

SURREY PENSION FUND COMMITTEE REPORT



SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: ASSET CLASS FOCUS – REAL ESTATE

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 Pension Fund 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 predominantly derived through investment in a fund-of-funds with CBRE. As at 30 June 2024 the weighting to Real Estate in the Fund was 4.9%. The target weight within the current investment strategy asset allocation is 7.3%. This underweight position will be closed once BCPP delivers investment funds and allows the Fund to subscribe.
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 74.4% UK and Cash and 25.6% 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 30 June 2024, the total mandate returned -2.1% in sterling, compared to the benchmark return of +0.1%. The 3-year return was +0.8% p.a. in sterling compared to +0.6% for the benchmark.
6. At the June 2023 meeting, the Committee agreed to commence the switch of the global real estate exposure from CBRE to Border to Coast Pensions Partnership (BCPP) Global Real Estate Core fund. To date there has been only one drawdown to this new fund, EUR 2.3m on 12 April 2024.
7. The BCPP UK Real Estate fund is expected to launch in October 2024. The Surrey Pension Fund will be able to subscribe from March 2025, if the initial seeding window open only to those partner funds transferring direct property closes.
8. The review by the Independent Advisor can be found in Annexe 1.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

10. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

11. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

12. Executive Director of 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:

13. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

14. There are no equality or diversity issues.

OTHER IMPLICATIONS:

15. There are no other implications.

NEXT STEPS:

16. The following 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.
- b) Continue to make investment into the BCPP Global Real Estate Core fund when capital calls are made.
- c) Subscribe to the BCPP UK Real Estate fund when able.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

- 1. Annexe 1 - Real Estate Report from the Independent Investment Advisor

Sources/Background papers:

None

This page is intentionally left blank