

# SURREY PENSION FUND COMMITTEE REPORT



**SURREY COUNTY COUNCIL**

**SURREY PENSION FUND COMMITTEE**

**DATE: 21 MARCH 2025**

**LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER**

**SUBJECT: ASSET CLASS FOCUS – CREDIT MARKETS**

## **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 each quarter. This paper concentrates on Credit.

## **RECOMMENDATIONS:**

It is recommended that the Pension Fund Committee:

1. Note the Fund's credit exposure and review from the Fund's Independent Advisor.

## **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.

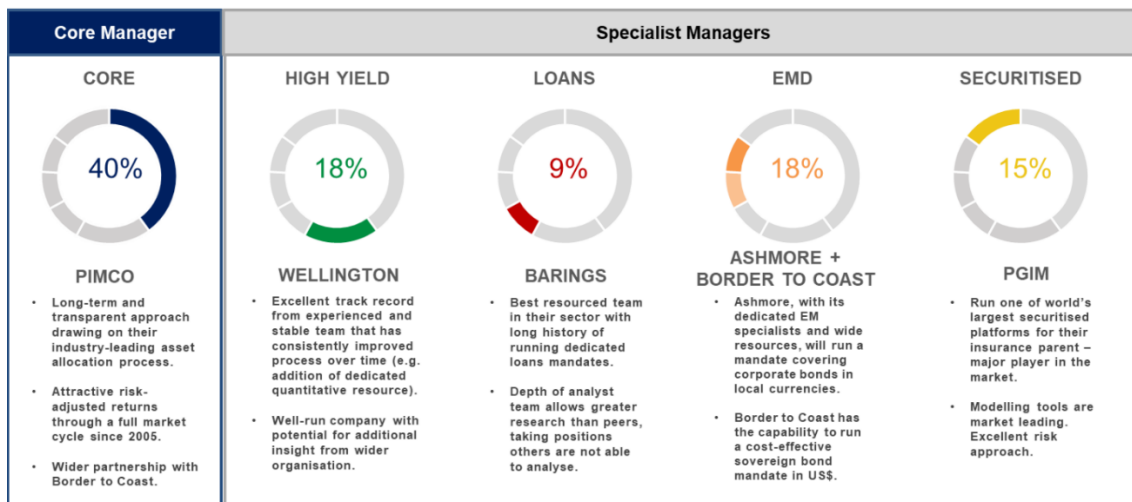
## **DETAILS:**

### **Background**

1. The Fund (£6.1bn) 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 14.4% (£886m) in multi-asset credit and 1.9% (£115m) in gilts.

### **Multi-asset credit**

2. Multi-asset credit seeks to achieve a diversified fixed interest approach by investing in a range of geographies and credit instruments.
3. The Fund completed its transition into 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).
4. BCPP MAC has a core/satellite fund management design, as follows:



- The Chair of the Committee, Independent Advisor and Officers met with the BCPP MAC portfolio management team on 19 February 2025. A review of BCPP MAC from the Fund's Independent Advisor is included as Annexe 1.

## Gilts

- Gilts are government bonds issued by the UK Government.
- 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).
- The gilt exposure was previously held directly by the Fund through individual conventional gilts. However, at the 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.
- Also approved at the September 2023 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.
- The two criteria are:
  - The real redemption yield on the FTA All Stocks Index-Linked Gilts Index is in excess of 0%.

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.

11. A review of gilts from the Fund's independent advisor is also included in Annexe 1.

#### **CONSULTATION:**

12. The Chair of the Pension Fund Committee.

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

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

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

14. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

#### **LEGAL IMPLICATIONS:**

15. There are no legal implications or legislative requirements.

#### **EQUALITIES AND DIVERSITY:**

16. There are no equality or diversity issues.

#### **OTHER IMPLICATIONS:**

17. There are no other implications.

#### **NEXT STEPS:**

18. The following steps are planned:
  - a) Continued monitoring of Credit market holdings with the next annual review in March 2026.

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#### **Contact Officer:**

Lloyd Whitworth, Head of Investment & Stewardship

#### **Annexes:**

1. Credit Market report from the Independent Advisor - Annexe 1

**Sources/Background papers:**

None