

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 10 SEPTEMBER 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:

- a) 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:**Freedom of Information Requests**

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

Date	Organisation	Request	Response
15/06/2021	Pitchbook	Summary of Alternative investments	Summary of Alternative investments.
16/06/2021	Prequin	Summary of Alternative investments	Summary of Alternative investments.

Stock Lending

2. In the quarter to 30 June 2021, stock lending earned a net income for the Fund of £5,772.

Internally Managed Cash

3. The internally managed cash balance of the Fund was £18.8m as at 30 June 2021.

Cashflow Analysis

4. Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.
5. 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.
6. Any positive cash-flow is invested in accordance with the Fund's cash management plan.
7. The half-yearly (quarters four-one) cash-flow for the Surrey Pension Fund shows positive cash flow of £13,165,737 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
Four (1 Jan 2021 – 31 Mar 2021)	£54,625,946	£49,991,667	£4,634,279
One (1 Apr 2021 – 30 Jun 2021)	£54,856,080	£46,324,612	£8,153,458

8. An indication of the current membership trends is shown by movements in membership over quarters four-one, 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 Four 2020/21 (1 Jan 2021 – 31 Mar 2021)	39,393	40,990	28,252	108,635
Quarter One 2021/22 (1 Apr 2021 – 30 Jun 2021)	39,366	41,055	28,643	109,064

Financial and Performance Report

Funding Level

9. The funding level is derived as the ratio of the value of the Fund's assets to the value of its liabilities.

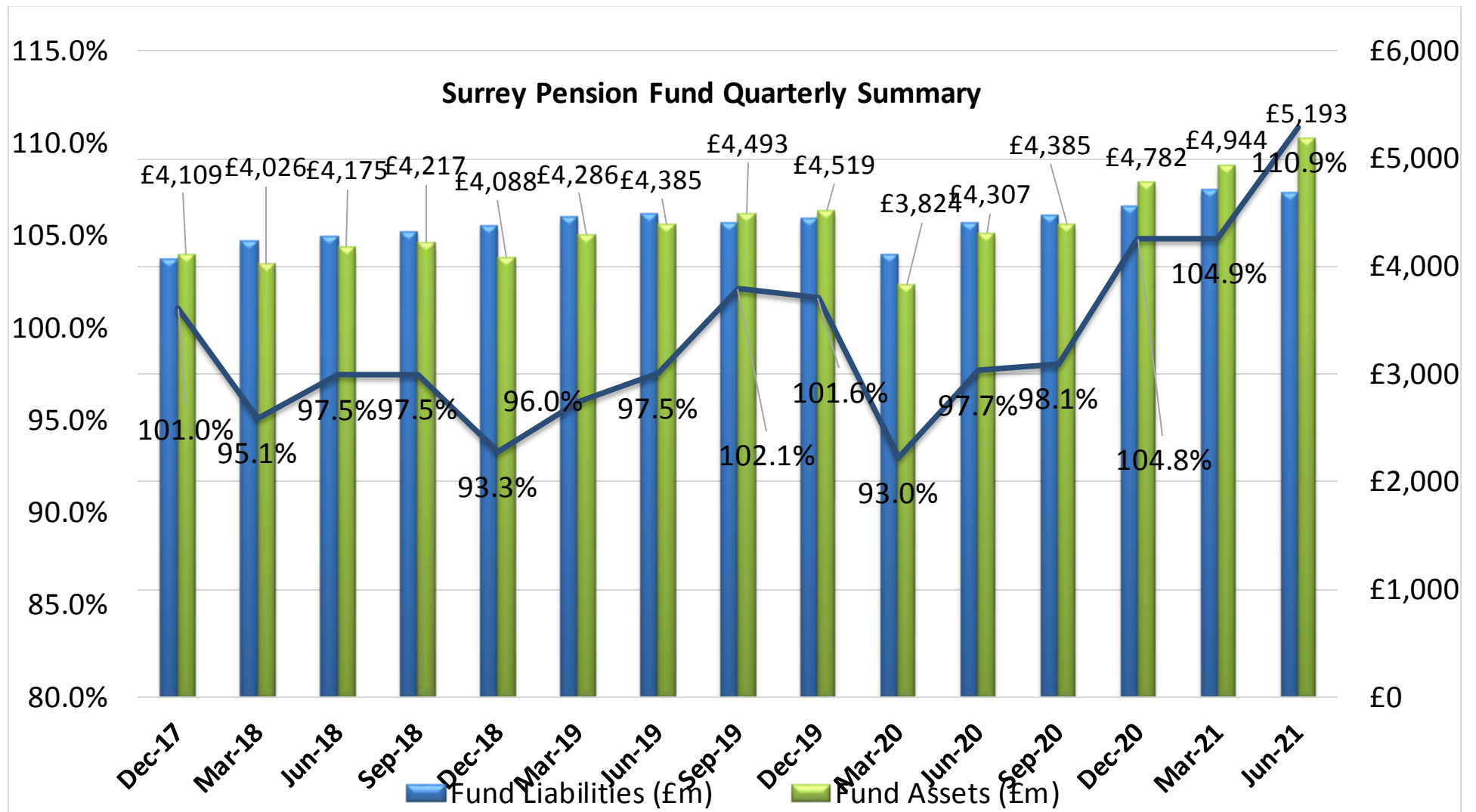
Liabilities

10. The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. Currently, the majority of benefit payments are in respect of pensioner members. However, over time, the benefit payments will transition from being mostly in respect of pensioners to deferred and active members (i.e. the pensioners of the future).

Assets

11. The Fund's assets are used to pay member benefits accrued to date. It is estimated that, based on the fund returns 4.2% p.a. the Fund's assets will be sufficient to pay all future benefit payments due.
12. The graph below summaries that funding level has reached 110% (96% as at 31 March 2019) and is based on the formal valuation results, updated for market conditions at 30 June 2021. Based on the data that has been provided, the market value of assets is approximately £4,684bn and the value placed on the liabilities is £5.193bn.

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



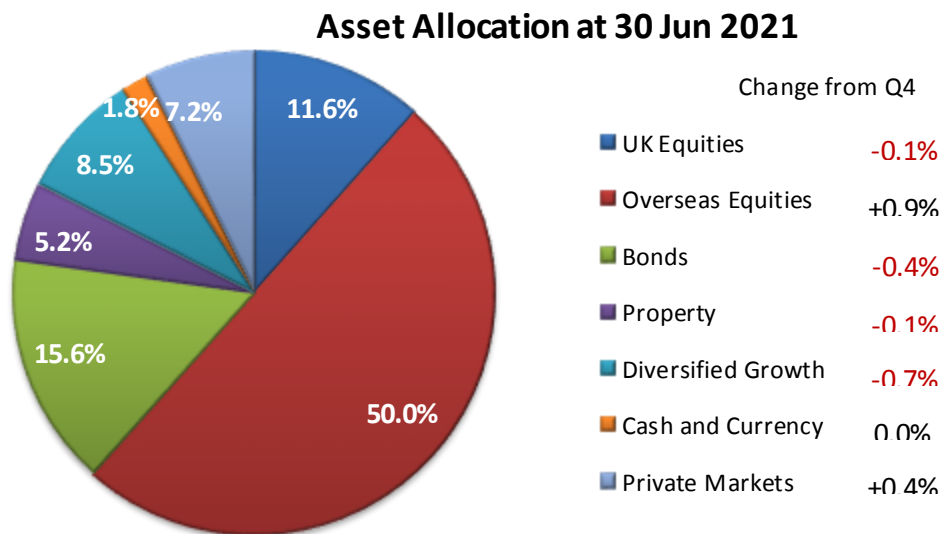
13. Asset Allocation

The table and the graph below provide an overview of the asset allocations of the fund for the quarter ending 30 June 2021.

The table below highlights the actual asset allocation against target for each class of asset.

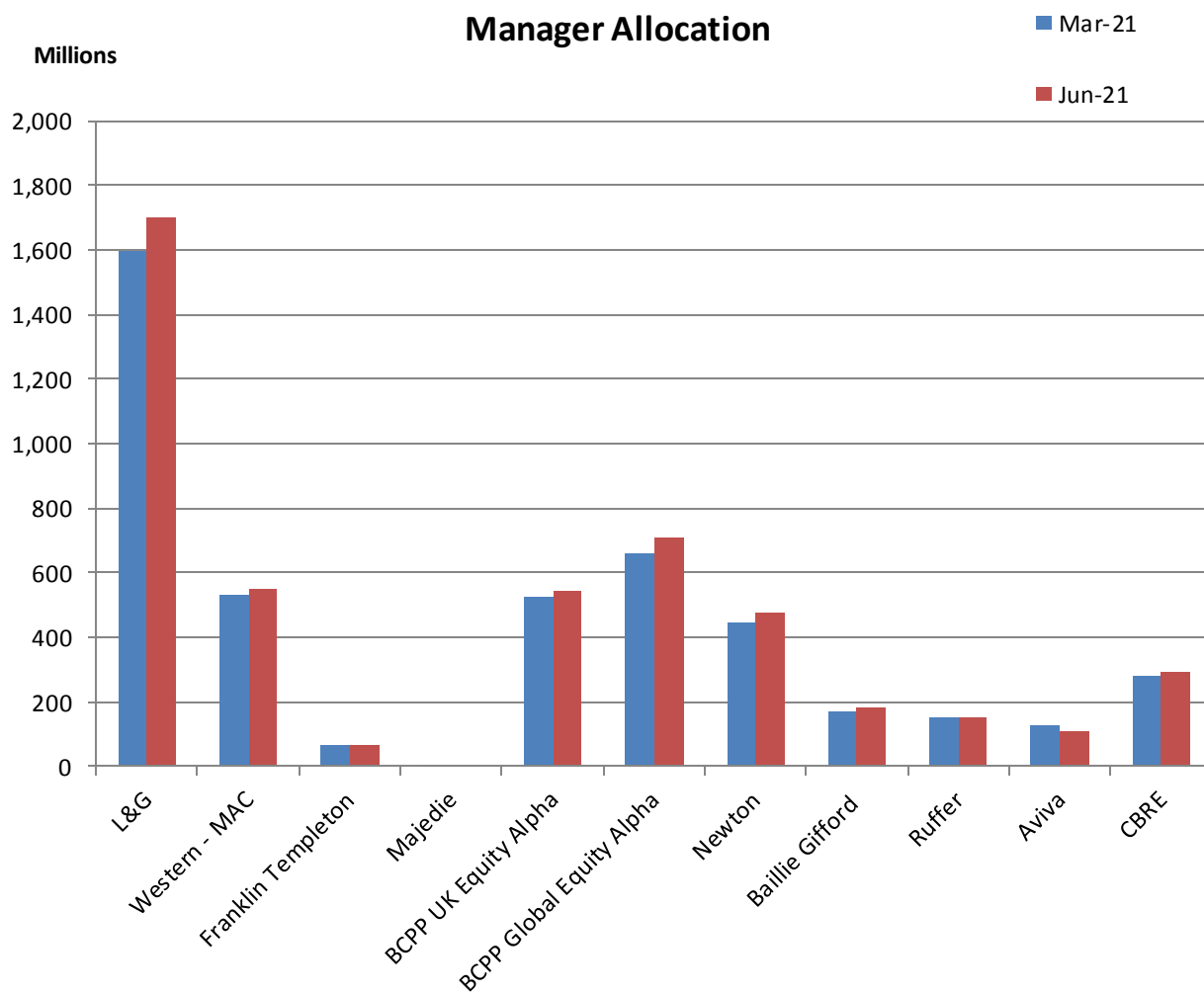
	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	548.2	10.56%	9.7%
Conventional Gilts	198.8	3.83%	5.5%
Unconstrained	64.5	1.24%	2.4%
Equities			
UK	601.3	11.58%	17.4%
Global Equities (Overseas)	1,241.3	23.90%	19.0%
Emerging Markets (Overseas)	360.7	6.95%	3.8%
Multi Factor (Overseas)	468.9	9.03%	9.8%
Low Carbon (Overseas)	524.3	10.10%	9.8%
Property Unit Trusts	272.4	5.25%	6.2%
Diversified growth	442.0	8.51%	11.4%
Cash*	109.5	2.11%	-
Currency hedge	(14.6)	(0.28%)	-
Private Markets	375.9	7.24%	5.0%
TOTAL	4,933.2	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



14. Manager Allocation

The graph below shows the manager allocation for the quarters ending 30 June 2021 and 31 March 2021.



Fund Manager Benchmarks

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

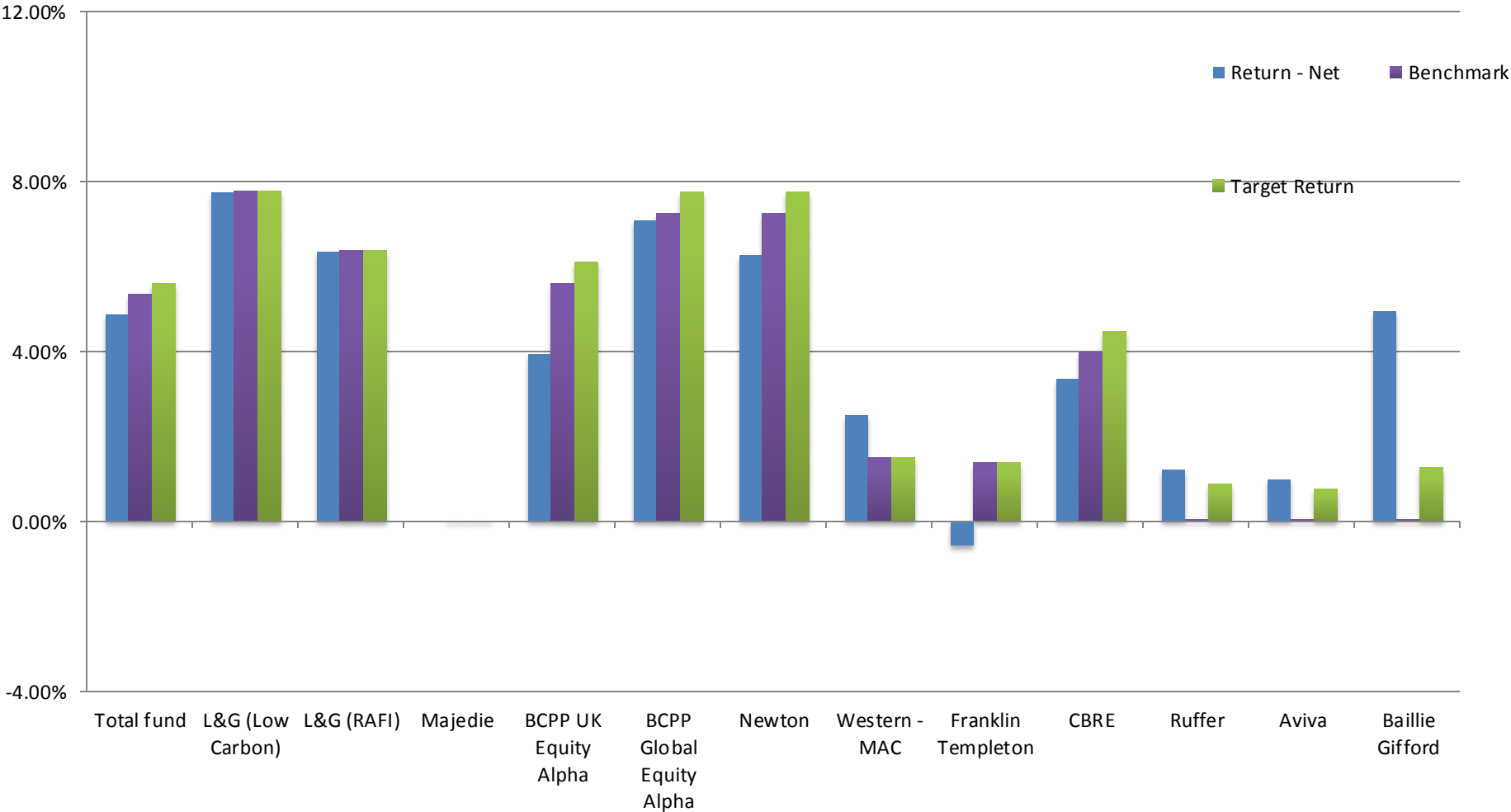
Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
Newton	Global Equities	MSCI AC World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

15. Fund Performance - Summary of Quarterly Results

Overall, the Fund returned 4.88% in Q1 2021/22, in comparison with the Fund's customised benchmark of 4.90% and the target return of 5.34%. The table below shows manager performance for Q1 2021/22 (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	4.88%	Customised	4.90%	5.34%
L&G (Low Carbon)	7.74%	MSCI World Low Carbon	7.74%	7.79%
L&G (RAFI)	6.34%	MSCI World	6.34%	6.38%
Majedie		FTSE All Share		
BCPP UK Equity Alpha	3.94%	FTSE All Share	3.94%	5.60%
BCPP Global Equity Alpha	7.09%	MSCI ACWI Index	7.09%	7.26%
Newton	6.27%	MSCI AC World	6.27%	7.26%
Western – MAC	2.51%	Total Return Fund (Using +1.5% target return as comparator)	2.69%	1.50%
Franklin Templeton	-0.59%	Barclays Multiverse Index	-0.59%	1.38%
CBRE	3.35%	IPD UK All Balanced Funds	3.40%	3.98%
Ruffer	1.21%	UK Base Rate	1.21%	0.02%
Aviva	0.99%	UK Base Rate	0.95%	0.02%
Baillie Gifford	4.94%	UK Base Rate	4.91%	0.02%

Q1 Performance 2021/22

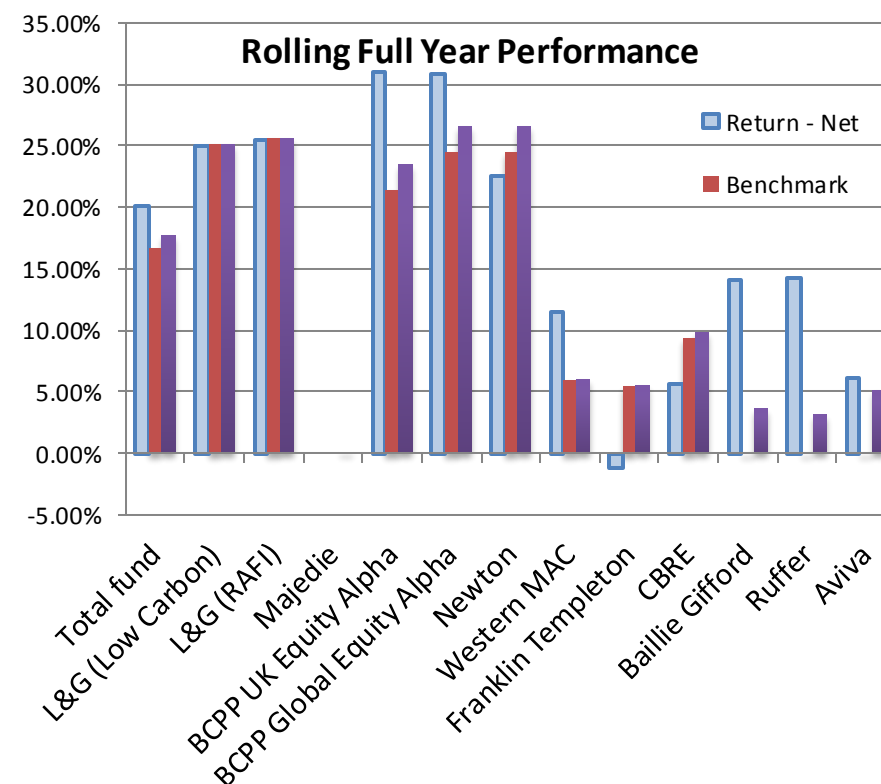


16. Summary of Full Year Investment Results

During the course of the previous 12 months to 30 June 2021, the Fund returned 20.15% net of investment fees against the customised Fund benchmark of 16.69% and target return of 17.69%.

Manager	Net of Fees Performance	Benchmark	Target Return
Total fund**	20.15%	16.69%	17.69%
L&G (Low Carbon)	24.94%	25.10%	25.10%
L&G (RAFI)	25.39%	25.61%	25.61%
Majedie			
BCPP UK Equity Alpha	30.96%	21.45%	23.45%
BCPP Global Equity Alpha*	30.78%	24.56%	26.56%
Newton	22.55%	24.56%	26.56%
Western MAC	11.41%	6.00%	6.00%
Franklin Templeton	-1.23%	5.50%	5.50%
CBRE	5.58%	9.33%	9.83%
Baillie Gifford	14.13%	0.10%	3.60%
Ruffer	14.32%	0.10%	3.10%
Aviva	6.18%	0.10%	5.10%

**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.*



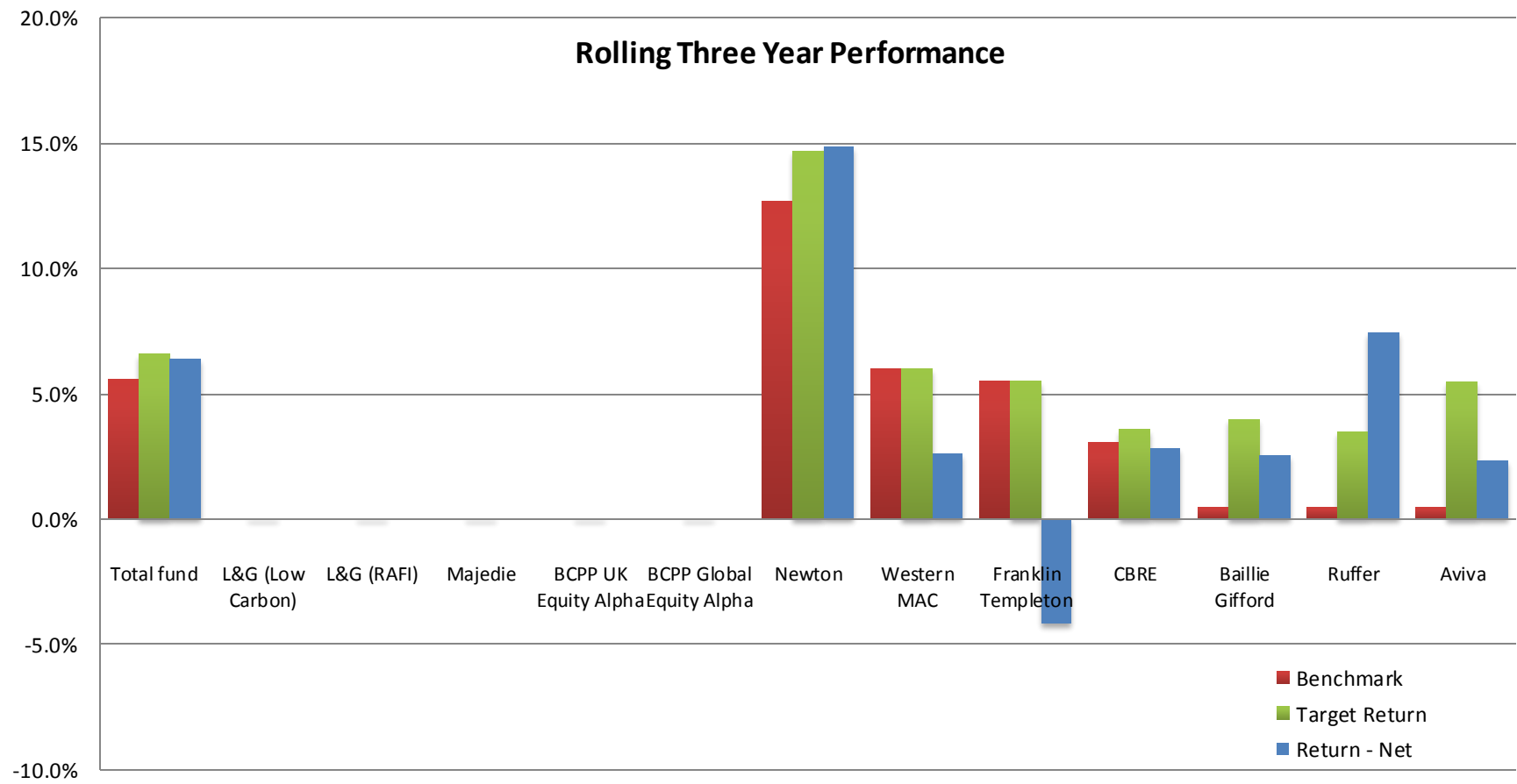
17. Summary of Rolling Three-Year Performance Returns to 30 June 2021

During the course of the previous 3 years to 30 June 2021, the Fund returned 6.82% net of investment fees against the customised fund benchmark of 6.16% and target return of 7.16%.

Manager	Portfolio	Net of Fees Performance	Benchmark	Target Return
Total fund**	Total Portfolio	6.82%	6.16%	7.16%
L&G	Low Carbon Index*	24.94%	25.10%	25.10%
L&G	RAFI Multi Factor*	25.39%	25.61%	25.61%
Majedie	UK Equities			
BCPP	UK Equity Alpha*	30.96%	21.45%	23.45%
BCPP	Global Equity Alpha*	30.78%	24.56%	26.56%
Newton	Global Equities	14.27%	12.85%	14.85%
Western	Multi Asset Credit	4.64%	6.00%	6.00%
Franklin Templeton	Unconstrained Global Fixed Income	-2.89%	5.50%	5.50%
CBRE	Property	2.56%	3.69%	4.19%
Baillie Gifford	Diversified Growth	4.56%	0.45%	3.95%
Ruffer	Diversified Growth	6.90%	0.45%	3.45%
Aviva	Diversified Growth	2.57%	0.45%	5.45%

*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:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

21. 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

22. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

23. 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

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

WHAT HAPPENS NEXT

25. The following next steps are planned:

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

Contact Officer:

Ayaz Malik, Senior Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

Annexe 1: Asset Allocation Policy and Actual as at 30 June 2021

Part 2 - Annexe 2: Manager fee Rates

Part 2 - Annexe 3: MJ Hudson Allenbridge – Manager Review 30 June 2021

Sources/background papers:

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