

**SURREY COUNTY COUNCIL****PENSION FUND COMMITTEE****DATE:** 11 SEPTEMBER 2020**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**SUBJECT:** INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE**SUMMARY OF ISSUE:**

This report is a summary of all manager issues that need to be brought to 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 Pension Fund Committee:

1. Notes the main findings of the report; The Fund's 3 year annualised performance return for the period ending 31 March 2020 was 2.63% against its target return of 3.76%. The funding level as at 30 June 2020 was 97.7%.

**REASON FOR RECOMMENDATIONS:**

In order to judge the performance of the Fund's investment managers against the Fund's target returns, and whether it is meeting its Strategic Investment objective in line with its Business Plan.

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

<b>Manager</b>	<b>Issue</b>	<b>Status/Action Required</b>
Various	Client meetings	Issues/ Actions related to recent manager meetings are included as Annex 3.

**2. Freedom of Information Requests**

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

<b>Date of Response</b>	<b>Organisation</b>	<b>Request</b>	<b>Response</b>
05/05/2020	Bloomberg	Summary of Alternative investments	Summary of Alternative investments as at 31 December 2019
28/05/2020	Private Individual	Information on Pension Fund software	Information on software and custodian providers
04/06/2020	Prequin	Summary of Alternative investments	Summary of Alternative investments as at 31 December 2019

### **3. Stock Lending**

In the quarter to 30 June 2020, stock lending earned a net income for the Fund of £16,703.

### **4. Internally Managed Cash and Additional Allocations**

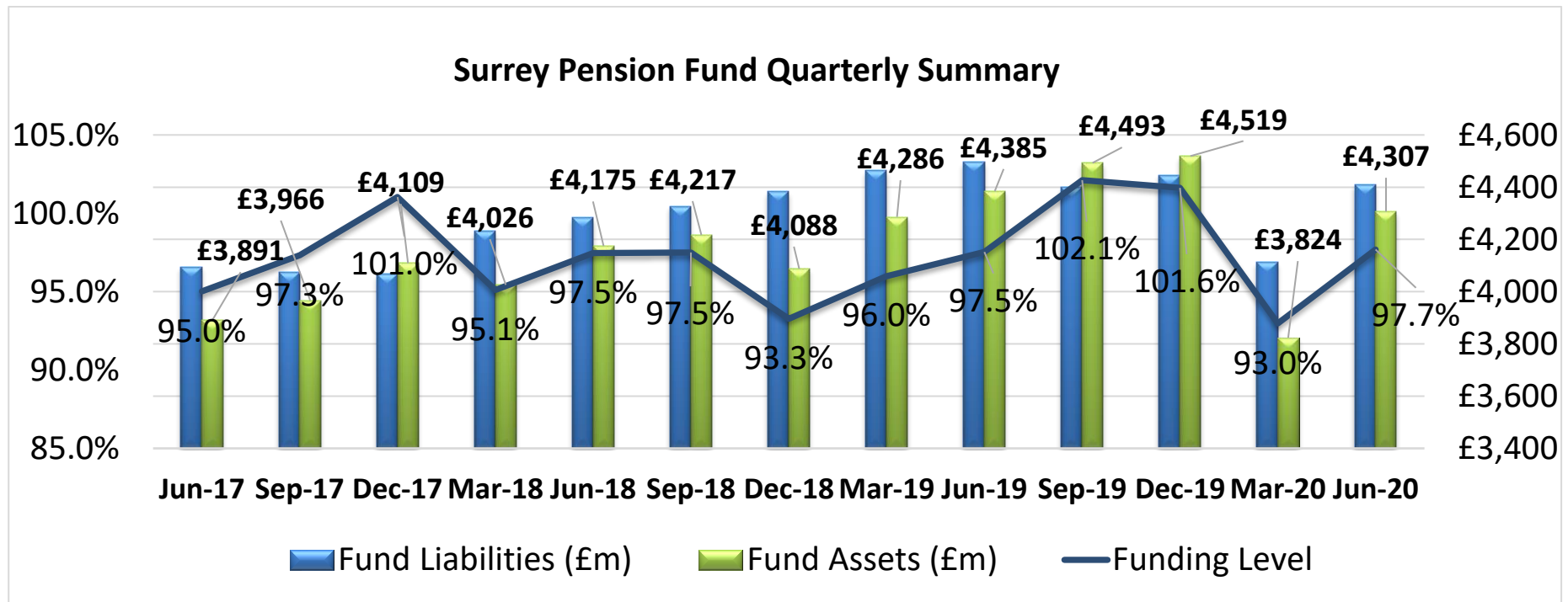
The internally managed cash balance of the Fund was £13.9m as at 30 June 2020. The Fund had transferred £92m from its Internal Cash on 17 June and moved £70m to its Western MAC Fund and £22m into its Northern Trust Cash Account to fund future Private Market contributions temporarily during COVID-19.

## Financial and Performance Report

### 5. Funding Level

The funding level has reached 97.7% (96% as at 31 March 2019) and is based on the formal valuation results, updated for market conditions at 30 June 2020, estimated contributions paid and benefit outflow to that date and actual Fund assets as provided. Based on the data that has been provided, the market value of assets is approximately £4.307bn and the value placed on the liabilities is £4.409bn.

The assumptions used are as follows: A discount rate of 4.2%, Salary inflation of 2.9%, Pension increases of 1.9%





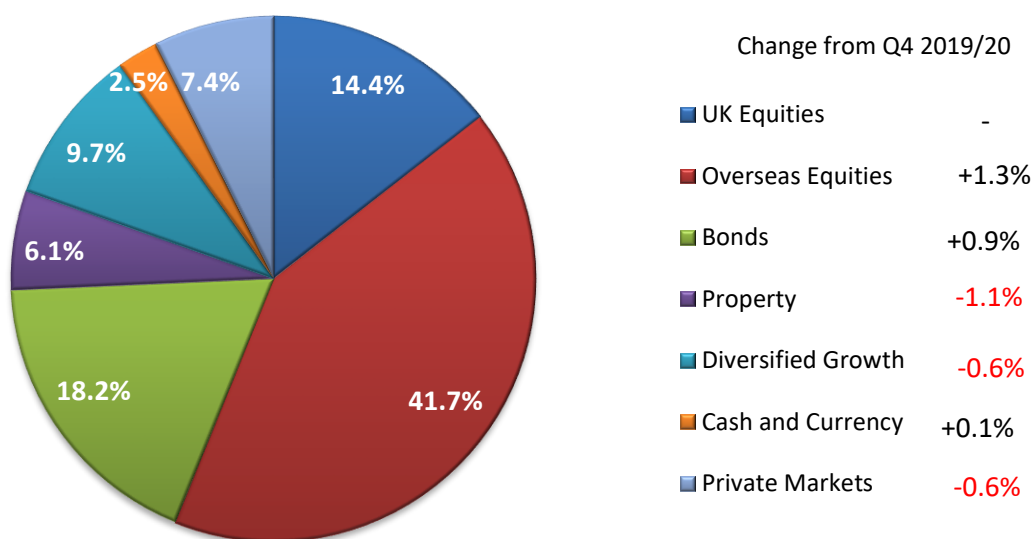
## 6. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at 30 June 2020. The table below compares the actual asset allocation as at 30 June 2020 against target asset weightings.

	TOTAL FUND	Actual	Target
	£m	%	%
<b>Bonds</b>			
Multi Asset Credit	490.5	11.39%	9.7%
Index Linked Gilts	227.6	5.28%	5.5%
Unconstrained	65.3	1.52%	2.4%
<b>Equities</b>			
UK	621.7	14.43%	17.4%
Global Equities (Overseas)	1,163.5	27.01%	19.0%
EME Synthetic (Overseas)	147.8	3.43%	3.8%
Multi Factor (Overseas)	336.0	7.80%	9.8%
Low Carbon (Overseas)	147.8	3.43%	9.8%
<b>Property Unit Trusts</b>	263.4	6.12%	6.2%
<b>Diversified growth</b>	417.5	9.69%	11.4%
<b>Cash*</b>	109.4	2.54%	0.0%
<b>Currency hedge</b>	-0.4	-0.01%	0.0%
<b>Private Markets</b>	317.1	7.36%	5.0%
<b>TOTAL</b>	<b>4,307.2</b>	<b>100.0%</b>	<b>100.0%</b>

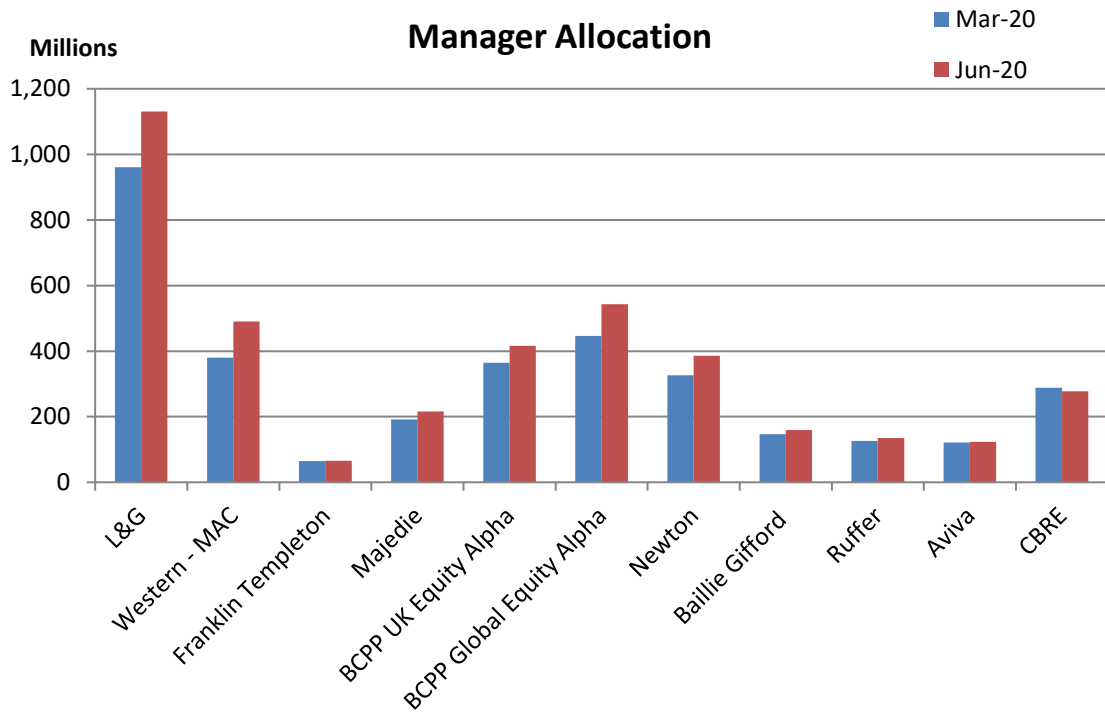
\*The Asset Allocation table includes The Fund's holding of cash, whereas the Asset Allocation in Annex 1, is the Fund's Strategic Asset Allocation of its Funds under Management based on its most recent Investment Strategy Statement

### Asset Allocation at 30 June 2020



## 7. Manager Allocation

The graph below shows the manager allocation as at 30 June 2020 and 31 March 2020.



## Fund Manager Benchmarks

Fund	Portfolio	Benchmark Index	Performance Target relative to Benchmark
Surrey Pension Fund	Total Portfolio	Weighted across the fund	+1.0%
Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share  FTSE All Share	+2.5%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
Newton	Global Equities	MSCI AC World	+2.0%
Various*	Private Equity	MSCI World Index	+5.0%
CBRE	Property	IPD UK All Balanced Funds	+0.5%
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5%
Ruffer	Diversified Growth	UK Base Rate	+3.0%
Aviva	Diversified Growth	UK Base Rate	+5.0%
Western	Multi Asset Credit	Total return Fund (6% return has been used as a comparator/ benchmark against its performance)	+5% to +7% (+6% per annum used for reporting purposes)
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to +7% (+5.5% used for reporting purposes)
LGIM	Multi-Asset Equities and Bonds  RAFI Multi-Factor  Low Carbon Index CN - AAA-AA-A Bonds – All Stocks Index  Index-Linked Gilts	MSCI World  MSCI World Low Carbon Target Index  Markit iBoxx GBP Non Gilts ex BBB All stock  Portfolio of single stock funds structured by reference to Fund liabilities	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate



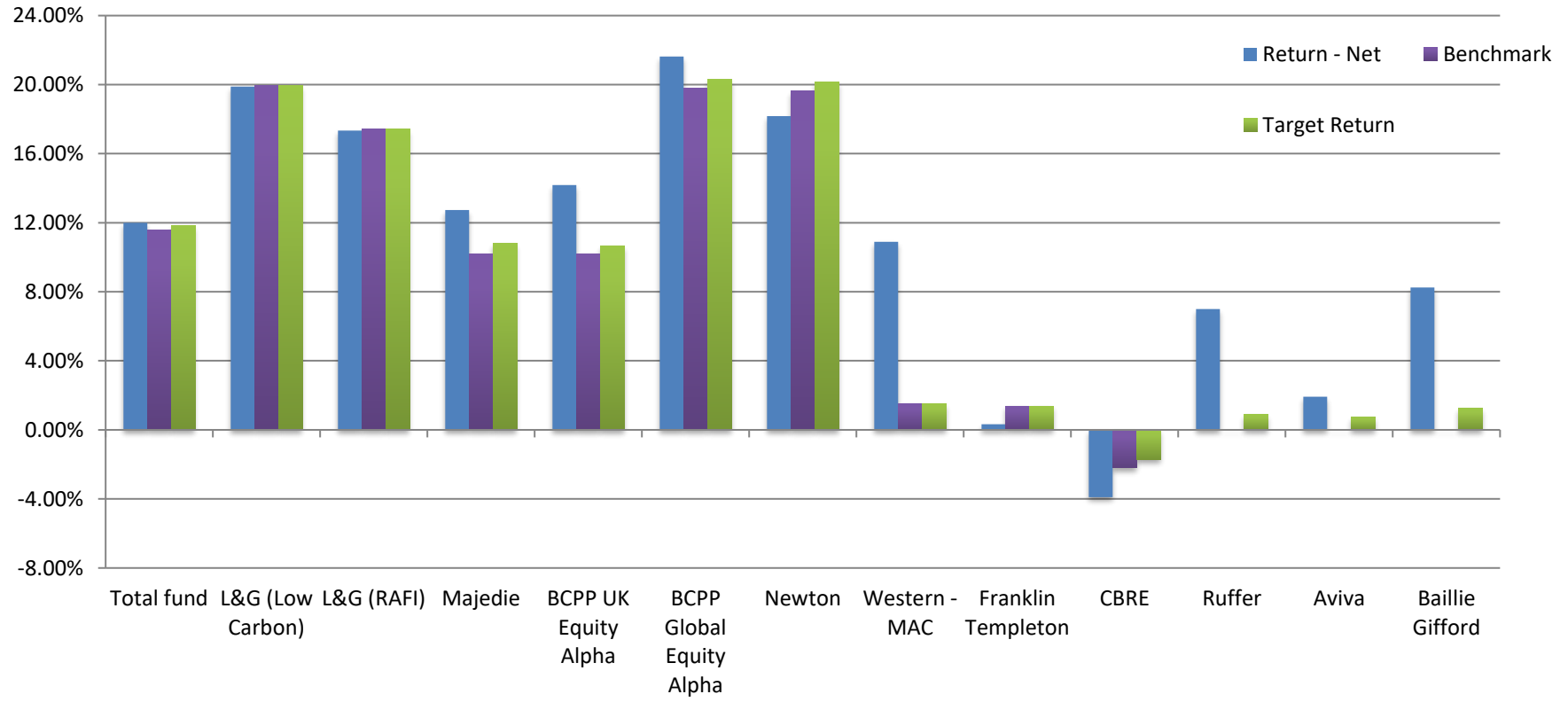


**8. Fund Performance - Summary of Quarterly Results**

Overall, the Fund returned 11.99% in Q1 2020/21, in comparison with the Fund’s customised benchmark of 11.57% and the target return of 11.82%. The table below shows manager performance for Q1 2020/21 (net of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Net of Fees Performance	Benchmark Index	Benchmark Performance	Target Return
Total fund	11.99%	Customised	11.57%	11.82%
L&G (Low Carbon)	19.89%	MSCI World Low Carbon	19.94%	19.94%
L&G (RAFI)	17.33%	MSCI World	17.44%	17.44%
Majedie	12.74%	FTSE All Share	10.17%	10.80%
BCPP UK Equity Alpha	14.19%	FTSE All Share	10.17%	10.67%
BCPP Global Equity Alpha	21.62%	MSCI ACWI Index	19.81%	20.31%
Newton	18.18%	MSCI AC World	19.64%	20.14%
Western – MAC	10.90%	Total Return Fund (Using +1.5% target return as comparator)	1.50%	1.50%
Franklin Templeton	0.32%	Barclays Multiverse Index	1.38%	1.38%
CBRE	-3.90%	IPD UK All Balanced Funds	-2.21%	-1.71%
Ruffer	7.00%	UK Base Rate	0.02%	0.88%
Aviva	1.92%	UK Base Rate	0.02%	0.76%
Baillie Gifford	8.25%	UK Base Rate	0.02%	1.26%

### Q1 Performance 2020/21



## 9. Summary of Full Year Investment Results

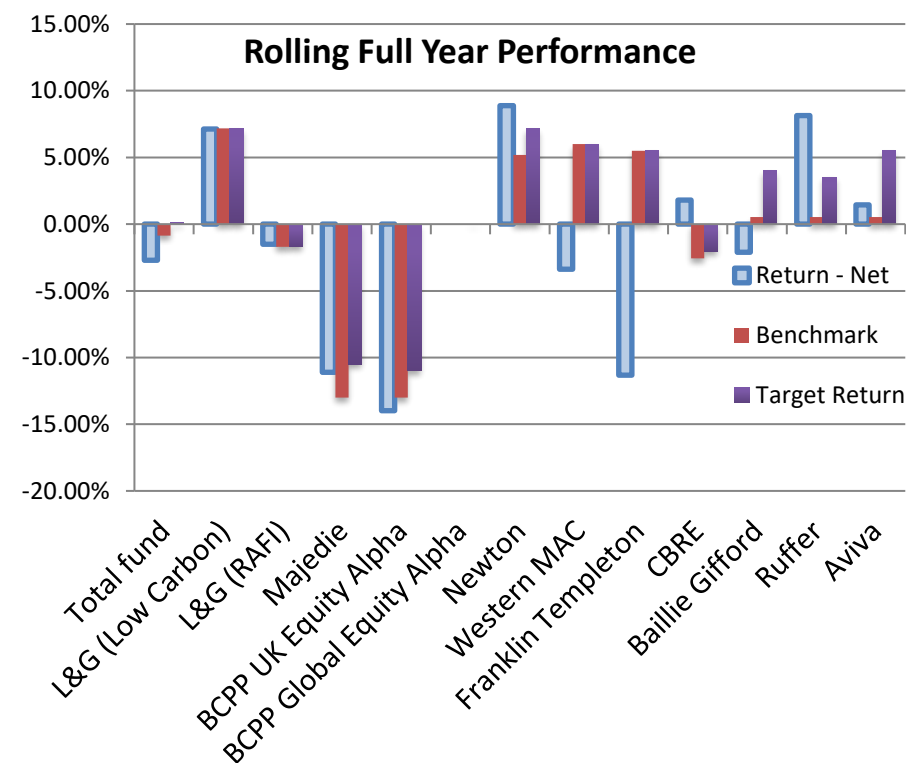
During the course of the previous 12 months to 30 June 2020, the Fund returned -2.70% net of investment fees against the customised fund benchmark of -0.87% and target return of 0.13%

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	-2.70%	-0.87%	0.13%
L&G (Low Carbon)*	7.12%	7.17%	7.17%
L&G (RAFI)*	-1.52%	-1.70%	-1.70%
Majedie	-11.11%	-12.99%	-10.49%
BCPP UK Equity Alpha	-14.00%	-12.99%	-10.99%
BCPP Global Equity Alpha*	-		
Newton	8.88%	5.18%	7.18%
Western MAC	-3.39%	6.00%	6.00%
Franklin Templeton	-11.33%	5.50%	5.50%
CBRE	1.80%	-2.57%	-2.07%
Baillie Gifford	-2.12%	0.53%	4.03%
Ruffer	8.13%	0.53%	3.53%
Aviva	1.44%	0.53%	5.53%

*\*The performance of these funds is not yet known due to their new inception*

*\*\*The Total Fund performance should be reviewed in isolation of each individual fund manager, mainly due to former*

*mandates/ funds from the last year who are not currently being reported on, which have contributed to the Total Fund return. The actual performance is also driven by actual asset allocation, where an overweight asset class performing strongly can contribute more to the Total Fund return relative to its target.*





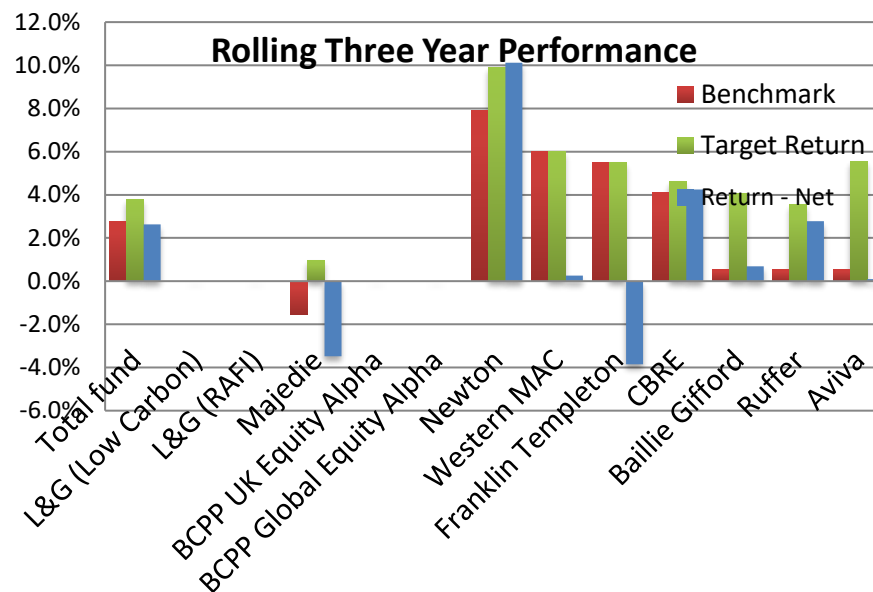
## 10. Summary of Rolling Three Year Performance Returns per annum as at 30 June 2020

During the course of the previous 3 years to 30 June 2020, the Fund returned 2.63% net of investment fees per annum against the customised fund benchmark of 2.76% and target return of 3.76%

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	2.63%	2.76%	3.76%
L&G (Low Carbon)*	-	-	-
L&G (RAFI)*	-	-	-
Majedie	-3.48%	-1.56%	0.9%
BCPP UK Equity Alpha	-	-	-
BCPP Global Equity Alpha*	-	-	-
Newton	10.12%	7.92%	9.92%
Western MAC	0.25%	6.00%	6.00%
Franklin Templeton	-3.84%	5.50%	5.50%
CBRE	4.25%	4.12%	4.62%
Baillie Gifford	0.68%	0.56%	4.06%
Ruffer	2.78%	0.56%	3.56%
Aviva	0.09%	0.56%	5.56%

\*The performance of these funds is not yet known due to their new inception

\*\*The Total Fund performance should be reviewed in isolation of each individual fund manager, mainly due to former mandates/ funds from the last year who are not currently being reported on, which have contributed to the Total Fund return. The actual performance is also driven by actual asset allocation, where an overweight asset class performing strongly can contribute more to the Total Fund return relative to its target.





**CONSULTATION:**

11. The Chairman of the Pension Fund Committee has been consulted on this report

**RISK MANAGEMENT AND IMPLICATIONS:**

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

**FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

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

**DIRECTOR OF CORPORATE FINANCE COMMENTARY**

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

**LEGAL IMPLICATIONS – MONITORING OFFICER**

15. There are no legal implications or legislative requirements.

**EQUALITIES AND DIVERSITY**

16. 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**

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

**WHAT HAPPENS NEXT**

18. The following next steps are planned:

- Continue to transition assets onto BCPP and enhance risk adjusted returns

**Contact Officer:**

Mamon Zaman, Senior Pensions Finance Specialist

**Consulted:**

Pension Fund Committee Chairman

**Annexes:**

Annexe 1: Asset Allocation Policy and Actual as at 30 June 2020

Annexe 2: Manager fee Rates (PART 2)

**Sources/background papers:**

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