

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 11 SEPTEMBER 2020



LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE

SUBJECT: 2019 VALUATION UPDATE – IMPLEMENTATION OF MULTIPLE INVESTMENT STRATEGIES

SUMMARY OF ISSUE:

| Strategic objectives | |
|----------------------|---------|
| Investment | Funding |

To provide members with an update on the development of multiple investment strategies for employers. This information can influence both the investment and funding strategy.

RECOMMENDATIONS:

Note progress on the implementation of multiple strategies for employers.

REASON FOR RECOMMENDATIONS:

To allow fund to meet its strategic objective as set out in 2019 Valuation.

DETAILS:

1. At the Pension Fund Committee meeting of 14 September 2018 the concept of multiple employer investment strategies was introduced, in order to help improve funding outcomes for employers and the Fund as a whole.
2. At the Pension Fund Committee meeting of 16 November 2019, the Committee approved for officers to work with the actuary to investigate the how multiple employer strategies could work for the Surrey fund.
3. Following the Pension Fund Committee on 20 December 2019, the fund officers have:
 - Agreed the alternative investment strategies with the Fund's investment advisor, Mercer PLC;
 - Transposed each investment strategy into allocations to three groups – Growth, Income and Protection. This allows the efficient running of multiple investment strategies within the Fund and provides flexibility for further alternative strategies in future should that be required. It also allows the purpose of each investment to be easily understood.

- Allocated employers to the alternative strategies and engaged with the impacted employers as part of the employer engagement carried out alongside the 2019 formal valuation of the Fund; and
 - Provided the outcomes of the above to the Fund Actuary, Hymans Robertson, in order track assets at employer level via the Hymans Robertson Employer Asset Tracking system (“HEAT”).
4. The implementation also means that the foundations and governance approach are established should the Fund wish to implement further alternative strategies in the future.
 5. The outcomes of the implementation project and high-level future considerations to help improve funding outcomes for employers and the Fund as a whole are summarised as follows. The employers are allocated into three different investment strategies as shown in the table below*:

| Strategy | General investment characteristics | Employer group(s) | Number of employers | Asset value (£m) |
|----------------------------|---|---|----------------------------|-------------------------|
| Core Strategy | The Fund's main strategy | All open employers and those with a guarantee (e.g. TABs) | 324 | 3,643.7 |
| Closed employers' strategy | Reduced allocation to equities over the Core Strategy. Lower volatility to protect against poor funding outcomes and focus on funding stability over returns. | All closed employers who will exit on a gilts cessation basis | 18 | 92.1 |
| Exited employers' strategy | No allocation to equities, focus on low risk assets (e.g. gilts) to protect funding position | All exited employers who have exited on a gilts cessation basis | 24 | 87.9 |

* The Hymans Multiple Investment Strategy paper is available on request, the paper will be included as part of future actuarial training.

6. Employers who participate in each alternative strategy will be reviewed at each triennial valuation of the Fund, unless there is a material reason to make a change outside of that cycle. This would usually occur as a result of employer led decision or action.
7. Over time, due to investment returns, some strategies may be over or underweight in certain categories. The Fund has the option of notionally rebalancing between strategies e.g. if one strategy is significantly overweight, this can be offset by notionally swapping monies between strategies to realign closer to benchmark allocations.

8. The fund will review the alternative strategies on triennially basis in line with the formal valuation of the fund to help employers to achieve better funding outcomes.
9. The fund officers will regularly monitor at strategic level and bring any material changes to Pension Fund Committee.

CONSULTATION:

10. The Chairman of the Pension Fund has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

11. The Fund will keep the cash-flow position under review and ensure the investment strategy remains consistent and appropriate.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

12. There are no financial and value for money implications.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

14. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

15. Cash-flow analysis does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

17. The following next steps are planned:

- Officers will continue to work with the actuary and investment consultant to implement the multiple investment strategies.

Contact Officer:

Ayaz Malik, Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman.

Annexes:

None

Sources/background papers:

1. Administration performance monitoring progress log
2. Hymans Multiple Investment Strategy paper is available on request, the paper will be included as part of future actuarial training.