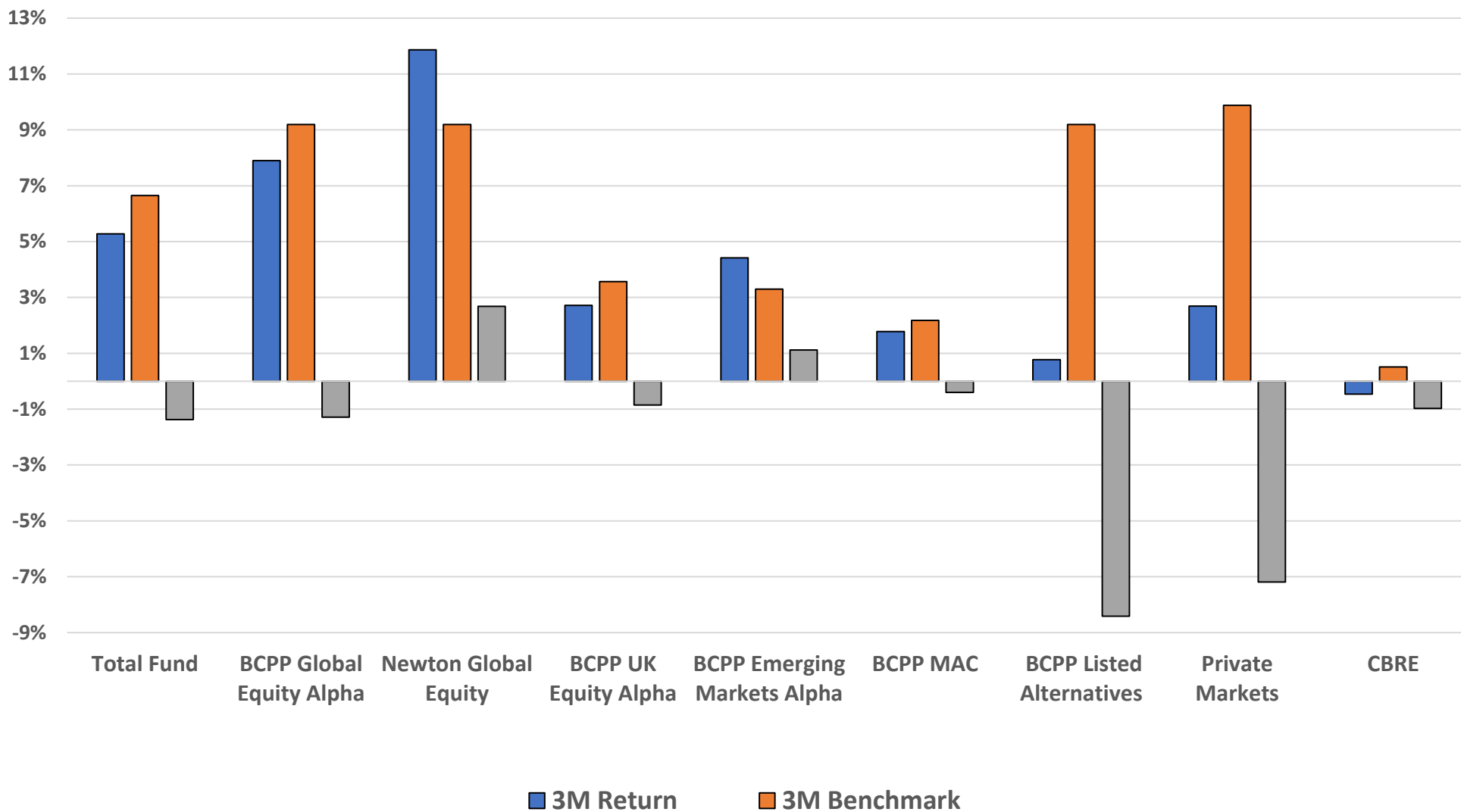
## Fund Performance - Summary of Quarterly Results

The table below shows manager performance for Q4 2023-24 (December 2023-March 2024), net of investment manager fees, against manager specific benchmarks using Northern Trust data.

As at 31 March 2024	£m	3M Return	3M Benchmark	3M Relative Return	1Y Return	1Y Benchmark	1Y Relative Return	3Y Return	3Y Benchmark	3Y Relative Return
<b>Total Fund</b>	<b>5,844.59</b>	5.28%	6.65%	-1.37%	11.30%	15.34%	-4.04%	5.25%	7.44%	-2.19%
<b>Active Global Equity</b>	<b>1,353.9</b>	-	-	-	-	-	-	-	-	-
BCPP Global Equity Alpha	875.4	7.90%	9.19%	-1.29%	18.38%	20.60%	-2.22%	9.72%	10.15%	-0.42%
Newton Global Equity	478.5	11.87%	9.19%	2.68%	25.44%	20.60%	4.84%	11.27%	10.15%	1.12%
<b>Active Regional Equity</b>	<b>653.7</b>	-	-	-	-	-	-	-	-	-
BCPP UK Equity Alpha	368.4	2.72%	3.57%	-0.85%	5.11%	8.43%	-3.31%	2.77%	8.05%	-5.27%
BCPP Emerging Markets Alpha	285.3	4.42%	3.30%	1.12%	-	-	-	-	-	-
<b>Passive Global Equity</b>	<b>1,307.0</b>	-	-	-	-	-	-	-	-	-
LGIM - Future World Global	1,307.0	9.32%	9.28%	0.04%	21.44%	21.05%	0.39%	-	-	-
<b>Passive Regional Equity</b>	<b>127.2</b>	-	-	-	-	-	-	-	-	-
LGIM - Europe Ex-UK	61.3	6.66%	6.80%	-0.14%	13.05%	13.42%	-0.37%	9.08%	9.25%	-0.17%
LGIM - Japan	19.8	11.58%	11.59%	-0.01%	22.37%	22.32%	0.04%	6.78%	6.80%	-0.02%
LGIM - Asia Pacific ex-Japan	46.1	0.22%	0.23%	-0.01%	4.60%	4.64%	-0.04%	0.91%	0.97%	-0.06%
<b>Fixed Income</b>	<b>974.1</b>	-	-	-	-	-	-	-	-	-
BCPP MAC	849.6	1.78%	2.18%	-0.40%	9.37%	8.67%	0.69%	-	-	-
LGIM - 15 Yr+ Gilts Index Fund	124.6	-3.56%	-3.56%	-0.01%	-	-	-	-	-	-
<b>Private Markets Proxy</b>	<b>80.1</b>	-	-	-	-	-	-	-	-	-
BCPP Listed Alternatives	80.1	0.77%	9.19%	-8.41%	11.27%	20.60%	-9.34%	-	-	-
<b>Private Markets</b>	<b>929.2</b>	-	-	-	-	-	-	-	-	-
Private Markets	929.2	2.69%	9.88%	-7.19%	-1.87%	22.45%	-24.32%	9.47%	11.84%	-2.38%
<b>Real Estate</b>	<b>288.1</b>	-	-	-	-	-	-	-	-	-
CBRE	288.1	-0.46%	0.51%	-0.97%	-4.00%	-0.69%	-3.31%	1.37%	1.51%	-0.14%
<b>LGIM Currency Overlay</b>	<b>(3.3)</b>	-	-	-	-	-	-	-	-	-
<b>LGIM Sterling Liquidity Fund</b>	<b>63.0</b>	1.35%	1.32%	0.03%	-	-	-	-	-	-
<b>Liquidity*</b>	<b>71.5</b>	-	-	-	-	-	-	-	-	-

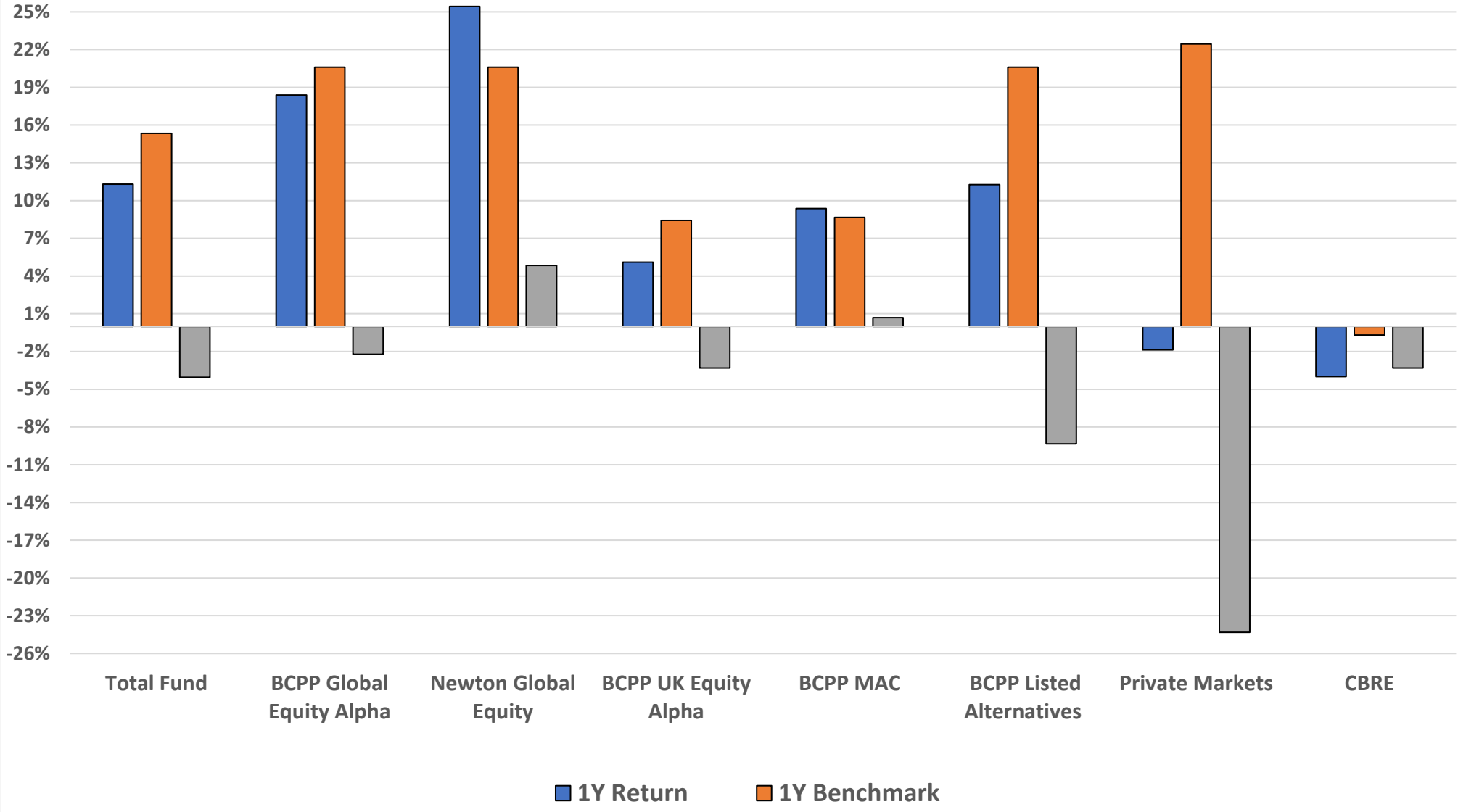
\* Includes £40.6m of money market funds

### 3 Months to 31 March 2024 Active Manager Performance Relative to Benchmark



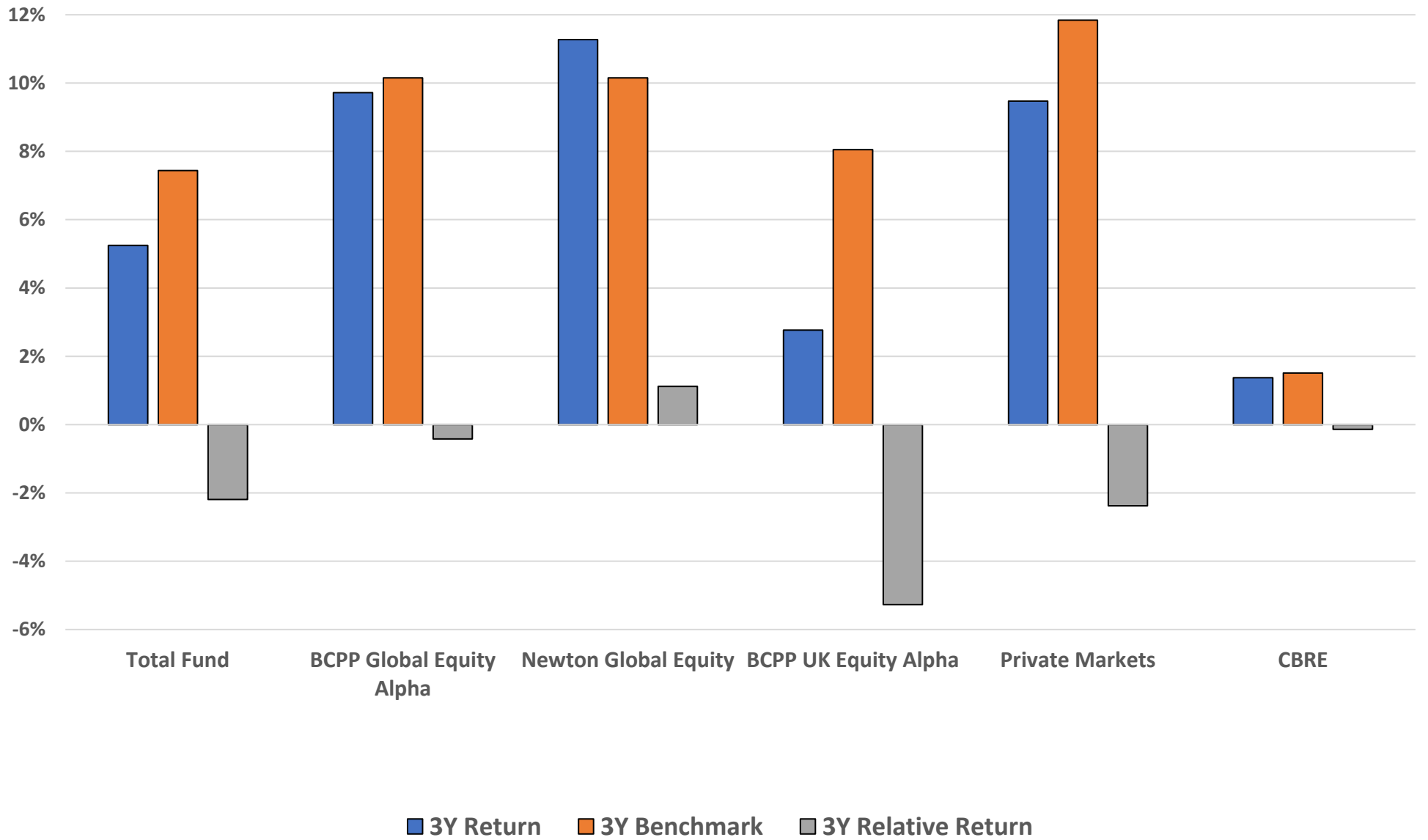
### 1 Year to 31 March 2024 Active Manager Performance Relative to Benchmark

Page 78





### 3 Years to 31 March 2024 Performance Relative to Benchmark



## Recent Transactions

24. From the second half of 2022 the Fund has used BCPP Listed Alternatives, BCPP UK Equity Alpha and LGIM Liquidity Fund as a source of funds for private market capital calls.
25. As part of the new asset allocation agreed in the December 2022 Committee meeting, a series of transactions has taken place during 2023.
26. In April 2023, the Fund invested another £100m into the LGIM Future World Global Equity Index Fund. This was funded by the redemption of £89m from the BCPP UK Equity Alpha Fund and an £11m in specie transfer out of LGIM Future World Emerging Markets Fund, which itself was an in-specie transfer from the LGIM Emerging Markets Fund in March 2023. Also in April 2023, £60m was switched from LGIM Bespoke to the LGIM Sterling Liquidity Fund to reduce fees.
27. In July 2023, the Fund invested £267m into the BCPP Emerging Markets Equity Alpha Fund. This was funded by the complete redemption of the Fund's remaining holding in the LGIM Emerging Markets Fund.
28. Since December 2022, £240m has been redeemed from BCPP Listed Alternatives Fund to fund capital calls in private markets.
29. Following the Committee's approval of the Investment Strategy Statement in June 2023, the MAC fund exposure was increased. As at 30 September 2023, £60m of BCPP UK Equity Alpha had been sold and £60m of MAC purchased. In October 2023, £60m of Newton Global Equity was sold and £60m of MAC purchased. In November 2023, a further £60m of MAC was purchased.
30. The re-structure of the legacy LGIM Bespoke fund was approved by the Committee in September 2023. In November 2023, in line with that decision, the LGIM Bespoke Fund was liquidated, and a corresponding amount was purchased in the LGIM Over 15Y Gilt fund. The amount of the transaction was £111.4m.
31. To align the exposure to MAC to the Investment Strategy Statement (ISS), the final purchase was completed in January 2024. This amounted to a £60m purchase of MAC and takes the weighting to approximately 15%. There was a corresponding £60m sale of Newton Global Equity. These transactions took place after the reporting period for this paper.
32. A sale of £20m in Listed Alternatives was completed in January 2024 to help fund ongoing private market capital commitments and drawdowns.
33. Capital calls have predominantly been funded by the BCPP Listed Alternatives Fund. Going forward, these calls may increasingly be funded by Newton Global Equity and LGIM Sterling Liquidity Fund assets.
34. The private market commitments to the BCPP programme for April 2024 are £50m to Climate Opportunities, £80 to Private Credit and £90m to UK Opportunities, as agreed at the Committee meeting in March 2024.
35. A sale of £20m in LGIM Sterling Liquidity Fund was completed in April 2024 to help fund ongoing private market capital commitments and drawdowns.
36. Funding was requested from BCPP for the first transaction in the BCPP Global Real Estate Fund.

## Stock Lending

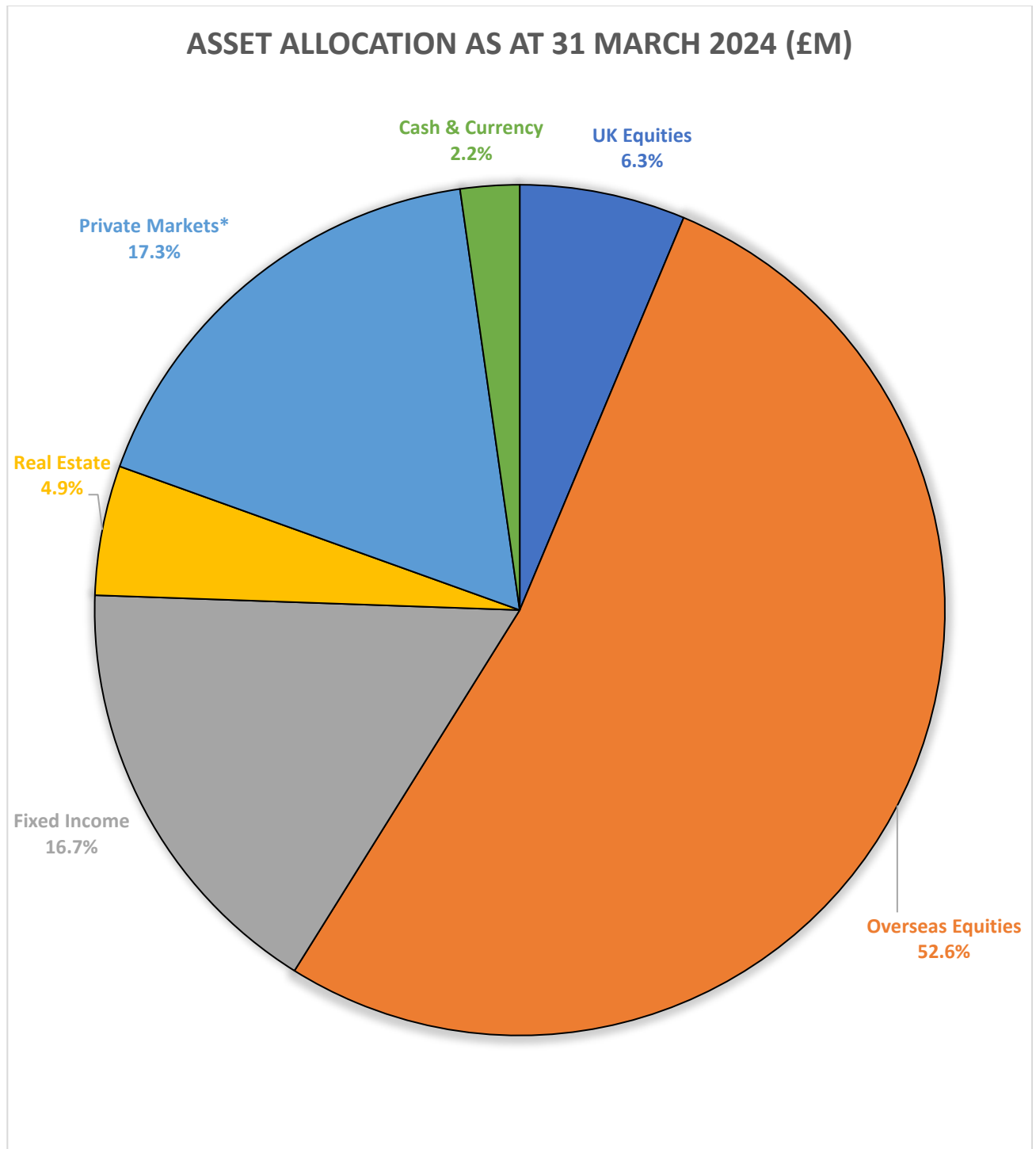
37. In the quarter to 31 March 2024, stock lending earned a net income for the Fund of £1,494 compared with £3,038 for the quarter ended 31 December 2023.

## Asset allocation

38. The table and the graph below show the target and actual asset allocations for the quarter ending 31 March 2024. These allocations were agreed by the Pension Fund Committee in the June 2023 meeting.

As at 31 March 2024	Total Fund (£M)	Actual (%)	Target (%)	Advisory ranges %	Role(s) within the strategy
<b>Listed Equities</b>	-	<b>58.9%</b>	<b>55.8</b>	<b>52.8 – 58.8</b>	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	368.4	6.3%	6.7	-	-
Global Market Cap	1,353.9	23.2%	21.8	-	-
Global Regional	127.2	2.2%	2.2	-	-
Emerging Markets	285.3	4.9%	5.6	-	-
Global Sustainable	1,307.0	22.4%	19.5	-	-
<b>Alternatives</b>	-	<b>22.2%</b>	<b>27.3</b>	<b>22.3-32.3</b>	Generate returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Private Equity	328.3	5.6%	5	2.0-8.0	-
Infrastructure	367.6	6.3%	6	3.0-9.0	-
Private Debt	165.3	2.8%	6	2.0-8.0	-
Climate Opportunities	68.0	1.2%	3	0.0-6.0	-
Listed Alternatives	80.1	1.4%			-
Real Estate	288.1	4.9%	7.3	4.3–10.3	-
<b>Credit</b>	-	<b>16.7%</b>	<b>16.9</b>	<b>12.1-21.7</b>	Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Multi Asset Credit	849.6	14.5%	15.1	12.1-18.1	-
Fixed Interest Gilts	124.6	2.1%	1.8	0.0-3.6	-
<b>Cash &amp; Currency Overlay</b>	131.2	<b>2.2%</b>	-	-	-
<b>Total</b>	<b>5,844.6</b>	-	<b>100</b>	-	-

The graph below shows the asset allocation for the quarter ending 31 March 2024.

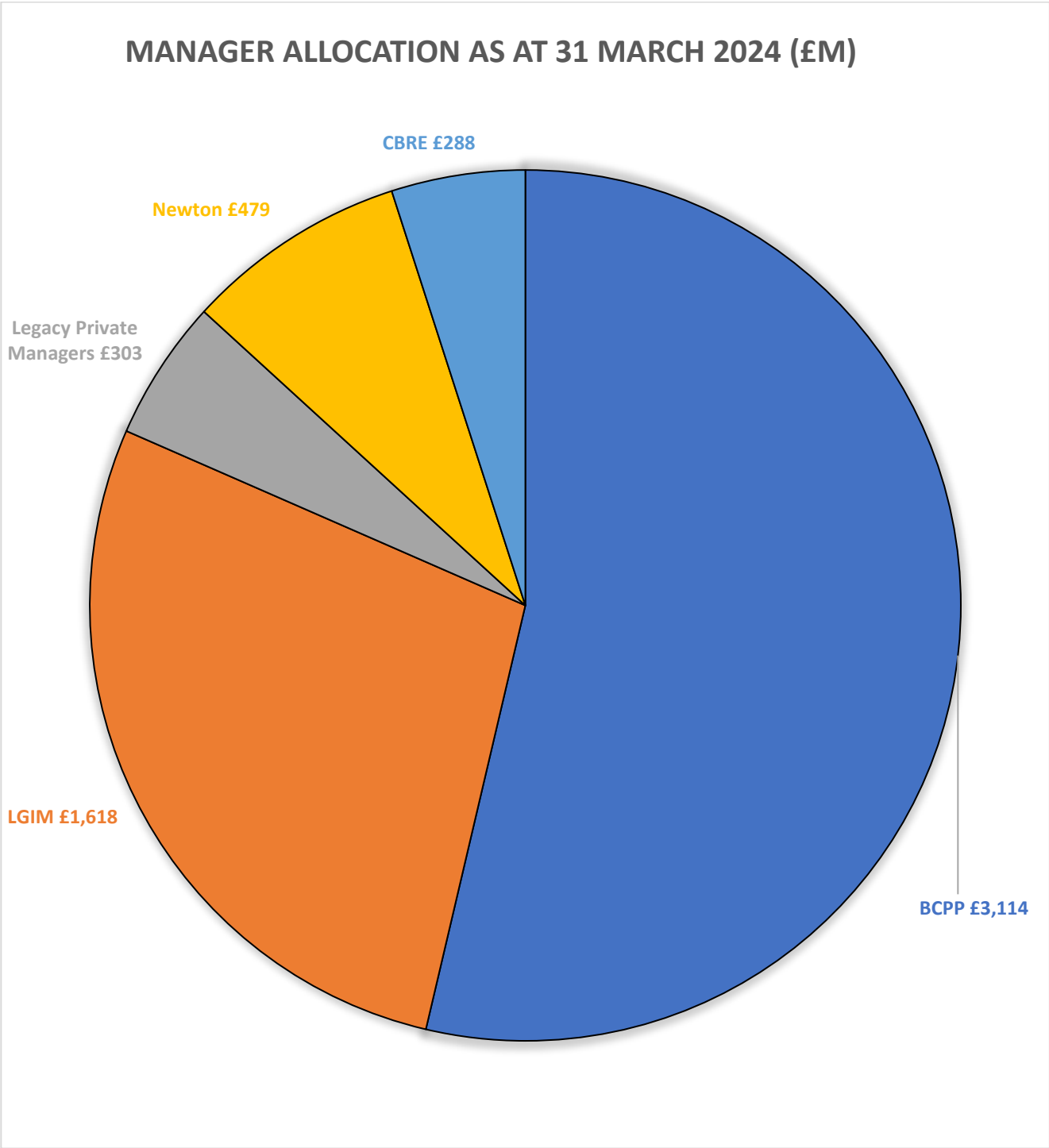


10

\*Private Investment in this chart, includes Listed Alternatives

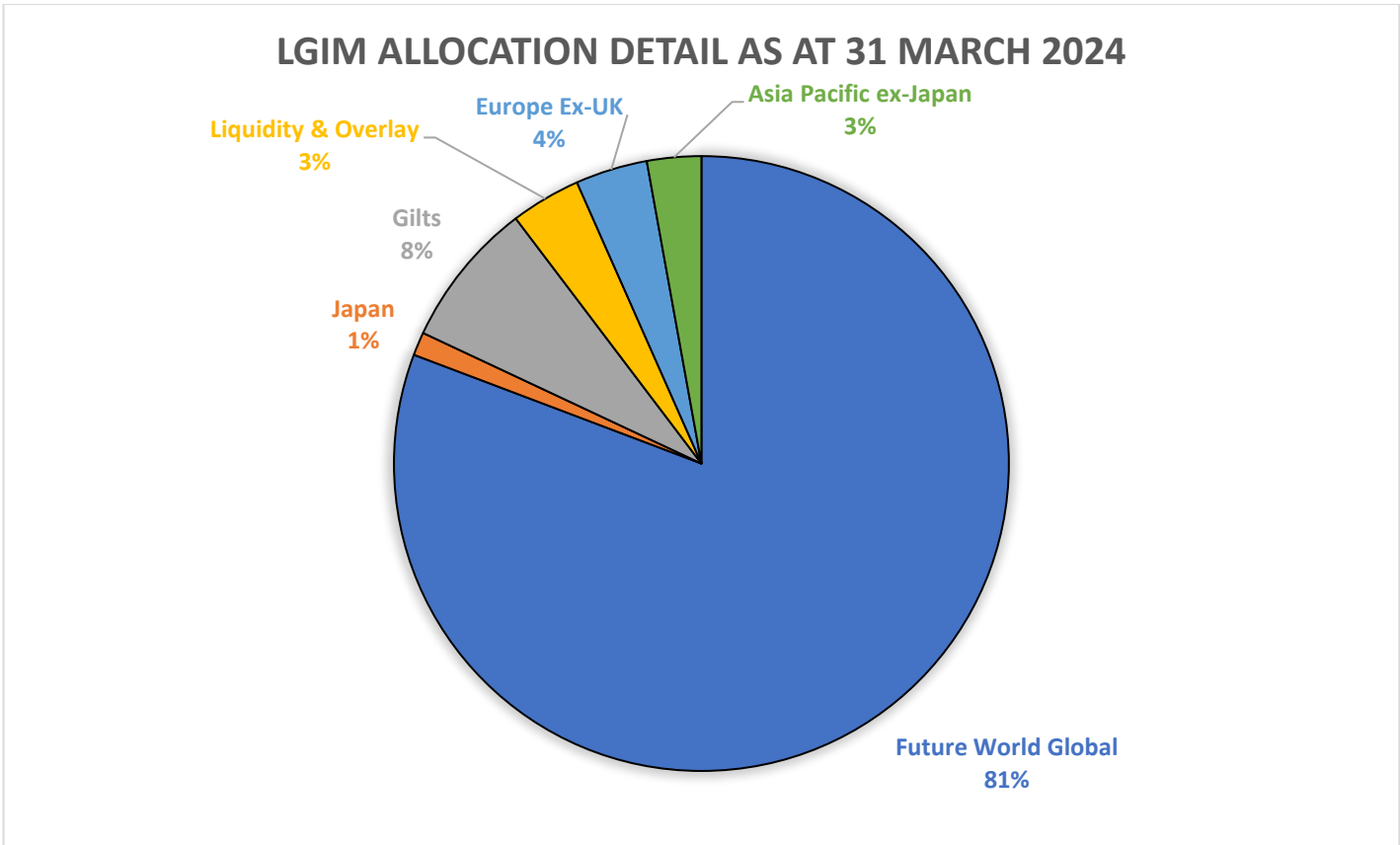
**Manager Allocation**

The graph below shows the manager allocation for the quarter ending 31 March 2024.

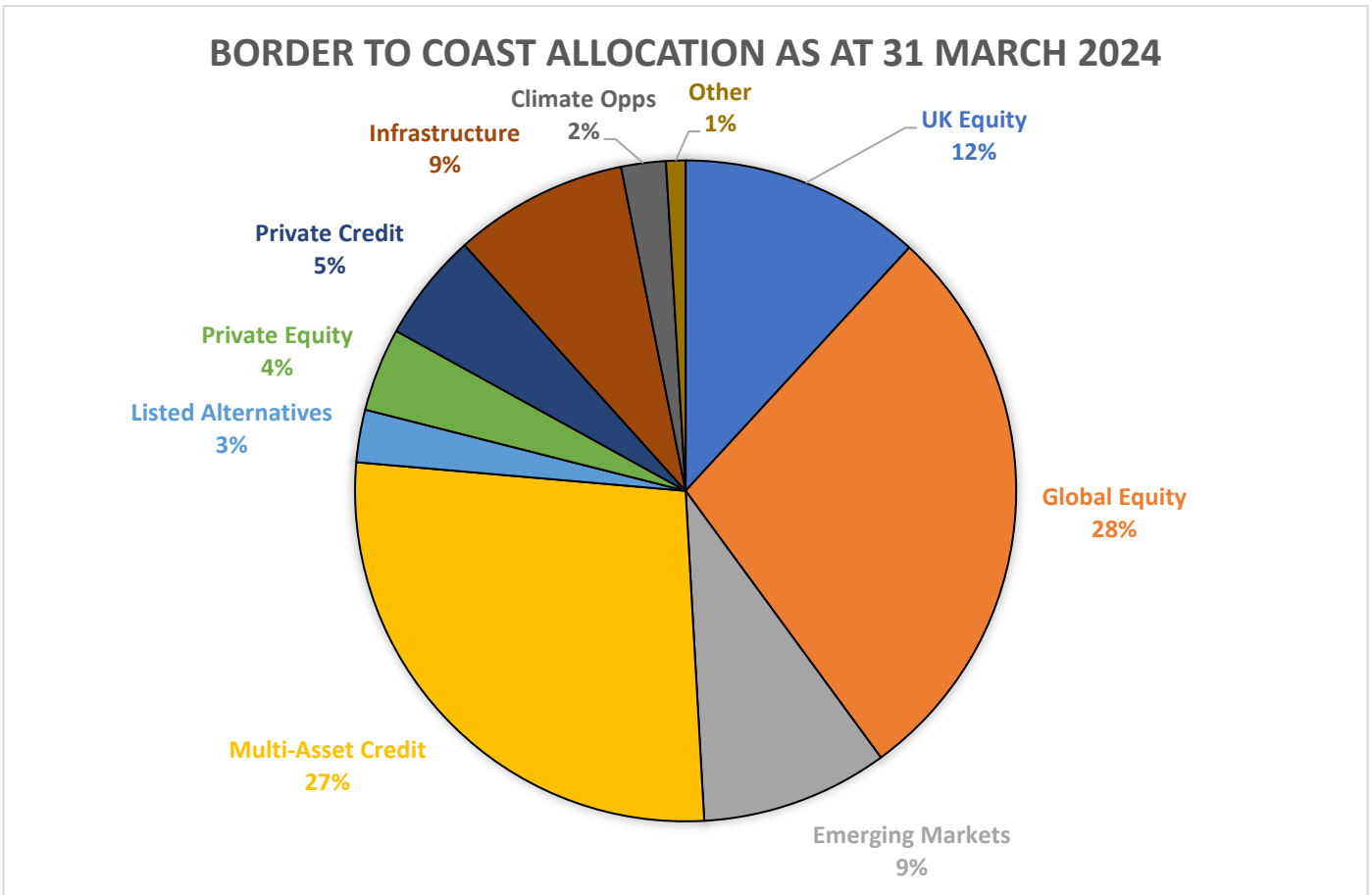


10

This graph shows the allocation with LGIM as at 31 March 2024.



This graph below shows the allocation of assets with BCPP as at 31 March 2024.



## Cashflow

39. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund.

<b>Period</b>	<b>Total contributions received £m</b>	<b>Total pension benefits paid £m</b>	<b>Net cash-flow £m</b>
Quarter 3 2023/24  (1 Oct 2023 – 31 Dec 2023)	56.6	60.9	-4.3
Quarter 4 2023/24  (1 Jan 2024 – 31 Mar 2024)	54.9	60.4	-5.5

Quarterly cashflow information has been derived from the finance system Unit4 / MySurrey so there may be timing differences due to issues with reporting for the periods shown.

40. An indication of the current membership trends is shown by movements in membership over Q2 and Q3. Member data listed below.

<b>Period</b>	<b>Active members</b>	<b>Deferred members</b>	<b>Pension members</b>	<b>Total members</b>
Quarter 3 2023/24  (1 Oct 2023 – 31 Dec 2023)	34,498	46,394	31,374	112,266
Quarter 4 2023/24  (1 Jan 2024 – 31 Mar 2024)	34,329	46,695	31,688	112,712

## Fund Manager Benchmarks

Fund	Portfolio	Benchmark Index	Performance Target relative to Benchmark
Surrey Pension Fund	Total Portfolio	Weighted across fund	+1.0%

Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
BCPP	MAC	SONIA	+3.5%
BCPP	Listed Alternatives	MSCI ACWI	
BCPP	Emerging Markets Equity Alpha	MSCI EM Index	+2.0%
Newton	Global Equities	MSCI ACWI	+2.0%
Various	Private Markets	MSCI World Index	+5.0%
CBRE	Real Estate	MSCI/AREF UK QPFI All Balanced Property Fund Index (for UK Assets)  Global Alpha Fund Absolute Return 9-11%	+0.5%
LGIM	Europe ex-UK Equities Index  Future World Global Equity Index  Japan Equity Index  Asia Pacific ex-Japan Development Equity Index  Sterling Liquidity  15 Yr+ Gilts Index	FTSE Developed Europe ex-UK Net Tax (UKPN)  Solactive L&G ESG Global Markets Net  FTSE Japan NetTax (UKPN) FTSE Developed Asia Pacific ex-Japan NetTax (UKPN)  SONIA  FTA Over 15 Yr Total Return	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

### **CONSULTATION:**

41. The Chair of the Pension Fund Committee has been consulted on this report.

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

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

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

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

### **INTERIM EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES COMMENTARY**

44. The Interim Executive Director, Finance and Corporate Services is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

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

45. There are no legal implications or legislative requirements.

### **EQUALITIES AND DIVERSITY**



46. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

#### **OTHER IMPLICATIONS**

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

#### **WHAT HAPPENS NEXT**

48. The following next steps are planned:

- Continue to implement asset allocation shifts as agreed by the Committee.
- Continue to monitor performance and asset allocation.

---

#### **Contact Officer:**

Lloyd Whitworth, Head of Investment & Stewardship

#### **Consulted:**

Pension Fund Committee Chair

#### **Annexes:**

1. Annexe 1 - Manager Fee Rates (Part 2)

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

This page is intentionally left blank