

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE:** 12 MARCH 2021**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**SUBJECT:** INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE**SUMMARY OF ISSUE:**

Strategic objectives	
Investment	Funding

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 notes the main findings of the report in relation to the Fund's valuation and funding level, performance returns, asset allocation and performance fees.

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**

Manager	Issue	Status/Action Required
Various	Client meetings	Issues/ Actions related to recent manager meetings are included in Annexe 3.

2. Freedom of Information Requests

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

Date of Response	Organisation	Request	Response
30/10/2020	Pitchbook	Summary of Alternative investments	Summary of Alternative investments as at 31 March 2020
02/11/2020	Pei Media	Summary of Alternative investments	Summary of Alternative investments as at 31 March 2020
02/11/2020	Bloomberg	Summary of Alternative investments	Summary of Alternative investments as at 31 March 2020
02/11/2020	Acuris	Summary of Alternative investments	Summary of Alternative investments as at 31 March 2020
05/11/2020	Private Individual	The Fund's investments included in the United Nations Human Rights Council report into business activity in Israel's settlements	Exposure of companies as at 30 April 2020
26/11/2020	Private Individual	Information regarding the independence exercised by the Fund's adjudicator	Response and regulation reference
10/12/2020	Private Individual	Fossil Fuel Exposure Information	Fossil Fuel investment valuations as at 31 Mar 2017-30 Sep 2020

3. Stock Lending

In the quarter to 31 December 2020, stock lending earned a net income for the Fund of £8,668.

4. Internally Managed Cash

The internally managed cash balance of the Fund was £14.2m as at 31 December 2020.

5. Cashflow Analysis

- Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.

7. 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.
8. Any positive cash-flow is invested in accordance with the Fund's cash management plan.
9. The half-yearly (quarters two-three) cash-flow for the Surrey Pension Fund shows positive cash flow of £16,022,709 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
Two (1 Jul 2020 – 30 Sep 2020)	£43,058,556	£37,954,415	£5,104,141
Three (1 Oct 2020 – 31 Dec 2020)	£49,431,181	£38,512,612	£10,918,568

10. As the Fund is approaching year end, officers are performing reconciliation on monthly basis whereby they are allocating cash into appropriate months which was sitting in the holding account.
11. An indication of the current membership trends is shown by movements in membership over quarters two-three, compared to the position at the 2019 valuation (as taken from statistics provided by the pension administration team):

Period	Active members	Deferred members	Pension members	Total members
2019 valuation (31 Mar 2019)	36,469	31,993	26,015	94,477
Quarter Two 2020/21 (1 Jul 2020 – 30 Sept 2020)	37,853	41,302	27,862	107,017
Quarter Three 2020/21	38,985	40,972	28,055	108,012

(1 Oct 2020 – 31 Dec 2020)				
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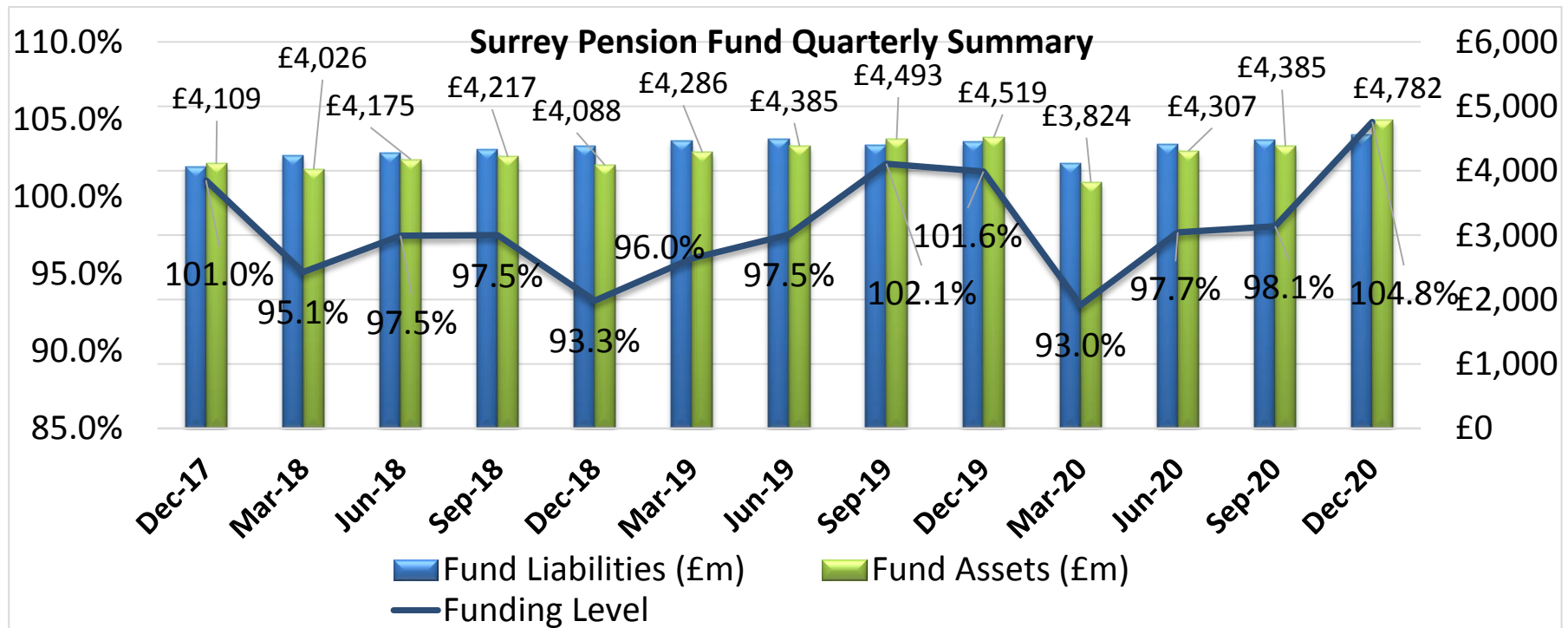
12. **Active** membership has increased by an average of 377 per month between Q2 and Q3. This may differ from what is reported in the KPI report.
13. **Deferred** members have increased significantly since the end of March 2019, this is due to the work Mercer have been carrying out on the Status 2 backlog. The number of Deferred members has subsequently decreased between Q2 and Q3 as Mercer moved their attention to Aggregating records (therefore making the Deferred's leavers) and the admin team working through a backlog of Transfer Out cases.
14. The number of **Pensioner** members has increased between Q2 and Q3. The admin team processed approximately 500 Retirements between September and December, but also received around 240 new Death cases during the same period.

Financial and Performance Report

15. Funding Level

The funding level has reached 105% (96% as at 31 March 2019) and is based on the formal valuation results, updated for market conditions at 31 December 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 £4.782bn and the value placed on the liabilities is £4.562bn.

The assumptions used are as follows: A discount rate of 4.2%, Salary inflation of 2.9%, Pension increases of 2.0%



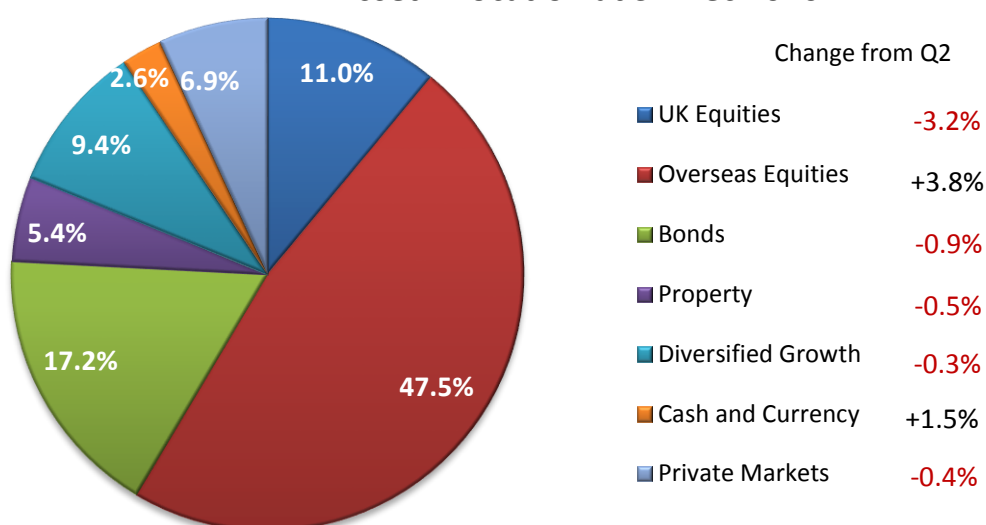
16. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at 31 December 2020. The table below compares the actual asset allocation as at 31 December 2020 against target asset weightings.

	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	537.9	11.25%	9.7%
Index Linked Gilts	221.6	4.63%	5.5%
Unconstrained	65.2	1.36%	2.4%
Equities			
UK	526.7	11.01%	17.4%
Global Equities (Overseas)	1,114.0	23.30%	19.0%
Emerging Markets (Overseas)	320.1	6.69%	3.8%
Multi Factor (Overseas)	394.9	8.26%	9.8%
Low Carbon (Overseas)	444.6	9.30%	9.8%
Property Unit Trusts	257.8	5.39%	6.2%
Diversified growth	447.6	9.36%	11.4%
Cash*	108.0	2.26%	-
Currency hedge	15.6	0.33%	-
Private Markets	328.0	6.86%	5.0%
TOTAL	4,782.0	100.0%	100.0%

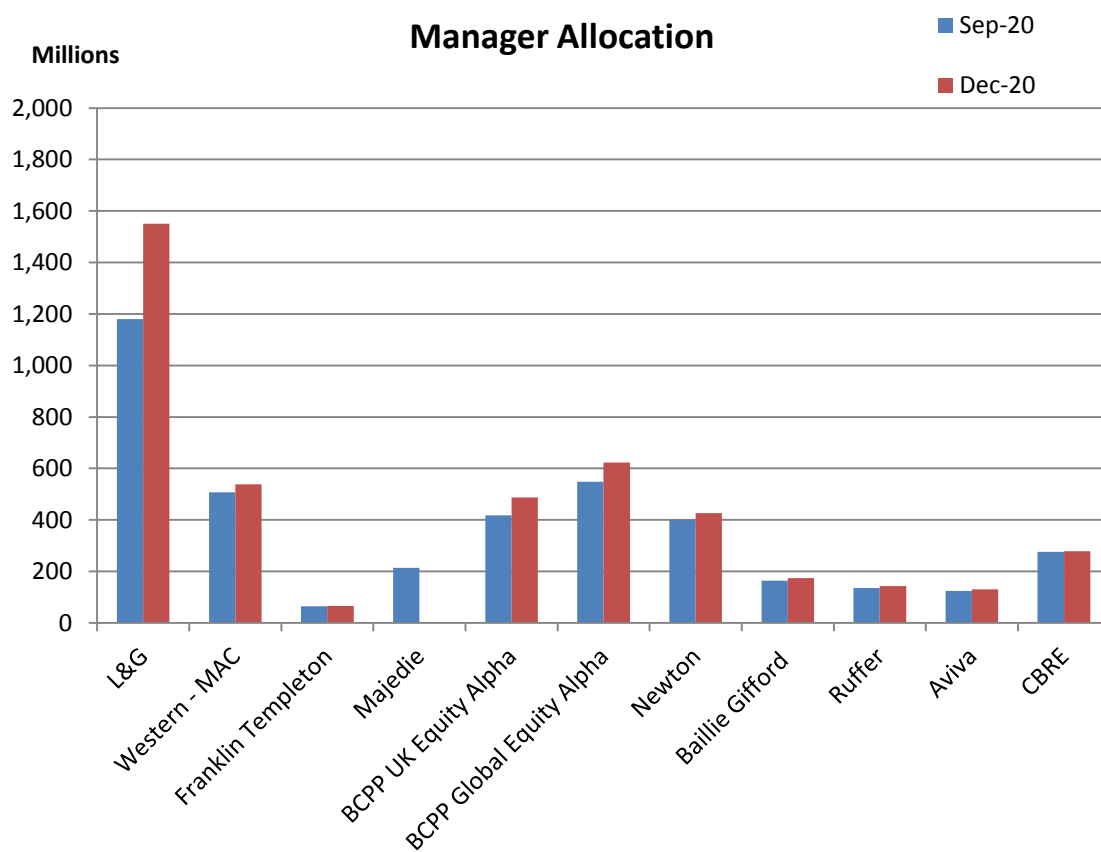
*The Asset Allocation table includes The Fund's holding of cash, while the Asset Allocation in Annex 1 is the Fund's Strategic Asset Allocation of its Funds under Management based on its most recent Investment Strategy Statement

Asset Allocation at 31 Dec 2020



17. Manager Allocation

The graph below shows the manager allocation as at 31 December 2020 and 30 September 2020.



Fund Manager Benchmarks

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

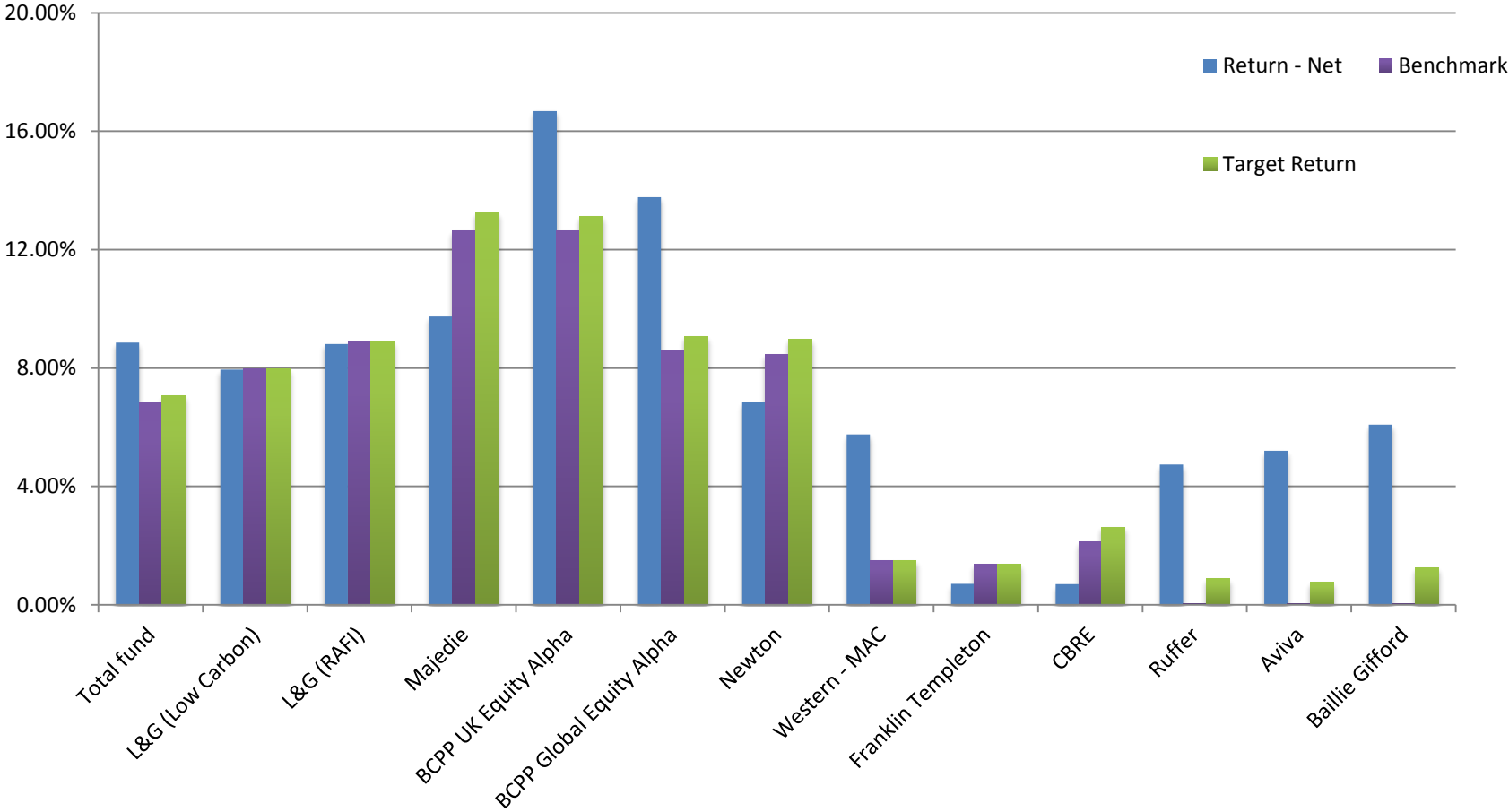
Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
Newton	Global Equities	MSCI AC World	+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

18. Fund Performance - Summary of Quarterly Results

Overall, the Fund returned 8.86% in Q3 2020/21, in comparison with the Fund's customised benchmark of 6.90% and the target return of 7.15%. The table below shows manager performance for Q3 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	8.86%	Customised	6.90%	7.15%
L&G (Low Carbon)	7.95%	MSCI World Low Carbon	7.98%	8.0%
L&G (RAFI)	8.81%	MSCI World	8.88%	8.9%
Majedie	9.74%	FTSE All Share	12.62%	13.25%
BCPP UK Equity Alpha	16.68%	FTSE All Share	12.62%	13.12%
BCPP Global Equity Alpha	13.77%	MSCI ACWI Index	8.56%	9.06%
Newton	6.85%	MSCI AC World	8.46%	8.96%
Western – MAC	5.75%	Total Return Fund (Using +1.5% target return as comparator)	1.50%	1.50%
Franklin Templeton	0.71%	Barclays Multiverse Index	1.38%	1.38%
CBRE	0.70%	IPD UK All Balanced Funds	2.12%	2.62%
Ruffer	4.74%	UK Base Rate	0.02%	0.88%
Aviva	5.21%	UK Base Rate	0.02%	0.76%
Baillie Gifford	6.08%	UK Base Rate	0.02%	1.26%

Q3 Performance 2020/21

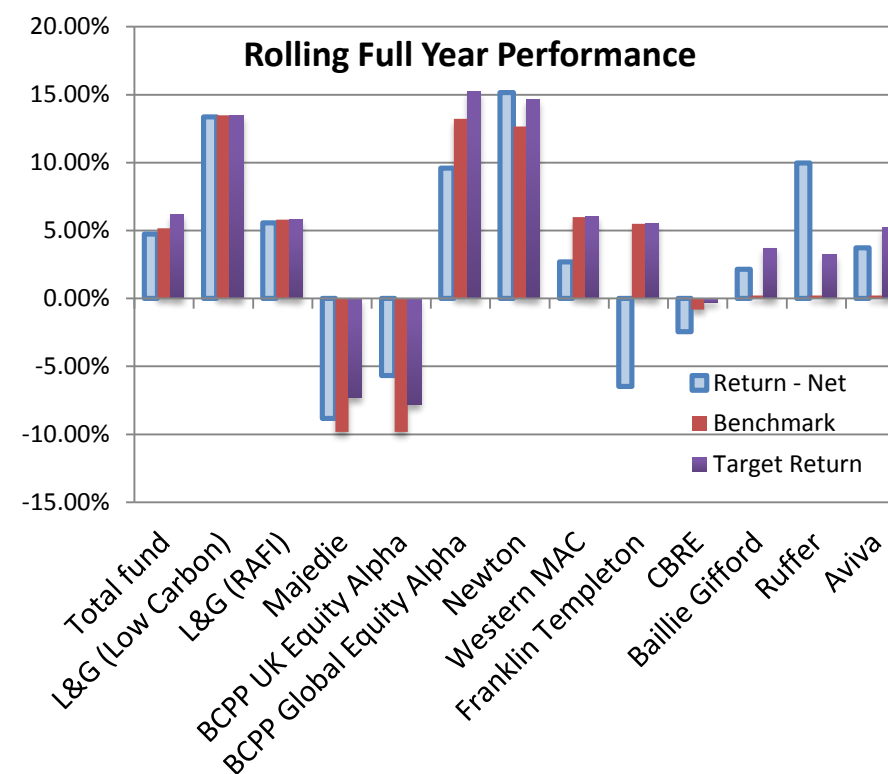


19. Summary of Full Year Investment Results

During the course of the previous 12 months to 31 December 2020, the Fund returned 4.73% net of investment fees against the customised fund benchmark of 5.17% and target return of 6.17%.

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	4.73%	5.17%	6.17%
L&G (Low Carbon)	13.37%	13.48%	13.48%
L&G (RAFI)	5.58%	5.81%	5.81%
Majedie	-8.83%	-9.82%	-7.32%
BCPP UK Equity Alpha	-5.67%	-9.82%	-7.82%
BCPP Global Equity Alpha*	9.59%	13.22%	15.22%
Newton	15.16%	12.67%	14.67%
Western MAC	2.70%	6.00%	6.00%
Franklin Templeton	-6.47%	5.50%	5.50%
CBRE	-2.46%	-0.82%	-0.32%
Baillie Gifford	2.15%	0.21%	3.71%
Ruffer	9.96%	0.21%	3.21%
Aviva	3.73%	0.21%	5.21%

**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.*



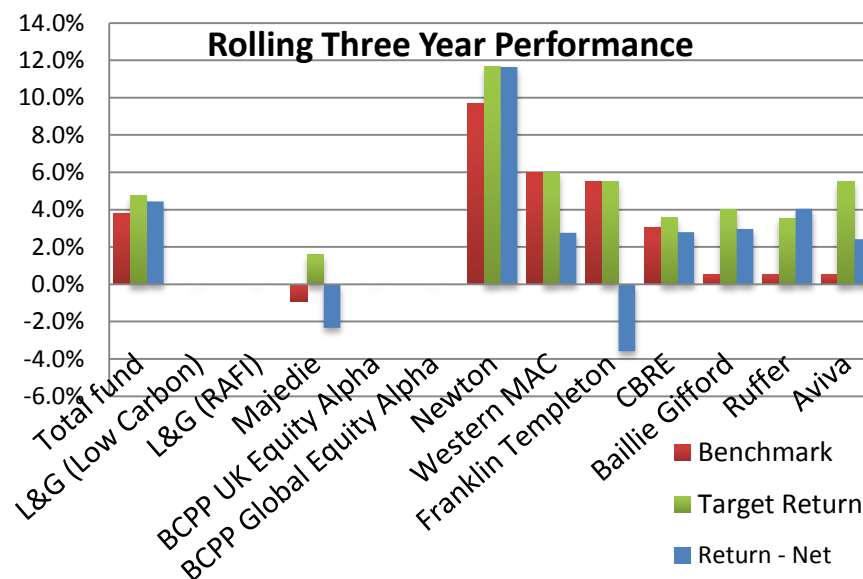
20. Summary of Rolling Three Year Performance Returns per annum as at 31 December 2020

During the course of the previous 3 years to 31 December 2020, the Fund returned 4.44% net of investment fees per annum against the customised fund benchmark of 3.77% and target return of 4.77%

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	4.44%	3.77%	4.77%
L&G (Low Carbon)*	13.37%	13.48%	13.48%
L&G (RAFI)*	5.58%	5.81%	5.81%
Majedie	-2.34%	-0.91%	1.6%
BCPP UK Equity Alpha*	-5.67%	-9.82%	-7.82%
BCPP Global Equity Alpha*	9.59%	13.22%	15.22%
Newton	11.64%	9.68%	11.68%
Western MAC	2.75%	6.00%	6.00%
Franklin Templeton	-3.58%	5.50%	5.50%
CBRE	2.79%	3.06%	3.56%
Baillie Gifford	2.96%	0.52%	4.02%
Ruffer	4.04%	0.52%	3.52%
Aviva	2.41%	0.52%	5.52%

*The performance of these funds is not yet known due to their new inception, so 1 year returns have been reported

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CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

24. 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

25. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

26. 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.

WHAT HAPPENS NEXT

27. 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 31 December 2020

PART 2 Annexe 2: Manager fee Rates

PART 2 Annexe 3: MJ Hudson Allenbridge – Manager Review 29 January 2021

Sources/background papers:

N/A

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