Investment Strategy Statement

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Introduction

The Surrey County Council ("the Council") is the designated statutory body responsible for administering the Surrey Pension Fund ("the Fund") on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy, carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the Surrey Pension Fund Committee ("the Committee), which is made up of:

- Six nominated members of the Council
- Two representatives from the Borough/District Councils nominated by the Leader of the Council
- One representative from the external employers
- One representative of the members of the Fund

The Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, and Fund Officers. The Committee meets on at least a quarterly basis.

Assisting, monitoring and scrutiny of the Fund are delegated to the Local Pension Board, which is made up of:

- An independent non-voting chairman
- Four employer representatives
- Four employee representatives

The Local Pension Board is advised by Fund Officers.

The Local Pension Board meets on at least a quarterly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund's compliance with the principles.

Key Investment Beliefs

The Fund's key investment beliefs are set out below:

(i) Investment Governance

The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets (primarily cash).

Investment consultants, independent advisors and Officers are a source of expertise and research to inform and assist Committee decisions.

The Fund should continuously monitor and improve its governance structure where relevant, through bespoke training in order to implement tactical views more promptly but acknowledges that achieving optimum market timing is very difficult.

There can be a first mover advantage in asset allocation and category selection (where considered appropriate), but it is difficult to identify and exploit such opportunities and may require the Fund to be willing to take-on unconventional risk, thus requiring Committee members to have a full understanding of the risk.

(ii) Long Term Approach

The Fund looks to take a long-term approach to setting investment strategy, as appropriate, depending on a number of factors, including consideration of the strength and status of underlying employer covenants.

The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating affordable, stable contribution rates for employers.

Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

Participation in economic growth is a major source of long term equity return.

Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

(iii) Appropriate Investments

Allocations to asset classes other than listed equities and bonds (e.g. private market assets) offer the Fund other forms of diversification/returns with different risk premia.

Diversification across asset classes and manager strategies that have relatively low correlations with each other will tend to reduce the volatility of the overall Fund return.

In general, allocations to bonds are made to achieve additional diversification.

(iv) Management Strategies

A well-balanced portfolio has an appropriate mix of passive and active investments.

Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

Active managers, capturing diversified investment styles, can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value, over the long term.

Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.

Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

(v) Objectives

The Committee seeks to ensure that the Fund has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members, i.e. over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

i. To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon. The Committee recognises that funding levels can be volatile from year to year, as they depend on both investment market levels and estimates of liability values, so the long-term strategy needs to be capable of steering a robust course through changing market environments.

ii. To have a strategic asset allocation that is both well diversified and expected to provide long-term investment returns in excess of the anticipated rise in the value of the Fund’s liabilities.

iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.

iv. To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund’s liabilities (the risk of funding shortfalls); the Committee will have regard to best practice in managing risk.

v. To have sufficient liquid resources available to meet the Fund’s ongoing obligations.

This statement will be reviewed by the Committee on a regular basis or should any significant change occur.

Investment Strategy

The Fund’s overall benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

Asset class	Allocation %	Advisory ranges %	Role(s) within the strategy
Listed Equities	**55.8**	**52.8 – 58.8**	Generate long-term returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	6.7	-	-
Global Market Cap	21.8	-	-
Global Regional	2.2	-	-
Emerging Markets	5.6	-	-
Global Sustainable	19.5	-	-
Alternatives	**27.3**	**22.3-32.3**	Generate long-term returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Private Equity	5.0	2.0-8.0	-
Infrastructure	6.0	3.0-9.0	-
Private Debt	6.0	2.0-8.0	-
Miscellaneous Alternatives	3.0	0.0-6.0	-
Property	7.3	4.3–10.3	-
Multi Asset Credit	**15.1**	**12.1-18.1**	Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Fixed Interest Gilts	**1.8**	**0.0 – 3.6**	Used within the lower risk orientated Employer-related strategies for risk management purposes.
Total	**100.0**	-	-

Note: Due to the closed ended nature of the majority of the Alternatives allocation, assets awaiting drawdown will be invested into Listed Alternatives, which aim to replicate some of the risk exposures whilst providing more liquidity in order to meet drawdowns.

Cashflows into and out of the Fund will be used to rebalance the portfolio back towards the target investment strategy stated above where possible. The rebalancing process has been delegated to Officers, although the Committee have discretion to exclude certain mandates from the rebalancing at their discretion.

Employer-Related Strategies

These strategies are designed for Core, Exited and Closed employers. Employers who are exiting the Fund are required to fully fund their liabilities before exit as the Fund will have no recourse to additional contributions in the future. For Closed employers who have no active members it is expected that they will exit the Fund at some point in the future.

In order to protect other participating (active) employers of the Fund, Exited and Closed liabilities are valued on a more prudent basis in order to help reduce the risk to other employers that deficits emerge that would need to be funded.

The employer-related strategies are as follows:

Exited	Closed	Core
5% Listed Equities 20% Multi-Asset Credit 75% Fixed Interest Gilts	35% Listed Equities 15% Multi-Asset Credit 35% Fixed Interest Gilts 15% Alternatives	57% Listed Equities 15% Multi-Asset Credit 28% Alternatives

Risk measurement and management

There are a number of risks to which any investment is exposed. The Committee recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund’s liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

Over the long-term, the Committee expects that around two-thirds of the Fund's overall investment risk (in terms of absolute volatility of returns) to be related to listed equities, with the balance coming from private markets and liquid credit.

The following risks are recognised and considered by the Committee:

Valuation risk: the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved (for whatever reason).

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis. The Fund has in place different employer-related investment strategies to help manage this at the overall Fund level.

Diversification risk: the Committee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Committee takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedge in place: 50% of its exposure to the US dollar, Euro and Yen within the liquid equity allocation. For other asset classes, currency hedging is reviewed on a case-by-case basis.

Cashflow risk: the net cashflow position of the Fund is monitored on a regular basis**.** Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

Inflation risk: as pension payments will change in-line with CPI inflation, the Fund takes this into consideration when reviewing investment strategy, together with the regular cashflow and liquidity position.

Governance risk: members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

Environmental, Social and Governance risk: The Fund has developed a separate Responsible Investment Policy, which sets out in detail the approach taking to ESG issues, including climate change. The policy builds on the holistic review of the Fund's approach to Responsible Investment in 2020, where it was agreed that the UN Sustainable Development Goals should play a key role in helping shape the investment strategy, as well as monitoring progress on ESG issues over time.

In general, the Committee prefers to take an engagement-led approach to ESG but does reserve the right to disinvest from companies where engagement has not driven the changes expected.

Approach to asset pooling

In order to satisfy the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Surrey Pension Fund is a shareholder in the Border to Coast Pensions Partnership (BCPP) Limited. BCPP is a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

BCPP has an internal team of investment managers, in addition to appointing external managers. Its role is to implement the investment strategies of the partner funds, through a range of investment sub-funds, offering internally and externally managed solutions. It is anticipated that a significant proportion of the Fund's investments will be made through BCPP. Where it is not practical or cost effective for assets to be transferred into the pool (e.g. existing private market investments), they will continue to be managed at the Fund level. Whilst these assets are unlikely to be transferred, it is expected that once these investments are fully distributed, the proceeds will be reinvested into funds with BCPP.

Advice Taken

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment consultant (Mercer Limited), an independent advisor, the Director Corporate Financial and Commercial and the Assistant Director - LGPS Senior Officer.

Effective date of policy	16 June 2023
Approved date	16 June 2023
Next review	31 March 2026

Version	Nature of Change	Implemented
V1	Initial Creation	1 December 2023

Appendix A: Myners Investment Principles Compliance Statement

Principle 1: Effective Decision-Making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Full compliance

The Committee and Local Pension Board are supported in their decision making/assisting roles by the Director Corporate Financial and Commercial and the Assistant Director – LGPS Senior Officer.

Members of both the Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full compliance

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full compliance

The Fund's actuary reviews the funding position of each employer every three years, and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed periodically and at least in line with each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Full compliance

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers each quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code
- Include a statement of their policy on responsible ownership in the Investment Strategy Statement
- Report periodically to scheme members on the discharge of such responsibilities.

Full compliance

All new investment mandates will be expected to include a statement of a manager’s adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial “extra financial” considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund’s managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

Article I. Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.

Article II. Provide regular communication to scheme members in the form they consider most appropriate.

Full compliance

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment policy, funding strategy statement and investment strategy statement. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Committee and half yearly reports to the Local Pension Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to all Fund members.

Appendix B: Border to Coast Sustainability Resources

Border to Coast publish reports related to Responsible Investment on their website at the link below. This includes the Corporate Governance and Voting Guidelines, Responsible Investment Policy and the annual Investment Reports.

Responsible Investment Policy 2023 - Border To Coast

Effective date of policy	16 June 2023
Approved date	16 June 2023
Next review	31 March 2026

Version	Nature of Change	Implemented
V1	Initial Creation	1 December 2023