Notice of Meeting

Surrey Pension Fund Board

SURREY COUNTY COUNCIL

Date & time	Place	Contact	Chief Executive
Friday, 31 May 2013 at 9.30 am This meeting will adjourn periodically for training sessions.	Committee Room A, County Hall, Penrhyn Road, Kingston-upon-Thames, KT1 2DN	Cheryl Hardman Room 122, County Hall Tel 020 8541 9075 cherylh@surreycc.gov.uk	David McNulty

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9068, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email cherylh@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Elected Members
Ms Denise Le Gal (Chairman), Mr Nick Skellett CBE (Vice-Chairman), Mr W D Barker OBE, Mr Mike Goodman, Mr John Orrick and Mr Stuart Selleck

Co-opted Members:
Mr Tony Elias (District Representative) and Ian Perkin (Office of the Surrey Police and Crime Commissioner)
One District Representative vacancy and one Employee Representative vacancy

TERMS OF REFERENCE

The Committee is responsible for the following areas:

a) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.
b) To determine policy for the investment, funding and administration of the pension fund.
c) To consider issues arising and make decisions to secure efficient and effective performance and service delivery.
d) To appoint and monitor all relevant external service providers:
- fund managers;
- custodian;
- corporate advisors;
- independent advisors;
- actuaries;
- governance advisors;

- all other professional services associated with the pension fund.

e) To monitor performance across all aspects of the service.

f) To ensure that arrangements are in place for consultation with stakeholders as necessary

g) To consider and approve the annual statement of pension fund accounts.

h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [15 FEBRUARY 2013] (Pages 1 - 10)

To agree the minutes of the Pension Fund Investment Advisors' Group as a true record of its last meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*24 May 2013)*.
2. The deadline for public questions is seven days before the meeting (*24 May 2013)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 GOVERNANCE POLICY STATEMENT (Pages 11 - 22)

Administering authorities are required to prepare, approve and publish a governance policy statement. This report recommends a Governance Policy Statement for approval by the Surrey Pension Fund Board.

6 GOVERNANCE COMPLIANCE STATEMENT (Pages 23 - 32)

Local authority pension funds are required to publish a Governance Compliance Statement. A statement has been drafted for consideration and approval.

7 PENSION FUND BUSINESS PLAN 2013/14 (Pages 33 - 44)

The 2001 Myners Report recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints. A business plan has been drafted for consideration and approval.

8 PENSION FUND RISK REGISTER (Pages 45 - 50)

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls
implemented to mitigate the risks. This should be recorded in a risk register, which needs regular monitoring.

A risk register has been drafted for consideration and approval.

9 COMMUNICATION POLICY STATEMENT (Pages 51 - 56)

Local authority pension funds are required to publish a communication policy. A schedule has been drafted for consideration and approval.

10 KEY PERFORMANCE INDICATORS (Pages 57 - 62)

In line with best practice, Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

A KPI Statement format has been drafted for consideration and approval.

11 KNOWLEDGE & SKILLS FRAMEWORK (CIPFA) FOR THE PENSION FUND (Pages 63 - 66)

The 2001 Myners Report recommended that local authority trustees responsible for decision making on the investment of pension funds should have sufficient expertise to be able to understand the relevant issues, and to question recommendations put before them by officers and investment consultants.

A Knowledge and Skills Toolkit from the Chartered Institute of Public Finance and Accountancy (CIPFA), in collaboration with Hymans Robertson, has been developed in order to facilitate gaining knowledge of the current issues and technical knowledge required for decision making. The Board is to consider adopting the CIPFA Knowledge and Skills Framework.

12 AUTO-ENROLMENT (Pages 67 - 70)

Starting from 1 October 2012, the Pensions Act 2008 requires all employers to automatically enrol employees classed as *eligible jobholders* into a pension scheme. Employers can either enrol eligible jobholders into their own qualifying pension scheme or the National Employment Savings

Trust (NEST) scheme set up by the Government. Public sector employers are however only able to enrol employees into their occupational pension schemes.

Auto-enrolment will be introduced gradually over a period of four years with each employer being given a “staging date” to auto-enrol their employees. The larger the employer the earlier the staging date.

The County Council counts as the pension fund’s largest employer type and its staging date was 1 April 2013. This report informs the board of the results of the County Council’s auto-enrolment experience.

13 RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY (Pages 71 - 80)

Shareholders have a clear interest in promoting the long term success of the companies in which they invest. As the ultimate owners of those companies, there is a clear incentive to vote the shares in a constructive way with the companies’ long-term sustainability the ultimate objective. This paper will recommend that the Pension Fund take responsibility for the voting of its shares according to its own Responsible Investment and Stewardship Policy, a draft of which is attached to the paper

14 PENSION FUND STOCK LENDING (Pages 81 - 86)

Stock lending is a long established way to generate substantial additional income for the pension fund within accepted risk parameters. Given the extensive variety of stocks within the Surrey Fund, consideration should be given to taking advantage of this additional income stream.

15 TOBACCO STOCK IN THE PENSION FUND (Pages 87 - 94)

The recent transfer of public health responsibilities to local authorities with effect from 1 April 2013 has resulted in significant publicity regarding the holding of tobacco stocks by the same local authorities’ pension funds. Questions have been raised as to whether this is compatible with the responsibilities held by administering authorities in relation to public health and the potential conflicts of interest that could result.

This report sets out the position with regard to the Pension Fund’s fiduciary duties with regard to environmental, social and governance (ESG) considerations. The transfer of public health responsibilities alongside the County Council’s responsibility to its pension fund has notably raised the profile of ethical investing.

16 MANAGER ISSUES AND INVESTMENT PERFORMANCE (Pages 95 - 122)

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

17 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW (Pages 123 - 130)

The Surrey Pension Fund has a commitment to invest 5% of the fund in private equity. This is achieved by investing in funds of funds and directly managed funds, managed by a number of private equity specialists.

The Pension Fund Board reviews the private equity strategy annually. This report is the 2012/13 review.

18 REVISED STATEMENT OF INVESTMENT PRINCIPLES (Pages 131 - 148)

With the introduction of a new Total Return investment asset class earlier in 2013, it is now necessary to approve a revised Statement of Investment Principles (SIP).

19 FUNDING STRATEGY STATEMENT (Pages 149 - 180)

With the formation of a new Surrey Pension Fund Board, it is proper that the Board should approve the existing Fund Strategy Statement for the Pension Fund.

David McNulty
Chief Executive
Published: 22 May 2013

MOBILE TECHNOLOGY – ACCEPTABLE USE

Use of mobile technology (mobiles, BlackBerries, etc.) in meetings can:

- Interfere with the PA and Induction Loop systems
- Distract other people
- Interrupt presentations and debates
- Mean that you miss a key part of the discussion

Please switch off your mobile phone/BlackBerry for the duration of the meeting. If you wish to keep your mobile or BlackBerry switched on during the meeting for genuine personal reasons, ensure that you receive permission from the Chairman prior to the start of the meeting and set the device to silent mode.

Thank you for your co-operation

<u>Record of the Pension Fund Investment Advisers Group (IAG)</u>
<u>9:45am 15 February 2013, Offices of UBS</u>

<u>Present</u>

D Le Gal (Chair)

J Orrick
S Selleck (SS)
T Elias (TE)
D Josey (DJ)
M Few

S Little (SL)
P Triggs
J Evans
J Wilson

P Meredith (PM)
J Harrison

Representing Mercer
Steve Turner (ST)
Sanjay Mistry – Private debt training session

Representing Fund Managers
Steve Magill UBS
Digby Armstrong

Alex Bignall CBRE
DJ Dhananjai
Max Johnson

1. <u>Apologies for absence</u> were received from David Wood and Nick Harrison.

2. The Chair <u>declared a personal interest</u> to the IAG, due to her role as a Trustee Director of JP Morgan's UK Pension Fund. Paul Meredith also declared an interest as a UBS pensioner.

Item 1 – Notes of Meeting of 16 November 2012

3. After a couple of minor errors were pointed out, the minutes were noted.

4. MF wanted to follow up on the issues currently facing CBRE. ST stated Mercer have been reviewing the property portfolio and there are questions around the appropriateness of the multi-manager route. There have been problems with the European investments and issues with highly geared funds. They have been looking at what could be done to ensure CBRE are a good fit with the rest of the Surrey fund.

5. PM highlighted that when ING Real Estate were appointed in 2004, they were amongst the best in class managers and initially performed well. The European investments made in 2007 have proved disastrous and have been a drag on performance ever since.

6. How to get exposure to property is a big conundrum. The fund isn't big enough to invest directly, so the fund of funds route provides an opportunity to get exposure to an appropriately diversified portfolio. However, it does have drawbacks as there are two levels of fees and CBRE are one of the biggest players in the market holding 10 -20% of some funds, which makes the investments very illiquid. Change is very costly and you can be locked in to under-performing funds.

7. The problems faced by CBRE have been largely inherited from their takeover of ING Real Estate and it appears that the manager would like to restart the clock on performance measurement. The Group agreed to discuss the issue in more depth later in the meeting as CBRE are due to present to the group.

8. SS raised the issue of indemnities of members under the new Pension Board governance structure. PT agreed to check with the Legal team, but as the Board has committee status, he expects it to be the same indemnity cover as any other council committee.

Item 2 – Report of the Pension Fund & Treasury Manager

a) Matters arising since last meeting

9. UBS Triton Property Fund – The problems continue on the stricken fund. On the 31 January 2013, UBS issued a liquidation notice stating that with effect from 1 August 2013, the fund will be liquidated unless £150m of redemption requests are withdrawn by 30 April 2013. CBRE, who are managing the fund's investment, believe that liquidation with sales spread over 3-5 years is in the best interest of the fund and therefore do not want the redemption requests to fall by £150m. To help ensure this does not happen, CBRE will submit redemption requests on behalf of all their clients.

10. Majedie – The fund has submitted an application to be part of a class action against Hewlett Packard, a stock held by Majedie. The class action is the result of an $8bn write-off related to HP's takeover of Autonomy. The value of the fund's shares in HP has fallen by around $1m since the story came out. PM stated that, interestingly, Majedie originally held shares in Autonomy but got out very early due to concerns about their accounting practices.

11. Franklin Templeton – The transition into Franklin Templeton's Global Bond Fund took place as planned on 11 February 2013 at zero cost and with full market exposure maintained.

12. Freedom of Information Requests – There is still a lot of interest in tobacco investments, this time as the result of a (FoI) enquiry from The Times, questioning whether the fund had sought legal advice on the implications of responsibility for Public Health transferring to the local authorities on 1 April 2013. SL stated that the issue of tobacco investments had been raised recently at a meeting of the Society of County Treasurers (SCT). They agreed that the fiduciary duty of LGPS funds to obtain the best return possible is the overriding factor in investment decisions and the majority of funds will continue to invest in tobacco.

13. The same journalist at The Times also submitted FoIs into holdings in gambling and alcohol stocks. At the 31 January 2013, the Fund had £16.7m invested in alcohol companies and £3.7m in gambling companies.

14. Mirabuad's IMA has being updated so they can now invest up to 20% in global equities.

b) Private Equity

15. Hg Capital The Group approved the commitment of £15m to Hg Capital 7, subject to the outcome of a Mercer investment report on the fund.

16. ISIS invited the fund to be a key investor in their new growth fund. Last year the group approved a £15m commitment to the ISIS V fund but, due to the fund being heavily oversubscribed and issues around deadlines, the Surrey investment was not accepted. Surrey has been an important client to ISIS over the years and was one of their initial partners. ISIS wanted to keep the relationship going and therefore have offered the fund a position in the new ISIS growth fund.

17. Members raised concerns that the level of investment would be 20% of the total fund value. In the past, 10% was used as a general rule of thumb. However, the ISIS track record and the relatively small fund size were considered and it was felt this helped to offset the risk. The Group approved the commitment of £10m to ISIS Growth Fund.

18. More generally in terms of private equity performance monitoring, it was felt that a consistent definition of Internal Rate of Return (IRR) should be used to monitor performance. Currently managers provide their own performance measures and it is unknown if the calculation of IRR is consistent across the managers in the portfolio.

19. PM stated that private equity has always been excluded from the performance monitoring of the fund and really should be included in total portfolio performance measuring.

c) Internally Managed Cash

20. The Group felt the build up of cash should be used to rebalance, and additional funds should be allocated to the diversified growth managers to bring them up to their benchmark allocations, as the actual allocations had slipped a bit over the last year due to the strong performance of equities.

21. The group also discussed what it should do with the 2% benchmark allocation made to the Majedie global fund. This investment will no longer take place so it should be reallocated. As the allocation was to global equities, the Group considered an additional allocation to Newton but were put off by concerns over their long term performance. Marathon were also considered but it was agreed that their allocation is already high at around 12% and there are questions about what effect the recent organisational changes will have on performance.

22. Majedie are slightly over their benchmark allocation to UK Equities so it was agreed that should be increased from 6% to 7%, with the remaining 1% to be allocated to global equities with Legal & General.

d) Financial & performance report

23. The value of the fund increased from £2,236.9m at 30 September 2012 to £2,322.4m at 31 December 2012. The estimated fund value at 13 February 2013 is £2,427.0m.

24. The quarterly performance of +3.3% was greater than the customised benchmark of +2.9% (+0.4%).

25. In absolute terms the best performing managers was Majedie, with a return of +7.3%, compared to a benchmark of +3.8% (+3.5%).

26. In relative terms the best performing manager was also Majedie with their ourperformance of +3.5%.

27. Newton underperformed with a return of +0.5% compared to a benchmark of +2.2% (-1.7%). CBRE and Mirabaud also slightly underperformed with a relative return of -0.3% and -0.2% respectively.

28. The total Fund returned +12.4% over 12 months, which was above the benchmark return of +10.7% (+1.7%)

29. In absolute terms the best performing manager was Marathon with a return of +18.8% compared to benchmark return of +10.7% (+8.1%). In relative terms the best performing manager was also Marathon with their outperformance of +8.1%.

30. Marathon (+8.1%), UBS (+5.4%), Majedie (+3.9%) Newton (+3.5%) and Western (1.7%) all achieved their outperformance target for the year.

31. CBRE (-0.3%) and Mirabaud (-0.4%) failed to beat the benchmark for the year.

e) Public services pensions bill and proposed governance arrangements

32. PT updated members on the current positions. The Bill is currently with the House of Lords and will receive its third reading on 26 February before going back to the Commons and, as things stand, is likely to receive Royal Assent in time for the 2013 valuation.

33. Auto-Enrolment will be implemented by the County Council with effect from 1 April 2013. This is where staff who are currently not members of the pension fund are auto-enrolled and have to opt out if they don’t want to remain a member. The Pensions Admin team at SCC is managing the process and estimate that 90% of those auto-enrolled will opt out again. However, early indications from organisations that have already implemented auto-enrolment show that it might only be around 75%.

34. Members requested that an update is provided at the next meeting covering how the process went and the number of opt outs.

f) Actuarial Valuation

35. The next valuation will be as at 31 March 2013. A briefing note on the basis for the assumptions to be used such as discount rate and inflation is due to be released by the actuary shortly. This is an important document as the assumptions used will have a large role in determining the funding levels and therefore the contribution rates of each employer.

36. The stabilisation policy will continue for the large, long-term employers such as the local authorities in the fund. This is where their contribution rates remain consistent over a number of valuation cycles in the expectation that the employers underpay in the bad times and overpay in the good. The contribution rates may have to be

adjusted as a result of the 2013 valuation if the results are outside of the accepted parameters of the stabilisation policy, which is a distinct possibility this time round.

Item 3 – Manager Meetings

37. PT, PM and JE met with Marathon, Newton, Majedie, L&G and Mirabaud on 29 January.

38. Newton. The Group focused the discussion on Newton. Mercer rates Newton highly for their income and multi-asset return strategies, but only average for benchmark strategies. The portfolio of stocks they have is relatively defensive which explains their recent underperformance.

39. PM highlighted they did actually outperform +3% over the last 12 months, but agreed the December quarter had been relatively poor at -1.7%. The reason for the underperformance in the quarter was due to being underweight in financials which had performed well. Over the long term Newton's performance has suffered due to not holding Apple, but this had actually increased performance over the quarter.

40. Their investment themes and staff are generally good, but PM feels the organisation does lack a bit of guts in decision making. They base decisions on solid evidence which, whilst being a sound investment strategy, does mean they often miss real turnaround opportunities to drive performance.

41. Over the last 5 years, they are 1% behind benchmark. Prior to that their record was very good. At the time Newton were appointed, the other managers who pitched such as Alliance Bernstein have performed disastrously.

42. Overall, WM say to not to make manager changes unless you are absolutely convinced and at the moment there is not a fundamental loss of confidence amongst the board.

43. JH stated that Newton have a very good reputation from absolute return strategies but in global equities they are somewhat lacking. It is not a bad place to have money and overall the insights that the organisation can provide should manifest in performance.

44. ST recommended that Newton should be asked what effect reducing the number of stocks in the portfolio has had on performance compared to if they kept it the same.

Item 4 – Business Plan

45. JE took the Group through the main tasks of the business plan and the activities that the Pension Fund and Pension Admin teams will have to complete over the coming 2013/14 financial year.

46. The plan is split into 6 main areas:

- Administration
- Communication
- Actuarial/Funding

- Surrey Pension Board
- Financial Risk Management
- Investment

47. Over the coming financial year, the key tasks will be around the implementation of the new Surrey Pension Fund Board to replace the IAG and also the actuarial valuation due to take place as at 31 March 2013.

48. The Group agreed with the areas of priority and approved the business plan for 2013/14.

Item 5 – Risk Register

49. JE took the group through the risk register for 2013/14. The register is based on the previously approved register for 2012/13 which had then been updated for 13/14.

50. The risks are grouped as follows:

    - Investment
    - Financial
    - Funding
    - Operational
    - Governance

51. Each risk is then scored based on the potential impact on each of the fund, employers and reputation. The likelihood of the event occurring is then rated and these figures are used to give an overall risk score. The risks are then ranked in order and colour coded based on the potential severity.

52. New risks included 'transition from IAG to Pension Board creates operational difficulties due to increased membership and remit' ''inappropriate long-term investment strategy', 'fall in equity market leading to decreased funding'.

53. Members debated the new risks to determine whether or not they were actually covered by existing entries.

54. Members approved the risk register for 2013/14.

Item 6 – Presentations by fund managers

55. CBRE opened with a review of the UK economy. The market in the UK is still in a relatively poor state. The economic growth outlook for the UK has deteriorated and all four rating agencies have the UK on negative watch.

56. In terms of the UK property market, weak performance continues in the direct market with expected return of 3% during 2012. Capital values on all property has been declining since November 2011. London continues to buck the trend, mainly driven by overseas buyers.

57. There is a large polarisation in the performance of property in prime locations compared to other property, for example, returns from Q2 2009 to Q3 2012 are +27% for prime shops and -9% for secondary/tertiary shops.

58. CBRE predict that capital values will continue to decline in 2013 and will not start to increase on an annual basis until 2015.

59. The strategy CBRE will follow focus on the following core themes:

- Long and secure income streams.
- Acquiring core specialist fund at attractive discounts to NAV.
- Prime shopping centres
- Industrial property in SE England
- Student housing in leading university towns

Opportunistic Themes

- Take advantage of bank distress
  - Acquisitions from bank driven disposals
  - Provision of mezzanine finance
- Development finance in certain markets where demand is high
- Mispriced high yield property

60. CBRE intend to increase the portfolio allocation to debt to 10% which will be implemented over the next two years. A new manager has been selected and CBRE are currently negotiating terms.

61. Performance in the quarter was -0.3% and +0.7%, +5.3%, -5.9% & +2.1% in the 1 year, 3 years, 5 years, & since inception respectively.

62. The sector allocation compared to benchmark currently has the most overweight positions as +17.4% to European property, +7.7% to other commercial which is mainly student accommodation. The most underweight are offices in the rest of the UK -9.4% and unit shops -6.7%.

63. The largest contributors to performance over the last 12 months were the M&G Secured Property Income Fund (+0.8%) and West End of London Property Unit Trust (+0.7%). The largest detractors were UBS Triton Property Unit Trust (-0.7%) and CBRE Strategic Partners Europe Fund III (-0.6%).

64. CBRE feel that the liquidation of the UBS Triton fund is the best way forward. It will mean that the sales period can be extended to three to five years and therefore it can be done in a controlled manner which will maximise value. CBRE are willing to take a pragmatic view of the situation and, if another option is presented such as a fund merger, they would encourage UBS to fully assess the potential of such a proposal.

65. CBRE refused to be drawn into how much of the fund they own but admitted they would be in the top two investors.

66. DLG quizzed CBRE on how the fund can avoid perception that there needs to be a fire sale of assets. CBRE think that the three to five year timeframe provides enough time to ensure there is competition for each asset and therefore realistic values are achieved.

67. Mercer previously initiated discussions with CBRE about changing their benchmark from the current +1% IPD UK All Balanced Property Funds Index. CBRE agreed that the +1% is at the top end of target performance. They believe they have the ability to achieve it, but it does mean taking an increased level of risk.

68. After CBRE had left, the Group discussed the potential change of the mandate. The Group felt that, whatever changes are made, the performance record needs to remain. The Group noted that making any changes to the property portfolio could potentially be expensive and take time.

69. The Group agreed to ask CRBE to produce a report on the impact and changes they would make if the target was reduced to +0.5% and how they would do it in the most cost effective way. Mercer will present report at next meeting.

70. The Group also briefly discussed making a direct allocation to a property income fund outside of the CBRE remit. The fund is currently underweight in property and this method could be used to bring the allocation up to the benchmark.

71. UBS Digby Armstrong and Steve Magill attended the meeting to discuss the recent performance of UBS. Over the quarter, they had outperformed +3.0% and over the year +5.6%, 3 years +0.3%, 5 years +0.6% but underperformed -0.8% since inception.

72. In the quarter, the largest contributors to performance were Lloyds +1.0% and Dixons +0.9%. These firms were also the two largest contributors to performance over the last year with +2.4% and +2.1% respectively. These are two of the stocks that UBS have been saying for the last 18 months or so that they have a lot of conviction in, so they were pleased that their assumptions have proved correct so far.

73. Lloyds Group shares are currently worth 52p and UBS have fair value as being 70p. The stock current makes up 2% of the index and 7% of the portfolio. The bank is currently reducing costs by running down non-core services and is also improving the balance sheet position. Questions remain about possible further bad debt write downs and potential fines for any role played in the LIBOR scandal.

74. BP was highlighted as another key stock, current price is 453p and UBS thinks fair value is around 580p. The portfolio is currently 5% overweight in BP and it makes up 4% of the index. BP has lost $70bn market cap since the Macondo disaster (£2 per share), with net costs of around $30bn (£1 per share). UBS expect the BP share price to recover the lost £1 when the US Department of Justice settlement occurs. UBS regards the resolution of the Russian investments as a positive step and believe this hasn’t been reflected by the market yet.

75. UBS highlighted that the value style of investing has generally performed poorly over the last five years. The S&P Value Index is about 10% below the FTSE All Share for the period. UBS now feel that market conditions are starting to improve and value investing performance will improve. A number of merger and acquisitions have already taken place in early 2013 and they believe this is set to increase which will help drive performance.

76. UBS aren’t reliant on the market to generate returns and instead focus on individual companies rather than macro-economic factors. They do believe there is

more confidence being shown by investors in equities and the trend of increasing allocations to bonds rather than equities is starting to reverse.

77. The outlook for 2013 is to keep the overweight positions in BP, Lloyds and Dixons as UBS think there is still a lot of potential upside in these companies until they meet fair value.

78. UBS think performance over the last year has been good and feel that a number of companies in the portfolio still look cheap which means there is a good chance that positive performance will continue. However, their overriding worry is finding enough cheap companies to fill the portfolio.

Item 7 – Member Training – Private Debt

79. Sanjay Mistry from the Alternatives Boutiques team at Mercer attended the meeting to give members a training session on private debt.

80. Private debt refers to an investment in privately negotiated debt. It can involve investing in senior bank debt, leveraged loans, mezzanine and subordinated debt within the capital structures of corporate entities.

81. In 1999 banks made up 88% of the loan market but the financial crisis has led to a large reduction in bank lending. In 2012 only 51% of the loan market was made by banks and this has created a number of opportunities for institutional investors.

82. Private debt is a broad term which covers a number of different products with different risk/return profiles. Property and infrastructure senior debt is seen as low risk with returns of between 3 - 5%, right up to corporate mezzanine debt with returns of 12 -15%.

83. Private debt has similar characteristics to private equity in terms of cash flows. Funds often have limited fund raising periods and commitments are drawn down over 2 - 5 years. The J-curve is less pronounced than for private equity investments.

84. Each deal has a negatively skewed risk/return profile in that the upside is largely capped, but downside is not. To mitigate this, investors need to invest in well diversified funds.

85. Management fees are high at around 1 to 2% pa and 10 – 20% performance fees (with a 6 – 8% hurdle) are the norm.

Additional Item – Treasury Strategy

86. Members were informed that the county council had approved its treasury strategy for 2013/14. Members agreed that the fund's treasury strategy should again mirror the county council for 2013/14.

Meeting concluded 3:30pm

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **GOVERNANCE POLICY STATEMENT**

SUMMARY OF ISSUE:

Administering authorities are required to prepare, approve and publish a governance policy statement.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board approve the Governance Policy Statement shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To comply with legislation and best practice.

DETAILS:

Governance Policy Statement

1 The governance policy statement requirement is made under the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005.

2 Regulations require each administering authority to publish a statement setting out the authority's policy on pension fund governance, including issues concerning the representation and participation of key stakeholders on pension/investment committees. It is envisaged that a consultation process with employer bodies will take place via the Pension Fund's website after the Board meeting at which this policy statement is considered. Regulations require the statement to be published whenever there is a material change in the authority's policy on any of the relevant matters.

3 Members will notice reference to the risk management policy and the communications policy, both of which are included as separate items for consideration at the Pension Fund Board meeting for 31 May 2013.

CONSULTATION:

4 The Chairman elect of the Pension Fund has been consulted on the proposed policy and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

5 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

6 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

7 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the Governance Policy provides a sound framework for the effective governance of the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

8 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

9 The approval of such a governance policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

11 The following next steps are planned:

- Adoption of the governance policy.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Governance Policy Statement

Sources/background papers:
None

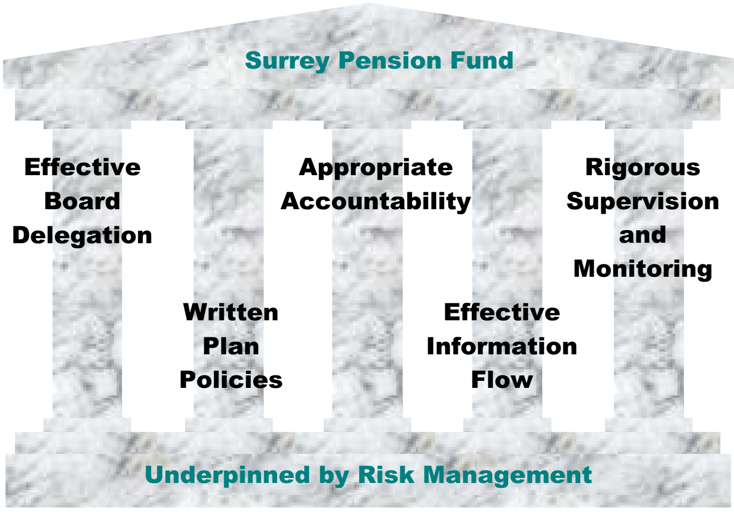
Governance Policy Statement for the Purposes of The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005

This Statement is prepared for the purposes of the above Regulations. It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

Contents

1. Overall Governance Framework

The Administering Authority with its advisors has identified the following key areas (the "five principles") to support its overall governance framework.



The governance framework focuses on:

- The effectiveness of the Pension Fund Board and officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between officers and Pension Fund Board members.
- The ability of the Pension Fund Board and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Fund Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Board.

2. Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective board delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for “Scheme Administrator” functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Board (monitoring)

Chief Finance Officer (Pension Fund administration implementation)

Funding

Governance Principles: Effective board delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Board shall be responsible for approving the FSS.

Delegated to:

Pension Fund Board (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective board delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Board shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Board (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective Information Flow; written plan policies

Including setting of a communication strategy, issuing or arranging to be issued re benefit statements, annual newsletters, annual report. The Pension Fund Board shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Board (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Effective board delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Board shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Board (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

3 Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Board's Terms of Reference as approved by Full Council on 19 March 2013 are shown in **Annex A** to this document.

Officers' delegated powers as approved by Full Council on 19 March 2013 are shown in **Annex B** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Board shall oversee Pension Fund investments, the overall management of the Fund, the governance surrounding the Fund, and the administration of the Pension Scheme.

Structure of the Pension Fund Board and representation:

Governance Principle: Effective board delegation

The Pension Fund Board shall be made up of:

4 Conservative members;

1 Liberal Democrat member;

1 Independent member;

2 Districts and Boroughs Members

1 Employer Representative;

1 Employee Representative

Decision Making:

Governance Principle: Effective board delegation; rigorous supervision and monitoring

The Pension Fund Board shall have full decision-making powers.

Each member of the Pension Fund Board shall have full voting rights.

4. Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Board shall convene no less frequently than four times per year. The Pension Fund Board shall receive full reports upon all necessary matters as decided by the Chief Finance Officer and any matters requested by members of the Pension Fund Board.

Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Board shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency is evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Board.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

The Pension Fund Board shall report to the Audit and Governance Committee on a frequency, and with such information as shall be agreed and documented, on a no less than annual basis, the minimum provision being the Pension Fund's annual report.

5 Review of this policy statement

Responsibility for this document resides with the Chief Finance Officer. It will be reviewed by the Chief Finance Officer no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Pension Fund Board: Terms of Reference

a) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.
b) To determine policy for the investment, funding and administration of the pension fund.
c) To consider issues arising and make decisions to secure efficient and effective performance and service delivery.
d) To appoint and monitor all relevant external service providers:

- fund managers;
- custodian;
- corporate advisors;
- independent advisors;
- actuaries;
- governance advisors;
- all other professional services associated with the pension fund.

e) To monitor performance across all aspects of the service.
f) To ensure that arrangements are in place for consultation with stakeholders as necessary
g) To consider and approve the annual statement of pension fund accounts.
h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.

F10	Chief Finance Officer/ Strategic Finance Manager (Pension Fund and Treasury)	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Board. Delegated authority to the Chief Finance Officer to take any urgent action as required between Board meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Board and any relevant Consultant and/or Independent Advisor.
H4	Pensions Manager	To exercise discretion (excluding decisions on admitted body status) in relation to the Local Government Pension Scheme where no policy on the matter has been agreed by the Council and included in the Discretionary Pension Policy Statement published by the Council, subject to any limitations imposed and confirmed in writing from time to time by the Chief Finance Officer.
H5	Chief Finance Officer	To determine decisions conferring ‘admitted body’ status to the Pension Fund where such requests are submitted by external bodies.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **GOVERNANCE COMPLIANCE STATEMENT**

SUMMARY OF ISSUE:

Local authority pension funds are required to publish a Governance Compliance Statement. A statement has been drafted for consideration and approval.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board approve the Governance Compliance Statement attached as Annex 1 to this report.

REASON FOR RECOMMENDATIONS:

To comply with legislation and best practice.

DETAILS:

Contents of the Governance Compliance Statement

1 The relevant regulation requiring this statement is Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008.

2 The Governance Compliance Statement must include the following information:

- The delegation arrangements (from the administering authority to a Committee and/or officers).
- The frequency of any meetings, terms of reference, structure and operational procedures of the delegation.
- Whether the committee includes representatives of employing authorities (including non LGPS employers) or members, and if so, whether those representatives have voting rights.

3 The Statement must state the extent to which a delegation (or the absence of a delegation), complies with guidance given by the Secretary of State (shown in Annex 1) and, to the extent it does not so comply, an explanation of the reasons for not complying. Such a disclosure is known as 'Comply or Explain'.

4 In summary, the Governance Compliance Statement covers various governance issues, namely: structure, representation, the selection and role of Pension Fund Board members, voting, training/facilities/expenses, meetings (frequency and quorum), access to information and papers, scope and publicity.

5 Surrey's statement is included as Annex 1 to this report.

CONSULTATION:

6 The Chairman elect of the Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

7 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

8 There are no financial or value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

9 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the Governance Compliance Statement provides a sound framework, setting out Surrey's position with regard to every strand of good governance practice.

LEGAL IMPLICATIONS – MONITORING OFFICER

10 The Governance Compliance Statement was originally prepared by the Council in accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997. Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 requires an administering authority to keep this statement under review and make any revisions as appropriate. This has to happen where there are changes in the delegation arrangements as has recently happened with the establishment of the Pension Fund Board.

EQUALITIES AND DIVERSITY

11 The approval of a compliance statement will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13 The following next steps are planned:

- The statement will be monitored and reviewed.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Governance Compliance Statement

Sources/background papers:
None

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GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

Principle	**Surrey's Approach**	**Compliance**
STRUCTURE		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Surrey County Council delegates the management of the Surrey Pension Fund to the Pension Fund Board. The Board is responsible for these areas under the terms of reference contained in the Council's Constitution.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Surrey is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Board. The Board comprises county councillors, borough/district councillors, an external employer representative and a union representative to represent employees and pensioners. All Board members have full voting rights.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	There is currently no secondary committee. This will be reviewed by end 2013.	n/a
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	There is currently no secondary committee. This will be reviewed by end 2013. Should a secondary committee be established, all members of that secondary committee would sit on the main Pension Fund Board.	n/a

Principle	Surrey's Approach	Compliance
REPRESENTATION		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	With over 100 employer bodies, not all stakeholders are directly represented on the Pension Fund Board. All stakeholders are free to make representations in writing to the Board. The County Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Board.	Explain
• scheme members (including deferred and pensioner scheme members);	The Pension Fund Board membership includes a trades union representative.	Comply
• independent professional observers; and	The Board employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Board meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Board as required, depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions and investment matters are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes.	Comply

Principle	**Surrey's Approach**	**Compliance**
SELECTION AND ROLE OF LAY MEMBERS		
That Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Board members are given initial and ongoing training to support them in their role as trustees.	Comply
VOTING		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Surrey is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with the Pension Fund Board because the Council retains legal responsibility as the administering authority.	Comply
TRAINING/FACILITY TIME/EXPENSES		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. Pension Fund Board members receive expenses. Training has been referred to above.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all members of the Pension Fund Board. All members currently enjoy voting rights.	Comply

Principle	**Surrey's Approach**	**Compliance**
MEETINGS (FREQUENCY/QUORUM)		
That an administering authority's main committee or committees meet at least quarterly.	Surrey is fully compliant with this principle by holding quarterly and special appointment meetings. The Chief Finance Officer sends performance data and relevant information as appropriate. The quorum for the committee is three.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	There is currently no secondary committee.	n/a
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views. The Board welcomes representations on any issue in writing at any time.	Comply
ACCESS		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the Pension Fund Board have equal access to committee papers, documents and advice.	Comply
SCOPE		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Surrey is fully compliant with this principle by bringing all investment, liability, benefit and governance issues to the Pension Fund Board. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment,	Comply

	administration and governance issues. A business plan is approved each year.	
Principle	**Surrey's Approach**	**Compliance**
PUBLICITY		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Surrey is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND BUSINESS PLAN 2013/14**

SUMMARY OF ISSUE:

The 2001 Myners Report recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board adopt the attached Business Plan shown in Annex 1 in respect of the 2013/14 financial year.

REASON FOR RECOMMENDATIONS:

A business plan is required by best practice in order to set relevant targets and monitor progress.

DETAILS:

Background

1 For some years the Pension Fund and Treasury Team has installed a plan, which identifies the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives.

Business Plan 2013/14

2 Annex 1 sets out a draft recommended business plan for the 2013/14 financial year. The plan lists the investment and pension administration tasks scheduled to be carried out during 2013/14, the target date when these should be achieved, and the responsible officer.

CONSULTATION:

3 The Chairman elect of the Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

4 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

5 The costs of the proposed actions will be funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

6 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the business plan and that the document will provide the Board and officers with a useful framework to aid the setting of objectives, implementation and monitoring of progress.

LEGAL IMPLICATIONS – MONITORING OFFICER

7 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

8 The creation of a business plan will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

10 The following next steps are planned:

- Commencement of the year's work programme in line with the business plan.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
- Outturn report of the 2013/14 financial year to be presented at the first meeting of the Pension Fund Board in 2014/15.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Business Plan 2013/14

Sources/background papers:
None

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Surrey Pension Fund
Business Plan and Actions for 2013/14

Administration			
Objective(s) - to ensure scheme is run in accordance with the rules; in accordance with agreed service standards; and compliance with Regulations - to deal with and rectify any errors and complaints in a timely way			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Chief Finance Officer and Pension Fund Board to receive key performance indicators report on a quarterly basis	Ongoing with reports due two weeks after quarter end: Mar, Jun, Sep and Dec and then Board meetings	Phil Triggs/Paul Baker
2	Pension Fund Board to receive the Pension Fund Annual Report	By 30 September 2013	Phil Triggs
3	Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner.	Ongoing	Paul Baker
4	Review the content of the pension fund website to ensure it is relevant and kept up to date.	Ongoing	Paul Baker/Phil Triggs
5	Prepare groundwork for new LGPS 2014 Scheme	By 1 April 2014	Paul Baker/Phil Triggs

Communication

Objective(s)

- to convey the security of the Scheme
- to ensure members understand and appreciate the value of their benefits

Action	Description	Timescale	Primary Responsibility
1	Production of a newsletter to pensioners in April each year	April 2013	Paul Baker
2	Timely production of benefit statements	Active members by 30 Sep 2013 Preserved members by 30 June 2013 Councillors by 31 Aug 2013	Paul Baker
3	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme. Ensure communication material is amended to comply with the requirements of the new LGPS 2014	Ongoing By April 2014	Paul Baker
4	Communication on a timely basis of material scheme changes to Pension Fund Board, employer bodies and members	Ongoing	Phil Triggs/Paul Baker
5	Prepare Pension Fund Annual Meeting (Nov) and receive positive feedback from employers	22 November 2013	Phil Triggs/Paul Baker

Actuarial/Funding

Objective(s)

- to monitor the funding level of the Scheme including formal valuation every 3 years
- to monitor and reconcile contribution payments to the Scheme by the employers and scheme members
- to understand legislative changes which will impact on funding

Action	Description	Timescale	Primary Responsibility
1	Prepare data and information required by Hymans for 2013 actuarial valuation and provide employers with interim and final results	Data: 31 July 2013 Interim results: Nov 2013 Final Results: March 2014	Phil Triggs/Paul Baker
2	Receive feedback and agreement from employers (scheduled and admitted bodies) in run up to valuation on assumptions used in actuarial valuation process	31 March 2013	Phil Triggs
3	Provide employers with IAS19/FRS17 funding statements when requested	Scheduled bodies: Mar 2013 Colleges: July 2013 Academies: August 2013	Phil Triggs
4	Monitor and reconcile contributions schedule for the County Council and scheme employers	Ongoing	Phil Triggs
5	Member training covering funding issues	Ongoing	Phil Triggs

Surrey Pension Fund Board Members			
Objective(s) - to train and develop all members to enable them to perform duties effectively - to meet quarterly and to include investment advisor and independent advisors as required - to run meetings efficiently and to ensure decisions are made clearly and effectively			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Review decision making process to ensure decisions are made effectively	Ongoing with new Pension Fund Board	Board Members
2	Review Pension Fund Board member training requirements and implement training plan as appropriate	Ongoing	Phil Triggs
3	Agree a framework for Pension Fund Board member training	31 May 2013	Phil Triggs
4	Ensure that meeting papers are issued at least seven days prior to meeting	Ongoing	Phil Triggs
5	Finalise corporate governance in line with revised Myners/CIPFA principles to ensure 100% compliance	Ongoing 2013/14	Phil Triggs

Financial & Risk Management

Objective(s)

- To properly record financial transactions to and from the Scheme and produce annual accounts within 6 months of year end
- Manage advisers fees against budgets
- Assess the risk associated with the management of the Scheme

Action	Description	Timescale	Primary Responsibility
1	Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile	Ongoing 2013/14	Phil Triggs
2	Produce Annual Statement of Accounts	24 May 2013	Phil Triggs
3	Produce Pension Fund Annual Report	30 September 2013	Phil Triggs
4	Carry out risk assessment of the management of the fund for 2014/15	31 March 2014	Phil Triggs
5	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2013/14	Phil Triggs/Paul Baker

Investment

Objective(s)

- Periodically review investment strategy and benchmarks
- Monitor performance against benchmarks
- Meet with investment managers to discuss performance

Action	Description	Timescale	Primary Responsibility
1	Ongoing consideration of CIPFA/Myners principles	Ongoing 2013/14	Phil Triggs
2	Review of investment manager arrangements	March 2014	Phil Triggs
3	Review asset allocation with consultant and independent advisor	March 2014	Phil Triggs
4	Discuss/meet with all investment managers and report to Pension Fund Board	Quarterly 2013/14	Phil Triggs
5	Review SIP	March 2014	Phil Triggs
6	Pension Fund Board to receive quarterly monitoring reports	Quarterly 2013/14	Phil Triggs

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND RISK REGISTER**

SUMMARY OF ISSUE:

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which needs regular monitoring.

RECOMMENDATIONS:

It is recommended that:

1 Members approve the process by which the Risk Register in Annex 1 has been compiled, making any suitable additions or amendments as appropriate.

2. Members approve the Risk Register in Annex 1.

REASON FOR RECOMMENDATIONS:

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

DETAILS:

Background

1 A review of the current risk register for the Pension Fund will give the Pension Fund Board the opportunity to influence and drive the Pension Fund risk management process for 2013-2014.

2 The format of the Fund's detailed risk register is the same as those used by Surrey County Council services and it links to the county council's own risk register.

3 The Pension Fund's current Funding Strategy Statement (FSS), agreed during the 2010 actuarial valuation process, also articulates some of the funding risks identified in the attached draft register.

Risk Management Process

4 The risk management policy of the Surrey Pension Fund is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to an manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.

5 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:

- Investment
- Financial
- Funding
- Operational
- Governance

6 Each of the risk areas has been assessed in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Board and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.

7 Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.

Example

8 Looking at Risk Reference 1 (Investment markets fail to perform in line with expectations), the impact of this event is deemed to be high in relation to the Fund, employers and reputation, subject to suitable risk mitigation being in place. Therefore, the impact score of 12 is applied. The likelihood of such an event is scored as a three. This gives a total risk score of 12 x 3 = 36, making it the joint highest risk faced by the fund.

9 In mitigation, the investment performance of the fund is monitored on a quarterly basis and the annual IAS19 statement provides an early warning of deviations from the performance assumptions in the triennial actuarial review. It is also indicative that, over the long term, the expected investment returns are attainable.

Review

10 The risk register will be reviewed on an annual basis.

CONSULTATION:

11 The Chairman elect of the Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

12 The risk related issues are contained within the report's Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

CHIEF FINANCE OFFICER COMMENTARY

14 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the risk register will provide officers with a suitable platform for the monitoring and control of pension fund risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

15 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

16 The creation of a risk register will not require an equality analysis, as the initiative is not a 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:

- Adoption of the risk register by the Pension Fund Board.
- Monitoring by officers during the financial year.
- Reporting to Pension Fund Board next year for review.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board members. .

Annexes:
List the annexes attached to this report.
Annex 1: Pension Fund Risk Register

Sources/background papers:
None

Risk Group	Risk Ref.	Previous	Risk Description	Impact Fund	Impact Employers	Impact Reputation	Impact Total	Likelihood	Total risk score	Mitigation actions
Investment	1	1	Investment markets fail to perform in line with expectations	4	4	4	12	3	36	TREAT-1) The Full actuarial valuation takes place every three years. Moreover, IAS19 data is received annually and provides an early warning of any potential problems. 2) The asset outperformance assumption of 1.6% is achievable over the long term when compared with historical data.
Funding	2	2	Bond yields fall leading to a increase in value of liabilities	4	4	4	12	3	36	TREAT-1) IAS19 data is received annually and provides an early warning of any potential problems. 2) Early consultation with the actuary will take place with regard to the 2013 valuation.
Operational	3	3	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	3	8	4	32	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Board will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.
Governance	4	4	Changes to LGPS regulations	4	3	1	8	4	32	TREAT-1) Fundamental change to LGPS regulations to be implemented from 1 April 2014. 2) Impact on contributions and cashflows will need to be considered during the 2013 valuation process.
Funding	5	5	Impact of government policy on the employer workforce	3	3	1	7	4	28	TREAT- 1) Hymans Robertson use prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.
Governance	6	6	Failure to take difficult decisions inhibits effective Fund management	3	2	2	7	4	28	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/FSS/Governance statement and that appropriate advice is sought.
Funding	7	7	Pay & price inflation is significantly more or less than anticipated	4	4	1	9	3	27	TREAT- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS17 and actuarial valuations) should be long term assumptions. 3) The fund holds investment in index-linked bonds to mitigate some of the risk.
Investment	8	8	Investment Managers fail to achieve performance targets over the longer term	4	4	4	12	2	24	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Board should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.
Investment	9	NEW	Inappropriate long-term investment strategy	4	4	4	12	2	24	TREAT- 1) Use of investment consultants to monitor investment strategy. 2) Separate source of advice from Fund's independent advisor. 3) Setting of Fund specfic benchmark relevant to the current position of fund liabilities. 4) Overall asset allocation regularly monitored by Pension Fund Board. 5) Fund manager targets set based on market benchmarks or absolute return measures.
Financial	10	9	The effect of a possible increase in employer contribution rates on service delivery	4	4	4	12	2	24	TREAT- 1) Stabilisation of contribution rates for long term secure employers as laid out in the Funding Strategy Statement. 2) Phasing of contribution increases for other employers. 3) Suitable deficit recovery periods.
Operational	11	10	Insufficient attention to social, ethical & environmental risks leads to reputational damage and/or financial loss	1	1	4	6	4	24	TREAT-1) Review SIP in relation to published best practice (e.g. UN Principles for responsible investment) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published SIP. 3) The Fund is now a member of the Local Authority Pension Fund Forum, which raises officer awareness of ESG issues and facilitates engagement with fund managers.
Investment	12	11	Asset reallocations in volatile markets may lock in past losses	4	4	3	11	2	22	TREAT- 1) LGIM rebalances the Fund's asset allocation on a monthly basis (within tolerance ranges). 2) Pension Fund Board takes a long term view of strategic asset allocation. 3) Pension Fund Board acts on advice from external parties.
Investment	13	NEW	Fall in equity markets leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	2	20	TREAT: 1) About 40% of fund made up of bonds, property funds, diversified growth funds and private equity, limiting exposure to listed equities. 2) The investment strategy is continously monitored and periodically reviewed to ensure optimal asset allocalltion reflecting the continued belief that in the long-term equities are the best asset class.
Funding	14	12	Pensioners living longer	2	3	1	6	3	18	TREAT- 1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer specific.
Funding	15	13	Employer bodies transferring out of the pension fund or employer bodies closing to new membership	1	4	1	6	3	18	TOLERATE- 1) Maintain knowledge of employer plans. 2) Impact of any one employer leaving is minimal (other than SCC). 3) Admitted bodies represent approximately 7% of annual contributions paid. 4) Contributions rates and deficit recovery periods reflect the employer covenant.
Operational	16	14	Financial failure of a fund manager leads to increase costs and service impairment	2	3	3	8	2	16	TREAT- 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager.
Financial	17	15	Counterparty risk within the SCC treasury management operation	2	1	4	7	2	14	TOLERATE - 1) A separate bank account for the pension fund has been in operation since 1 April 2011. Since then the fund has held cash investment separate from SCC. 2) Lending limits with banks are set at levels that are appropriate given credit ratings. 3) The current pension fund treasury strategy is based on that of SCC.
Governance	18	18	Change in membership of Pension Fund Board leads to dilution of member knowledge and understanding	1	1	1	3	4	12	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Board members. 3) Pension Fudn Board new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Board members to take the test.
Operational	19	19	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	2	12	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed.
Financial	20	16	Financial loss of cash investments from fraudulent activity	4	4	4	12	1	12	TOLERATE - 1) Policies & procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers have to provide SAS 70 or similar (statement of internal controls).
Governance	21	NEW	Transition from IAG to Pension Fund Board with full committee status creates operational difficulties due to increased membership and remit	2	1	2	5	2	10	TREAT - 1) Terms of Reference for new Board completed. 2) Pension Board new member induction programme. 3) Additional support from Democratic Services.
Governance	22	19	Failure to comply with legislative requirements e.g. SIP/FSS/Governance Policy/FoI	4	1	4	9	1	9	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.
Financial	23	21	Inaccurate cash flow forecasts for Treasury Management leads to shortfalls on cash levels & redemptions necessary to ensure that funds available	2	1	1	4	2	8	TOLERATE- 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.
Operational	24	23	Poor data quality results in poor information and decision making	2	2	4	8	1	8	TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrgate data to ensure accuracy.
Operational	25	24	Poor specification leads to shortfall against expectations	2	3	3	8	1	8	TOLERATE- 1) Ensure all expectations communicated effectively (e.g. consultant RFP) and that contracts are clear.
Financial	26	25	Incorrect, failed or late drawdown payments made (& interest accrued)	4	1	2	7	1	7	TOLERATE- 1) Treasury manager receives drawdown notices as soon as received and incorporates into cashflow planning.
Financial	27	27	An employer ceases to exist with insufficient funding or adequacy of bond	1	1	1	3	2	6	TOLERATE- 1) Admitted body contribution rates are set at a level that is intended to reflect 100% funding. The terms of admission agreements/bonds provide for regular review of bond adequacy.
Financial	28	25	Incorrect, failed or late employee/employer contributions payments received	1	4	1	6	1	6	TOLERATE- 1) Monthly monitoring of pensions contributions against expectation. 2) Reminders sent to employers when they fail to meet payment deadline. 3) Scope to report persistent late payment to OPRA.
Operational	29	29	Financail failure of third party supplier results in service impairment and financial loss	2	2	2	6	1	6	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Review of Northern Trust took place in January 2009, ahead of decision on whether to retain (Jan 2009) - a fee reduction was secured in 2011). 3) Actuarial and investment consultancies are provided by two different providers.
Operational	30	30	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	1	6	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.
Operational	31	28	Unauthorised access to offices leads to theft of intellectual property and confidential information	1	1	4	6	1	6	TOLERATE- 1) Clear desk policy. Ensure all sensitive data is locked away. Challenge any unknown visitors.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **COMMUNICATION POLICY STATEMENT**

SUMMARY OF ISSUE:

Local authority pension funds are required to publish a communication policy. A schedule has been drafted for consideration and approval.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board approve the Communication Policy Statement attached as Annex 1 to this report.

REASON FOR RECOMMENDATIONS:

To comply with legislation and best practice.

DETAILS:

Legislation

1 The relevant regulation requiring this statement is the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 SI 2005 No.3199. An Administering authority is required to prepare and publish a policy statement on its communication policy.

Contents of the Communication Policy Statement

2 The regulation requires each LGPS administering authority to prepare, publish and review a policy statement setting out its communication policy for communicating with members, members' representatives, and employer authorities, as well as the promotion of the Scheme to prospective members and their employing authorities. A revised statement must be published thereafter whenever there is a material change in the authority's policy.

3 For the avoidance of doubt, the word "members", where it appears in the Regulations, includes active members, prospective members, deferred members and pensioner members. The authority's policy statement should include information on communications with admitted and scheduled body employers.

4 Along with any other planned methods of publication, administering authorities are encouraged to utilise websites where suitable. Surrey Pension Fund has its own website: **www.surreypensionfund.org**

CONSULTATION:

5 The Chairman elect of the Pension Fund Board has been consulted on the policy statement and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

6 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

7 Costs associated with the communication process will be met from the existing pension fund administration cost centre.

CHIEF FINANCE OFFICER COMMENTARY

8 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the Communication Policy Statement provides a sound framework for the effective communication to all stakeholders of the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

9 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

10 The approval of a communication policy statement will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

12 The following next steps are planned:

- The statement will be monitored and reviewed.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Communication Policy Statement

Sources/background papers:
None

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Communication Policy Statement

1 Communication Objectives

- To accurately communicate the provisions and requirements of the Local Government Pension Scheme (LGPS) to all stakeholders.
- To identify and meet all regulatory requirements regarding provision of information.
- To promote appropriately membership of the LGPS Scheme to employees of participating employers.
- To communicate clearly to all stakeholders their own responsibility for communication and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications.
- To ensure communications are made in a timely manner.
- To use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.

2 Stakeholders

The various stakeholders for the purpose of this communication policy are identified below:

- Active members
- Prospective members
- Deferred members
- Pensioners
- Employers

3 Website

The Pension Fund has an established website:

surreypensionfund.org

Further development of this initiative is under way.

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group (Active, Prospective, Deferred, Pensioner, Employer or All)
Scheme overview and joiner form	Paper based and on website	On commencing employment and by request	Via employer	Active and prospective
Scheme booklet and joiner pack	Paper based and on website	On joining the scheme and by request	Home address or via employer	Active and prospective
Factsheets	Paper based and on website	On request	Post to home address or email	Active and deferred
Newsletters	Paper based and on website	After material scheme changes	Via employer	Active and Pensioner
Annual benefit statements	Paper based	Annually	Post to employer or home address	Active and Deferred
Pension clinics/roadshows and drop-in events	Face to face	As requested by employer and employee	Via employer	Active and prospective
Pre-retirement courses	Face to face	As requested by employer	Via employer	Active
Briefing reports	Paper based and electronic	Ad hoc	Email or hard copy	Employers
Formal dispute resolution procedure	Paper based or electronic	As and when a dispute arises	Email or hard copy	All
Investment updates	Website	Quarterly	On request	Employers
Annual report and accounts	Paper based, electronic or website	Annually	Email or hard copy	All
Annual general meeting	Face to face	Annually	Email invitation	Employers
Actuarial valuation report	Electronic or website	Triennial	Email	All

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **KEY PERFORMANCE INDICATORS**

SUMMARY OF ISSUE:

In line with best practice, Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board discuss and approve the KPI statement format as shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To comply with best practice.

DETAILS:

Requirement

1 In line with best practice, future Pension Fund Board meetings will be supplied with a schedule of Pension Fund key performance indicators (KPIs), covering investment and administration practices.

Key Performance Indicators

2 The KPIs cover the following areas:

- Funding level
- Death benefit administration
- Retirement administration
- Benefit statements
- New joiners
- Transfers in and out
- Material posted on website
- Employer and member satisfaction
- Investment performance
- Data quality
- Contributions monitoring
- Audit
- Overall administration cost

3 The KPI schedule is shown as Annex 1.

4 Periods covered in the schedule range from one month, three months and twelve months.

5 Members are invited to discuss the performances set out in the schedule.

CONSULTATION:

6 The Chairman elect of the Pension Fund has been consulted on the proposed change and has offered full support regarding the content and structure of the information.

RISK MANAGEMENT AND IMPLICATIONS:

7 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

8 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

9 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

10 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

11 The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13 The following next steps are planned:

- Continued improvement in the indicators.
- Further refinement and additions of useful data.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman.

Annexes:
Schedule of Key Performance Indicators

Sources/background papers:
None

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KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS **Annex 1**

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
1	FUNDING							
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	**100%**	PT	**72%**	31/03/10	**79.00%**	31/12/07	↓ -7.00%
2	PPENSION ADMINISTRATION							
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	**95%**	PB	**100.00%**	3 months to 31 Mar 13	**100.00%**	3 months to 31 Dec 12	→ 0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**		**94.00%**	3 months to 31 Mar 13	**93.00%**	3 months to 31 Dec 12	→ 1.00%
	Pay death grant within 5 days of receipt of relevant documentation	**90%**		**92.00%**	3 months to 31 Mar 13	**95.00%**	3 months to 31 Dec 12	↓ -3.00%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**		**92.00%**	3 months to 31 Mar 13	**95.00%**	3 months to 31 Dec 12	↓ -3.00%
	RETIREMENTS Retirement options to members within 10 days	**90%**	PB	**90.00%**	3 months to 31 Mar 13	**91.00%**	3 months to 31 Dec 12	↓ -1.00%
	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		**98.00%**	3 months to 31 Mar 13	**98.00%**	3 months to 31 Dec 12	→ 0.00%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	**95%**	PB	**100.00%**	3 months to 31 Mar 13	**100.00%**	3 months to 31 Dec 12	→ 0.00%
	DBS issued to 85% of eligible deferred members by 30th June	**95%**		**100.00%**	3 months to 31 Mar 13	**100.00%**	3 months to 31 Dec 12	→ 0.00%
	NEW JOINERS New starters processed within 20 days	**90%**	PB	**99.00%**	3 months to 31 Mar 13	**99.00%**	3 months to 31 Dec 12	→ 0.00%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	**90%**	PB	**100.00%**	3 months to 31 Mar 13	**100.00%**	3 months to 31 Mar 12	→ 0.00%
	Non LGPS transfers-in payments processed within 20 days	**90%**		**100.00%**	3 months to 31 Mar 13	**100.00%**	3 months to 31 Mar 12	→ 0.00%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	**95%**	PB	**100.00%**	3 months to 31 Mar 13	**97.00%**	3 months to 31 Mar 12	↑ 3.00%
	Non LGPS transfers out payments processed within 20 days	**95%**		**100.00%**	3 months to 31 Mar 13	**97.00%**	3 months to 31 Mar 12	↑ 3.00%
	MATERIAL POSTED ON WEBSITE All relevant Communications Material will be posted onto website within one week of being signed off	**95%**	PB	**100%**	3 months to 31 Mar 13	**n/a**	3 months to 31 Mar 12	
3	CUSTOMER SERVICE							
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	**80%**	PT/PB	**Data pending**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 12	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	**80%**	PB	**Data pending**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 12	
4	INVESTMENT PERFORMANCE							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	**Benchmark**	PT	**BENCHMARK 11.6%**	12 months to 31 Mar 13	**BENCHMARK 3.3%**	12 months to 31 Dec 12	↑ 3.10%
				ACTUAL 14.7%	12 months to 31 Mar 13	**ACTUAL 1.9%**	12 months to 31 Dec 12	
5	DATA							
	DATA QUALITY Data quality within the Fund should be at least 90% accurate.	**90%**	PB	**Data pending**	12 months to 31 Mar 13	**Data pending**	12 months to 31 Mar 12	
6	CONTRIBUTIONS							
	CONTRIBUTIONS RECEIVED **Pension Fund** 98% (total value) of contributions to be received by 21st day of the ensuing period.	**95%**	PT	**98.00%**	Feb-13	**97.00%**	Jan-13	↑ 1.00%
7	AUDIT							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Clean Report**	PT/PB	**Pending**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	
	Annual audit returns no significant findings	**0 significant findings**		0		0		
8	COST							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/PB	**Data pending**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **KNOWLEDGE & SKILLS FRAMEWORK (CIPFA) FOR THE PENSION FUND**

SUMMARY OF ISSUE:

The 2001 Myners Report recommended that local authority trustees responsible for decision making on the investment of pension funds should have sufficient expertise to be able to understand the relevant issues, and to question recommendations put before them by officers and investment consultants.

A Knowledge and Skills Toolkit from the Chartered Institute of Public Finance and Accountancy (CIPFA), in collaboration with Hymans Robertson, has been developed in order to facilitate gaining knowledge of the current issues and technical knowledge required for decision making.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board adopt the CIPFA Knowledge and Skills Framework.

2. The Pension Fund and Treasury Manager use the existing completed knowledge questionnaires that Board members completed in 2012 as a basis for agreeing with members an appropriate training programme.

3. New members complete the knowledge questionnaire.

REASON FOR RECOMMENDATIONS:

A solid framework is required in order to identify skills and learning requirements and move ahead with a training programme.

DETAILS:

Background

1 The 2001 Myners Report recommended that local authority trustees who are making decisions about the investment of pension funds should have sufficient expertise to be able to understand the relevant issues, and to question recommendations put before them by officers and investment consultants. A new ‘Knowledge and Skills Toolkit’ from the Chartered Institute of Public Finance and Accountancy (CIPFA), in collaboration with Hymans Robertson, has been developed in order to facilitate gaining knowledge of the current issues needed for decision making.

Training Requirement

2 Investment opportunities for pension funds continue to grow, and many of the latest opportunities are increasingly complex. Only recently, most local authority funds employed balanced managers who invested only across a range of gilts and equities. Today, most funds employ an increased number of specialist managers who invest in a much wider range of assets, including alternative investments.

3 Therefore, officers and Board members need to understand strategic and tactical asset allocation, asset classes, governance, benefit administration, pension related legislation, accounting and audit requirements, procurement, actuarial practice, and the relationship of assets to fund liabilities.

4 It is, therefore, important that the skills and knowledge of Board members are updated regularly. It is worth noting that longevity of service on the Board is a very valuable asset, as it inevitably takes a certain period of time for new members to bring their skills 'up to speed'.

CIPFA Knowledge and Skills Framework

5 A great deal of work has been done in recent years to address the provision of training to those who serve on investment decision-making bodies. In an attempt to determine the right skill set for quasi trustees involved in decision making, CIPFA has developed, with the assistance of expert practitioners, a technical knowledge and skills framework.

6 The framework is intended to have two primary uses:

- as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs;
- as an assessment tool for individuals to measure their progress and plan their development.

7 The framework is intended to apply to all members of decision-making bodies. It has been designed so that organisations and individuals can tailor it to their own particular circumstances. Board members already have some of the required skills, and the more experienced Board members will already possess many of them.

8 In total there are six areas of knowledge and skills identified as the core technical requirements for those working in public sector pensions. They are:

- pensions legislative and governance context;
- pensions accounting and auditing standards;
- financial services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge;
- actuarial methods, standards and practices.

9 Individual members can be set up within the online framework and will be able to use the toolkit as they see fit. It is anticipated that members will, over a period of time, work towards a full understanding of the relevant issues. There is no current intention of imposing a timescale in which certain targets must be met by individual members. It is not expected that all members of the Board will, at all times, have an expert knowledge of all areas, but the Board as a whole needs a breadth of skills and knowledge to ensure that all relevant issues are scrutinised when making decisions. Member progress in improving their skill set will be reviewed on an annual basis.

10 It is suggested that, initially, Board members use the online toolkit to assess their own training needs. Officers can then work with members, both individually and collectively, to identify how best to meet any skills/knowledge gaps (for example, group sessions on specific topics, or a session within a Board meeting from which all members can benefit).

11 In order to raise awareness of the issues involved, CIPFA suggests that funds should report on members' progress in gaining the relevant skills and knowledge in their annual report. The 2011/12 annual report outlined all such training sessions.

12 It is suggested that there are four main ways in which knowledge and skill levels can be increased:

- Use of the web-based packages and CIPFA repository when developed.
- Manager or actuary led training sessions or specific training as part of the Board meeting agenda.
- An induction training package for new Board members that covers the areas outlined in the CIPFA Framework.
- Courses and seminars organised by managers, actuaries, NAPF and other experts, details of which can be circulated to Board members as they arise.

13 It is recommended that the Pension Fund and Treasury Manager use the existing completed knowledge questionnaires that Board members completed in 2012 as a basis for agreeing with members an appropriate training programme and ensure that new members complete the same.

CONSULTATION:

14 The Chairman elect of the Pension Fund has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

15 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

16 The cost of the proposed action will be ascertained and funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

17 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the training proposal will provide Pension Board members with a solid knowledge base to aid future decision making.

LEGAL IMPLICATIONS – MONITORING OFFICER

18 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

19 The creation of a new training programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

21 The following next steps are planned:

- Timescales: proposals implemented by 30 September 2013.
- Next steps: Pension Fund and Treasury Manager to consult with CIPFA and Hymans Robertson reference training provision.
- Any future decisions: Progress monitoring will take place and success or otherwise of the project will be discussed at future Board meetings.
- How the issue/outcomes will be communicated: annual review report for 2013/14.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
None

Sources/background papers:
Previous knowledge questionnaire completed by Board members.

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **AUTO-ENROLMENT**

SUMMARY OF ISSUE:

Starting from 1 October 2012, the Pensions Act 2008 requires all employers to automatically enrol employees classed as *eligible jobholders* into a pension scheme. Employers can either enrol eligible jobholders into their own qualifying pension scheme or the National Employment Savings Trust (NEST) scheme set up by the Government. Public sector employers are however only able to enrol employees into their occupational pension schemes.

Auto-enrolment will be introduced gradually over a period of four years with each employer being given a “staging date” to auto-enrol their employees. The larger the employer the earlier the staging date.

The County Council counts as the pension fund’s largest employer type and its staging date was 1 April 2013. This report informs the board of the results of the County Council’s auto-enrolment experience.

RECOMMENDATIONS:

It is recommended that:

1. The Board consider the implications of pension auto-enrolment outlined in this report and note that scheme membership has increased as a result.

REASON FOR RECOMMENDATIONS:

N/A.

DETAILS:

Background

1 The previous Government was concerned that too many individuals were not making any retirement provision beyond relying on the State pension. Legislation was introduced through the Pensions Act 2008 to encourage individuals to start paying into a pension scheme.

2 The Pensions Act has made all employers responsible for ensuring that their *eligible jobholders* are auto-enrolled into a pension scheme if they are not already a member of their occupational pension scheme. If an employer does not have its own pension scheme into which eligible employees can be auto-enrolled, they must be auto-enrolled into a scheme created by the Government, called the National Employment Savings Trust (NEST).

3 An *eligible jobholder* is an employee who:

- is at least 22 years old;
- is under State pension age; and
- earns more than £9,440 pa.

4 Once an *eligible jobholder* has been auto-enrolled, it does not mean that he or she must remain in the scheme: they can choose to opt out.

5 Each employer has been given its own auto-enrolment date, known as a staging date. An employer's staging date is dependent on its number of employees as at 1 April 2012. The greater the number of employees, the earlier the staging date.

6 Employers are permitted a one-off opportunity to defer auto-enrolling its *eligible jobholders* until 1 October 2017. Employers who choose to use this transitional delay option will still however have to auto-enrol all new employees who are *eligible jobholders* after their staging date and any of their current non-eligible job holders who may later become *eligible jobholders* because of age or pay changes.

7 The auto-enrolment process has to be repeated every three years with *eligible jobholders* who have previously opted out of the scheme being auto-enrolled again.

8 The County Council, being the largest of the pensions fund's employers, had the first staging date on 1 April 2013. It did not choose to use the transitional delay option. The other 120 fund employers will have their own staging dates according to the number of employees they employ spanning from now until October 2017.

The County Council's Auto-Enrolment Experience

9 The County Council had 1,652 *eligible jobholder* employees that were auto-enrolled on 1 April 2013. The following table details how many of these employees have since opted out.

	Number In Scheme at Beginning of Month	**Opted Out**	**Remain In Scheme**
April	1,652	377	1,275
May	1,275	53	1,222

10 Prior to auto-enrolment the County Council had a total of 19,743 of their employees in the LGPS. As things stand at present, the additional 1,222 members represent an increase in its overall scheme membership of 6.2%.

11 The County Council had approximately 25% of its employees not in the LGPS, which is a fairly typical proportion amongst other County Councils and London Boroughs. This is predominantly because a lot of employees working for the county are part-time employees who are lower paid and who have historically tended not to join the scheme. This workforce profile is not replicated amongst the majority of other fund employers who consequently have a larger proportion of their workforce in the LGPS.

12 Therefore, taking account that other fund employers have a larger proportion of their employees already in the LGPS, and that some will no doubt defer their auto-enrolment under the transitional delay option (see para 6), it is not anticipated that a similar proportional increase in membership to that of the county is likely to be replicated across the majority of other fund employers.

CONSULTATION:

13. The Chairman elect of the Pension Fund Board has been consulted on the outcome.

RISK MANAGEMENT AND IMPLICATIONS:

14. There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

15. Any increase in the membership of the fund is to be welcomed as it maximises contribution income which aids the long term sustainability of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

16. The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered. Budgetary implications for the county council arising from the additional costs of the pension fund membership increase have been taken account in the medium and long term financial plans and any variation between forecast membership and the actual will be reflected in the budgetary monitoring process.

LEGAL IMPLICATIONS – MONITORING OFFICER

17. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

18. An equality analysis is not required, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

20. The following next steps are planned:

    - Further changes in scheme membership as a result of auto-enrolment will be monitored and any material changes will be reported back to the board.

Contact Officer:
Paul Baker, Pensions Manager, Business Services

Consulted:
Pension Fund Board Chairman

Annexes:
None

Sources/background papers:
None

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY**

SUMMARY OF ISSUE:

Shareholders have a clear interest in promoting the long term success of the companies in which they invest. As the ultimate owners of those companies, there is a clear incentive to vote the shares in a constructive way with the companies' long-term sustainability the ultimate objective. This paper will recommend that the Pension Fund take responsibility for the voting of its shares according to its own Responsible Investment and Stewardship Policy, a draft of which is attached to the paper.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board approve and adopt the attached Responsible Investment and Stewardship Policy, shown in Annex 1.

2. The Pension Fund Board approve the appointment of an external governance consultant and instruct officers to commence a procurement process to achieve this.

REASON FOR RECOMMENDATIONS:

It is regarded as best practice and in the interests of the pension fund for the Pension Fund Board to assume full responsibility for responsible investment practices and work to a sound stewardship Policy.

DETAILS:

Background

1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholder owners and an implicit fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function.

2 Such a responsibility requires the adoption of an approved policy and the advice of a consultant skilled in this particular field.

Company Engagement

3 Despite the considerable efforts made by many UK pension funds, the perception remain that funds are failing in overseeing the activities of their investment managers and other agents to whom most delegate the responsibility for company engagement and share voting.

4 Effective engagement with companies on issues ranging from strategy and performance to risk and corporate governance can:

- protect funds against reputational risk;
- play a key role in controlling investment risk;
- help safeguard the fund against potential destruction in shareholder value.

5 The Surrey Pension Fund has long been a member of the Local Authority Pension Fund Forum (LAPFF), a membership group that represents 60 out of the 99 LGPS funds in the UK. The LAPFF has campaigned on many corporate governance issues and is recognised as an effective group in achieving its aims with regard to proper corporate standards within the companies it owns as a group.

6 Whilst this has gone a long way to achieving effective corporate standards in UK companies, there is a lot more that can be done by individual LGPS funds with regard to the individual companies that their portfolios hold.

Stewardship Code

7 In light of recent revisions to the Stewardship Code and the increasing political focus on the issue, the time is right for pension funds to review their approach to stewardship, and question as to whether they could be more effective, and consider how they should adopt the Stewardship Code requirements.

8 Whilst the issue of the Pension Fund adopting the Stewardship Code will be the subject of a separate report to the Pension Fund Board, the prospect of the Pension Fund fulfilling its role as an active shareholder through its share voting should be addressed.

Share Voting

9 Share voting and company engagement can be a complex, time consuming and tricky process to organise successfully. It means keeping on top of a number of issues, such as:

- tracking when corporate meetings are to take place;
- identifying contentious issues with companies in the portfolio;
- ensuring that voting preferences are expressed at the meeting;
- establishing governance preferences as owners of companies in which the fund is invested.

10 Such complexity will require the services of an external consultant to advise on both share voting and the whole spectrum of company corporate governance. It is considered that the global custodian would not have sufficient expertise in this specialised area. Such an appointment is estimated to cost in the region of £10,000 per annum.

Appointment of a Governance Consultant

11 With regard to the Surrey Pension Fund's approach to best practice in corporate governance, there are excellent external providers in the market place who offer consultancy services with regard to governance and share voting, taking into account the latest best practice. Such consultants will help to ensure the Fund's stewardship policy reflects the most up-to-date standards and ensure that officers learn of the latest developments and can reflect these developments in the Fund's share voting policy and the SIP.

12 It is recommended that the Fund appoint such an expert advisor.

Responsible and Stewardship Policy

13 Officers have drafted a Responsible Investment and Stewardship Policy, shown in Annex 1.

14 The Pension Fund Board is invited to review the policy and suggest any changes as appropriate.

CONSULTATION:

15 The Chairman elect of the Pension Fund Board has been consulted on the proposed policy and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

16 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

17 The cost (estimated at around £10,000 per annum) of the proposed consultant will be funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

18 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed policy offers an effective framework for the sound stewardship of the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

19 The legal context is set out in paragraph 1 of the report.

EQUALITIES AND DIVERSITY

20 The approval of a Responsible Investment and Stewardship Policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

22 The following next steps are planned:

- Approval of the Policy.
- Commence the procurement process.
- Report to the next Board meeting.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Responsible Investment and Stewardship Policy

Sources/background papers:
None

Annex 1

Responsible Investment and Stewardship Policy

1 Introduction

1.1 Surrey Pension Fund (the Fund) aims to be an informed and responsible long-term shareholder of the companies in which it invests. The Fund has a commitment to encourage responsible corporate behaviour, which is based upon the belief that active oversight and stewardship of companies encourages good long-term value and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries.

1.2 The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.

1.3 The fund complies with the Myners Principles of investment management and the UK Stewardship Code, the seven principles of which are shown below at section 5.

1.4 The Fund will review its Responsible Investment and Engagement Policy annually at the same time it reviews its Statement of Investment Principles. The Fund's officers will carry out this review and propose any changes to the Investment Committee for consideration

2 Scope

2.1 The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, we will focus our attention on the quality of our major asset holdings, i.e., UK, EU, US, Far East and emerging markets assets.

2.2 The Fund supports the 'comply or explain' principles of The United Kingdom Corporate Governance Code (the Code) and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.

2.3 Corporate governance principles and standards vary from market to market and so the Fund's voting policy allows for some flexibility and discretion with due consideration to local circumstances.

3 General Principles

3.1 In general, the Fund aims to support corporate management in their stewardship role. This document sets out the Fund's high level voting principles and the circumstances where the Fund may override support for company management proposals. In general, where the Fund cannot support management it will positively abstain or withhold a vote but, in certain cases, reserves the right to vote against company management.

3.2 In ordinary circumstances, the Fund delegates individual corporate engagement activity to its investment managers. The Fund will, however, consider engaging on a collective basis with other investors on issues of mutual interest.

4 Voting Policy

4.1 Audit & Accountability

The audit process affords investors significant protections by ensuring that management has effective internal controls and financial reporting systems.

Auditor independence may be compromised if the same firm has audited the company for a long time (three years or more) or where the firm earns significant fees from non-audit services. In order to help maintain auditor objectivity we would expect companies to consider submitting the audit function to periodic tender and to disclose their policy on tendering, including when the audit was last put to tender.

- **Approval of Financial Statements**

Where there is a qualified audit statement, or restatements of annual results made in the previous year (apart from where adapting to new regulations), or where there are concerns of fundamental significance, the Fund will consider approval on a case by case basis.

- **Removal of Auditors**

Surrey Pension Fund will normally vote with management on proposals for the removal of auditors, unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case by case basis.

- **Extra Financial Reporting**

Companies should have regard to the environmental and societal risks and impacts of their operations as these can have a material impact on shareholder returns over a variety of time horizons. We believe that it is good management practice to assess and report on material "Extra Financial" risks associated with the governance of environmental and sustainability issues; where we consider that disclosure on these risks is inadequate the Fund will withhold its vote on the annual report or, where available, the sustainability report.

4.2 The Board & Committees

- **Nomination & Succession Planning**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should have plans in place for orderly succession and the policies relating to this should be disclosed in the Company's annual report.

- **Committee Independence**

Audit, Remuneration and Nomination Committees are key components of effective governance for companies. These Committees should be composed entirely of independent non-executive directors; the Fund may therefore abstain from a director's election if they are an executive or non-independent director on the Remuneration Committee.

- **Separation of Chairman & CEO**

The Fund believes the roles of Chairman and CEO should be separate. There may be individual circumstances where it is necessary to combine the roles for a specified purpose or over a period of time in which case we will take account of the explanations provided. In all other circumstances, the Fund will abstain on the election of the Chairman.

- **Board Balance & Diversity**

Companies should seek to ensure that their boards are balanced for appropriate skills, competence and experience. Diversity of gender and experience are equally important and we expect to see clear disclosure from companies about their efforts to address gender imbalance and, in particular, how they aim to reach at least 30% female representation.

- **Notice Periods**

Director notice periods are significantly important. Where an executive director's notice period exceeds 12 months or where severance pay exceeds an equivalent of twelve months, the Fund may abstain from voting.

- **Removal of Directors**

Where there is a proposal to remove a director, the Fund will vote against it unless the proposal has Board support and it is uncontested by the individual concerned. Where the proposal is contested by the individual concerned, the Fund will consider its position on a case by case basis.

4.3 Executive Remuneration

Executive remuneration should be determined by a formal procedure which is independent of the executives in question. The remuneration committee, in addition to demonstrating independent membership should have written terms of reference and receive independent advice which is wholly separate from other corporate activities such as, for example, audit or HR.

There should be comprehensive, transparent and comprehensible disclosure of directors pay and policy. Policy in particular should fully explain the aims and objectives of reward strategies in the context of corporate objectives.

- **Approval of Long Term Incentive Schemes**

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long-term shareholder value, avoiding reward for results over the short term. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions and to introduce objective performance conditions related to the company's long-term strategy. Discretionary share options and other Long Term Incentive Plans can, subject to appropriate safeguards, be acceptable elements of a director's remuneration.

The Fund will vote in favour of executive reward plans when:

- The company has a remuneration structure that encourages participation across the workforce.
- There is a capital commitment on the part of executive participants at the inception of the scheme.
- Where the exercise of options or the vesting of shares for executive participants is based on performance targets which reflect outstanding and sustainable performance and which are insulated from a particular treatment in the accounts or general market factors.
- Where disclosure is adequate to enable the assessment of rewards under the scheme and the cost to the company.

- Where the performance period for any long term scheme is five years or more.
- Where the participants are not eligible for multiple share-based incentives.
- Where the scheme does not have the potential to involve the issuing of shares which will unduly dilute existing holdings or involve a change in control of the company.

The Fund will abstain from supporting an all employee share scheme where non-executives are also permitted to participate.

4.4 Shareholders' Rights & Capital Structures

Surrey will consider resolutions relating to shareholder rights on a case by case basis. The following outlines the principles that we expect our companies to adhere to:

- **Pre-emption right for issues of new capital**

The Fund does not support resolutions that are inconsistent with rules of the Pre-emption Group.

- **"One Share One Vote"**

The Fund does not support issues of shares with restricted or differential voting rights, nor any action which effectively restricts the voting rights of shares held by it.

- **Share Repurchases**

The Fund will normally vote in favour of an authority for share repurchases, provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources. Companies should adopt equal financial treatment for all shareholders. The Fund therefore supports measures that limit the company's ability to buy back shares from a particular shareholder at higher-than-market prices.

4.5 Mergers & Acquisitions

Surrey supports mergers and acquisitions that enhance shareholder returns in the longer term and encourages companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual Board members.

Due to the investment implications of M&A activity, the fund will liaise with its portfolio managers prior to making a final voting decision in support of takeovers.

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the Board. This includes anti-takeover measures.

4.6 Article Changes

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights or do not reflect generally accepted good governance practices.

4.7 Political & Charitable Donations

The Fund considers that making of donations to political parties is not an appropriate use of shareholders' fund and so will vote against any authority to make such donations.

Charitable donations are acceptable if they are reasonable and further the company's wider corporate social responsibilities. The Fund encourages the issue of a policy statement by companies relating to such donations and full disclosure of the amounts given to the main beneficiaries.

4.8 Shareholder Resolutions

All such proposals will be reviewed on a case-by-case basis. We will generally support requests for improved corporate disclosure, notably relating to sustainability reporting. In other circumstances the fund will generally vote against shareholder resolutions not supported by management.

4.9 Other Business

Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider issues on a case by case basis. Schemes of arrangement, significant transactions and bundled resolutions are also considered on a case by case basis.

Where a resolution is proposed to allow for any other business to be conducted at the meeting without prior shareholder notification, the Fund will not support such resolutions.

5 The Principles of the UK Stewardship Code

In order to conform with the principles of the UK Stewardship Code, institutional investors, such as the Surrey County Council Pension Fund, should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

A future Board report will set out how the Surrey Pension Fund intends to satisfy the UK Stewardship Code requirements.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND STOCK LENDING**

SUMMARY OF ISSUE:

Stock lending is a long established way to generate substantial additional income for the pension fund within accepted risk parameters. Given the extensive variety of stocks within the Surrey Fund, consideration should be given to taking advantage of this additional income stream.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board approve Northern Trust be appointed to operate the Pension Fund's lending programme with immediate effect, subject to the necessary due diligence carried out with regard to contract amendment.

REASON FOR RECOMMENDATIONS:

To generate an additional income stream for the Pension Fund within approved risk parameters.

DETAILS:

The Current Regulatory Position

1 The general prudential provisions of the Local Government Pension Scheme (LGPS) Investment Regulations apply when the activity is undertaken by LGPS funds, and it should be conducted in accordance with the relevant Rules under the Financial Services and Markets Act 2000. Bank of England guidance has also been issued.

2 Under the LGPS Management and Investment of Funds Regulations 2009 (SI No.3093), a "stock lending arrangement" means an arrangement such as is mentioned in section 263B of the Taxation of Chargeable Gains Act 1992 (Regulation 2).

3 The current limit is a maximum of 25% of the market value of an authority's pension fund on "all securities transferred (or agreed to be transferred) by the authority under stock lending arrangements" (regulation 11 and Schedule 1, Part I, paragraph 11).

The Mechanics of Stock Lending

4 Stock lending (also known as securities lending) is the commonplace market practice whereby securities are temporarily transferred by one party (the lender) to another (the borrower). The borrower is obliged to return the securities to the lender on demand or at the end of the agreed term. For the period of the loan, the lender is secured by acceptable assets delivered by the borrower to the lender as collateral, known also as security, plus a margin (minimum 5%) to take account of upward movements in stock prices.

5 Borrowers of stock include market makers who need to be able to borrow to support their ability to quote a two-way price throughout the dealing day and investment banks to enable them to offer securities lending as part of their prime brokerage service to hedge funds.

6 Under English law, absolute title to the securities lent passes to the borrower, who is obliged to deliver back equivalent securities. Similarly, the lender receives absolute title to the assets received as collateral from the borrower, and is obliged to deliver back equivalent collateral. This means that a stock loan and return, and the delivery of collateral and its return, each consists of two simultaneous transactions, which transfer complete title to the securities and collateral to the respective parties. This legal form is intended to protect the lender's title to the collateral in the event of the default of the counterparty.

7 When the loan of a stock is set up, a rate of commission is agreed between the lender and the borrower. This rate can vary according to the length of the loan and the scarcity of the stock and may be adjusted during the course of the loan according to market changes. The average commission rate received is between 0.10% and 0.15% per annum for UK Equities and 0.25% for overseas securities but can significantly increase where demand exceeds supply.

8 Although stock lending involves the absolute transfer of title of those securities to the borrower, the lender is protected regarding the normal benefits (dividends) and corporate actions that would have been received if the asset had not been lent. The borrower of the stock is obliged to pay the lender all cash benefits arising in respect of the stock borrowed.

9 The right of voting is the only right that the lender does not retain when lending a stock. In a particular instance where the pension fund wants to vote their shares, then those shares should be recalled in good time. Securities lending plays a critical role in enhancing market liquidity by assisting the ability of market makers to quote two way prices at all times throughout the day.

10 Permitted stock lending must be under an agreement whose terms are acceptable to the Pension Fund and are in accordance with good market practice. Deals must be with counterparties who are authorised persons who provide security in the form of collateral that is acceptable to the depositary, adequate and sufficiently immediate.

Practical Implementation

11 In order to implement such a programme, a pension fund needs to own a sought after portfolio with the right markets and stocks. It is considered that the Surrey County Council Pension Fund owns such a portfolio.

12 With regard to implementing a programme of stock lending, there are advantages to using the Fund's existing global custodian (Northern Trust) and these include the ease of getting started and a certain level of indemnification that may be provided by the custodian. The Global Custodian has an existing stock lending programme and a large demand from its current list of borrowers. A significant 22% of Northern Trust's international securities lending clients are LGPS funds so Northern Trust is experienced in this sector.

Northern Trust's Stock Lending Programme

13 The Northern Trust lending programme has been in operation since 1981 under the auspices of The Northern Trust Company and currently services 354 custody clients in North America, Europe, the Middle East, Africa and Asia Pacific

14 In brief, Northern Trust proposes to use a small percentage of the Pension Fund's assets (typically 8-15% at any one time) to generate lending returns. All lending is done on a fully collateralised basis to pre-approved, high quality counterparties with great attention paid to the management of risk. For the fund to experience a loss direct from a stock loan, a counterparty would have to become insolvent AND the collateral proceeds would have to be insufficient to cover any marginal shortfall between the value of the loan securities and the value of the collateral. As all loans are valued each day, loan margins are checked and additional collateral collected from a borrower if required, it is extremely unlikely that collateral values would fall before the purchase of replacement securities within three days.

15 While the above risks are very limited, they are further mitigated by Northern Trust by diversifying loans to many different, financially sound counterparties and managing collateral each day to ensure loan margins in excess of 100%. The lending activities of Northern Trust are in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "Local Government Regulations"). UK Local Authorities are restricted to lending only to European Economic Area State borrowers. The initial list of potential borrowers will be provided to Board for approval. Subsequent amendments to the list will be delegated for final acceptance to the Chief Finance Officer.

16 The annual gross estimated income achievable from engaging in such a programme is considered to be around £530,000 per annum, generating £371,000 in net revenue to Surrey. This assumes all revenues are split 70/30, with Surrey receiving 70% of the total revenue and Northern Trust receiving 30% (from which all their lending and transactions costs are taken). The revenue estimate assumes non-cash collateral (highly rated government debt and equities from major indices) is only accepted under the conservative guidelines in place for other LGPS clients.

17 The Fund’s consultant will advise on the specific lending agreement prior to implementation.

CONSULTATION:

14 The Chairmen elect of the Pension Fund Board has been consulted on the proposal and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

15 There is a counterparty risk within the lending programme. However, the value of stocks lent is fully collateralised and the net risk after this safeguard is taken into consideration is regarded to be minimal.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

16 Aside from the net additional income to be generated, there are no financial or value for money considerations.

CHIEF FINANCE OFFICER COMMENTARY

17 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed initiative will generate a worthwhile income, taking into account the associated risks and the inbuilt safeguards to counter these risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

18 The statutory context to the proposed arrangements and the legal implications of entering into them are dealt with in the report.

EQUALITIES AND DIVERSITY

19 The creation of a stock lending programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

21 The following next steps are planned:

- Approval of the stock lending programme.
- Request that Northern Trust forward to necessary contract amendments to enable commencement of the programme.
- Liaison with Legal and return of contract documentation and lending agreement.
- Commencement of programme.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
None

Sources/background papers:
None

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **TOBACCO STOCK IN THE PENSION FUND**

SUMMARY OF ISSUE:

The recent transfer of public health responsibilities to local authorities with effect from 1 April 2013 has resulted in significant publicity regarding the holding of tobacco stocks by the same local authorities' pension funds. Questions have been raised as to whether this is compatible with the responsibilities held by administering authorities in relation to public health and the potential conflicts of interest that could result.

This report sets out the position with regard to the Pension Fund's fiduciary duties with regard to environmental, social and governance (ESG) considerations. The transfer of public health responsibilities alongside the County Council's responsibility to its pension fund has notably raised the profile of ethical investing.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board consider the report and (after giving due consideration to the Board's overriding fiduciary duty) discuss the available options with a view to deciding on future ESG policies and, specifically, tobacco stocks, namely:

   a) Continue the current strategy with regard to ESG factors, allowing suitable delegation and discretion to the external fund managers, and receiving regular reports and updates from managers as to their approach.

   b) Examine and debate all other options available to the Pension Fund Board, including the prohibition of tobacco assets.

2. The Fund's Statement of Investment Principles be suitably updated to reflect the Pension Fund Board's decision.

REASON FOR RECOMMENDATIONS:

An agreed policy is now required as a result of the debate surrounding the dichotomy concerning the Authority's conflicting responsibilities with regard to pension fund investment, and public health and well-being.

DETAILS:

Background

1 Whilst ESG and ethical factors may be relevant in pension fund investment decision making, it could be argued that the Pension Fund Board should not dismiss the possibility of making certain investments on ethical grounds alone. Pension Fund Boards do have a fiduciary duty to consider the full range of lawful investment options available to them and decisions should be based on the expected investment performance of the asset.

Current Pension Fund Position with regard to Tobacco

2 By necessity, equity holdings held within the Pension Fund cover a wide range of companies, dealing in a wide spectrum of activities, all of which are lawful. The majority of LGPS funds have exposure to tobacco stocks. As at 31 March 2013, the Surrey Pension Fund held holdings in tobacco related companies which amounted to 0.5% of the total Fund, equating to just over £11.1m in equities and £1.5m in fixed income corporate bonds, totalling £12.6m.

3 The above figures relate to directly owned stocks held within segregated portfolios. The Pension Fund also has indirect exposure to approximately £4.8m within the LGIM passive pooled funds. A breakdown of the directly owned exposure as at 31 March 2013, 31 March 2012 and 31 March 2008 is set out in Table 1.

		Market Value £		
	Asset description	**31-Mar-13**	**31-Mar-12**	**31-Mar-08**
Equities	BRITISH AMERICAN TOBACCO ORD GBP0.25	3,154,266.64	2,407,832.64	4,687,200.00
	PHILIP MORRIS INTL COM STK NPV	715,466.59	1,248,745.60	545,640.31
	SWEDISH MATCH NPV	1,612,464.06	295,356.62	0
	ALTRIA GROUP INC COM	2,558,224.14	4,218,664.67	239,501.91
	JAPAN TOBACCO INC NPV	3,079,567.25	2,493,215.19	1,942,016.72
	GUDANG GARAM TBK IDR500	0.00	33,850.50	74,430.43
	REYNOLDS AMERICAN INC COM	0.00	0.00	1,164,830.81
	TOTAL	11,119,988.68	10,697,665.22	7,488,789.37
Bonds	BAT INTERNATIONAL FINANCE PLC	625,544.50	0.00	937,807.40
	IMPERIAL TOBACCO	820,546.30	1,616,870.85	0
	TOTAL	1,446,090.80	1,616,870.85	937,807.40
	GRAND TOTAL	12,566,079.48	12,314,536.07	8,426,596.77

Fiduciary Duty of the Pension Fund Board

4 Fiduciary duties set out the broad parameters within which trustees (and the council officers, fund managers and investment consultants appointed) must exercise the discretionary powers with regard to pension fund governance. These duties affect the exercising of discretion to make and manage investments, and require trustees and their agents to act prudently and for a proper purpose. In this context, members appointed to the Pension Fund Board are regarded as quasi trustees.

Proper Purpose

5 In the case of the pension fund, the proper purpose is ultimately to pay future pension promises to its members (active, deferred and pensioner) and therefore obtain sufficient returns with which to do so, as set out in the Fund's Statement of Investment Principles:

i) To be at or above a 100% funding level in order that it is able to meet its current and future liabilities.

ii) To seek investment returns that are consistently strong and outperform or match those available in the major investment markets and are comparable with other institutional investors.

Available Research

6 Various pieces of research have also been conducted with regard to ESG issues. The law firm, Freshfields Bruckhaus Deringer, commissioned by the United Nations Environment Programme Finance Initiative (UNEPFI) produced what is considered to a significant work regarding the incorporation of ESG issues into investment risk analyses. The Freshfields report suggests that pension fund trustees will fulfil their fiduciary duties, provided they treat the purpose of the investment power (which for pension funds will ordinarily be to seek a financial return for the beneficiaries) as the primary purpose and, while allowing for the influence of other relevant considerations, do not allow it to be overridden by any other purpose.

7 This means that the consideration of secondary considerations, such as ESG issues, could legitimately form part of any investment decision as long as they do not override the primary consideration of making a financial return. Importantly, the assessment of any individual investment should properly include its fit into the investment portfolio as well as its expected return. Considerations such as risk versus return and correlation to the rest of the portfolio are essential, and it is part of the trustee's role to seek returns across the entire portfolio across a variety of different economic possibilities, rather than on inclusion or exclusion on an investment by investment basis.

Statutory Regulation

8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) govern matters in relation to ESG within Statements of Investment Principles (SIP). In particular, Regulation 11 requires an administering authority to formulate a policy for the investment of its fund money, with a view to the advisability of investing fund money in a wide variety of investments; and to the suitability of particular investments and types of investments.

9 Regulation 12(1) states that an administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement of the principles governing its decisions about the investment of fund money. Regulation 12(2) requires SIPs to include the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

10 In issuing these regulations, the Government did not seek to impose requirements regarding ethical investment, only to state their policy. There is currently no regulatory requirement to take into account ESG considerations. The Surrey Pension Fund sets out its position via its SIP and the extent to which the Surrey Pension Fund currently takes ESG considerations into account is set out in Part 10 of the SIP.

Surrey Pension Fund's Current Approach

11 The last Surrey Pension Fund Statement of Investment Principles (SIP) was approved by the Investment Advisory Group on 10 September 2012. The latest redrafted SIP (with further expansion on the proposed approach with regard to ESG issues) is due for review and approval at the Pension Fund Board meeting of 31 May 2013. The revised SIP states in paragraph 10:

> ***Stewardship and Responsible Investment***
> *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. Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection.*

12 The SIP now makes clear that such ethical considerations should be delegated to the Fund's external fund managers. The Fund encourages its managers to view and consider ESG factors where it is thought that long-term performance may be enhanced by such consideration and, under current arrangements, such consideration and resultant stock choices will be the responsibility of the external managers employed to select investment on the Pension Fund's behalf.

13 The requirement for the Fund's SIP to include reference to ESG considerations, if any, acknowledges that such considerations should be naturally part of an informed investment policy. Fund managers will always need to consider these "extra-financial" matters in the context of the overriding fiduciary duty of the Pension Fund Board and the benchmark performance targets set for those fund managers. In comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, fund managers could deploy ESG considerations in deciding upon stock selection and the Pension Fund's SIP sets out this parameter.

14 The Fund is also an active 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.

Separation of Specific Responsibilities

15 The County Council is the administering authority for the pension fund and its responsibility arising from such a role is one of the many statutory responsibilities attributable to it. Responsibility for public health has recently been added to the responsibilities list. All of the Council's responsibilities are distinctly separate from those relating to the County Council as administering authority for the Pension Fund.

16 An appropriate separation of functions within the County Council's responsibilities is considered sufficient to address any potential conflict of interest. The separation of responsibilities is achieved by the distinct nature and governance arrangements relating to individual committees of the County Council. The bodies that oversee investment (the Pension Fund Board) and public health (Health and Wellbeing Board) are separate committees of the Authority. It is not the Cabinet that oversees these responsibilities.

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17 Whatever the organisational structure, the Council must ensure that there continues to be appropriate separation of functions between pension fund investment decision making and public health policy making. Mention should also be made that four external employers represented on the Pension Fund Committee have no public health responsibilities.

18 The investment of pension funds in tobacco companies (undertaken at the discretion of the Fund's independent external investment managers) would never implicate tobacco industry involvement in public health policy making by the County Council. The nature of the mandates with the Fund's investment managers does not provide for such investment services to provide a route for any influence, direct or otherwise, on Council public health policy, either from the fund managers themselves or the companies in which they invest.

19 The Pension Fund holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria.

20 However, aside from the very logical approaches expressed above, and looking at the situation purely from a layman's point of view, regardless of the very distinct separation of responsibilities, the very fact that the County Council has public health responsibilities and at the same time invests in tobacco stocks represents a situation that appears self-contradictory. The reality is that the Council has distinctive duties in relation to these two different responsibilities, although the Statement of Investment Principles does provide a mechanism of seeking in some way to reconcile these issues.

Investment Regulations

21 There is currently no statutory regulation regarding prohibition upon the Pension Fund investing in tobacco companies. Members of the Pension Fund Board are required to act in accordance with their overall fiduciary duty. The investment policy of the Fund must be guided by the primary purpose of the Fund in that investments should be made for the beneficiaries and not made for other purposes. It could be deduced from this that investment powers should not be used to make moral statements at the expense of the beneficiaries.

22 Ultimately, the Pension Fund has a duty to consider the full range of investment options available, and securing an appropriate financial return is a prime concern of the Fund in order to meet future pension commitments. However, ESG factors may be relevant as an additional consideration in order to provide distinction to investments with similar financial characteristics.

Current Options

23 After giving due consideration to the overriding fiduciary duty, the Pension Fund Board should either:

i) Continue the current strategy with regard to ESG factors, allowing suitable delegation and discretion to the external fund managers, and receiving regular reports and updates from managers as to their approach; or

ii) Examine and debate all other options available to the Pension Fund Board, including the prohibition of tobacco assets.

Implications of Prohibiting Further Investment in Tobacco Assets

24 The Pension Fund's SIP would need a suitable redraft setting out this policy change.

25 Fund manager benchmarks would need to be amended to reflect the prohibition of such stocks. Market benchmarks without tobacco assets do not currently exist, thereby making it very difficult to measure fund manager performance and hold the managers to account on benchmarked performance.

26 How far should the policy extend? If tobacco stocks are prohibited, then it could be argued that the Fund should prohibit the shares of the supermarket chains that sell tobacco, as well as the haulage companies that transport the goods to the supermarkets, and the consultants and investment banks that provide corporate and financial advice to the tobacco companies.

27 The policy sets a precedent for future engagement by pressure groups with particular grievances against specific companies, the most prominent examples being alcoholic drinks manufacturers, gambling and casinos, and arms manufacturers. By setting this initial precedent, it could be regarded as the starting point for future lobbyists to gain a foothold.

28 The counter-argument to the above point is the evidence of the dangers associated with tobacco as opposed to, say, enjoying alcohol and gambling in a responsible manner.

29 There is the risk of limiting the Fund to future out-performance if specific stocks are prohibited. For example, tobacco has comfortably out-performed the entire range of stock categories over the last 25 years as well as the first quarter of 2013. It should be stated that if tobacco stocks become unattractive as a result of various future concerns having a financial impact on the financial framework of the companies, then the fund managers would divest from those companies in any case.

CONSULTATION:

30 The Chairmen elect of the Pension Fund Board has been consulted on the proposed debate and has offered full support.

RISK MANAGEMENT AND IMPLICATIONS:

31 The prime risk of divesting from prohibited stocks is the possibility of limiting the Fund to future out-performance if those stocks out-perform the market.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

32 The cost of any proposed action will be borne from existing budgets.

CHIEF FINANCE OFFICER COMMENTARY

33 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed with all available options presented to the Board, along with the associated implications attached to each. The officer's view is that the overriding duty of the Pension Fund Board is to maximise investment returns, and that the fiduciary duty to all stakeholders with regard to the financing of future pension flows remains paramount.

LEGAL IMPLICATIONS – MONITORING OFFICER

34 As stated throughout the report, the Council, as the quasi trustee of the Pension Fund, has a fiduciary duty to ensure that it acts in the best interests of the beneficiaries and also that it acts impartially. For a local authority pension scheme, ultimately, this will mean for the benefit of local council tax payers and the paramount concern in this will be their financial benefit. Ethical issues are relevant considerations that can be taken into account, and the Statement of Investment Principles enables this to be included in practice. The Council's duties as a public health authority would also be regarded as a relevant consideration. However, given the fiduciary duty, it would not be lawful to have a completely blanket policy excluding certain investments unless it can be demonstrated that, following proper consideration, this would not compromise the investment performance of the fund. A policy that takes account of the ethical considerations in investment decisions whilst regarding financial benefit as the paramount concern would be in line with the Council's fiduciary duty.

EQUALITIES AND DIVERSITY

35 The implementation of a policy regarding stock prohibition on selective stocks will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

37 The following next steps are planned:

- Pension Fund Board to decide on policy.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
None

Sources/background papers:
None

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **MANAGER ISSUES AND INVESTMENT PERFORMANCE**

SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board approve the report and, following discussions at the meeting, make the following decisions:

a) asset allocation rebalance
b) fund access cash
c) allocations to private equity

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

DETAILS:

1) **Manager Issues during the Quarter**

Manager	Issue	Status/Action Required
CBRE	Redemption	Update included in minutes of external fund manager meetings held on 25 April 2013 (Annex 2). This includes the latest Triton Fund situation.
LGIM	Rebalancing	Discussions have taken place quarter reference the out-performance of Equities during the first quarter of 2013 and the consequential drift away from asset allocation policy. The current consensus is that there is a degree of comfort with regard to the current equity overweight position. There is the view that there could still be some way to go with regard to the recovery of the equity market and cutting back on the Fund's most successful manager (Marathon) could be counterproductive, especially as the Fund is not high in the Local Authority League Table with regard to its funding level and therefore, a small additional element of well placed risk could be desirable. Mention was also made of the recent de-risking process whereby the entire Diversified Growth pooled fund allocation was funded from the Equities category. Members are invited to discuss the question of rebalancing and the various options available. A schedule setting out the asset allocation position at 14 May 2013 is shown in Annex 1.
LGIM	Currency Hedge	LGIM's Counterparty Credit Sub-Committee (CCSC) monitors and proved foreign exchange counterparties and currently have a minimum credit rating requirement of A1 (Standard & Poor's) and P1 (Moody's). The CCSC have reviewed the current situation and taken the decision to reinstate Royal Bank of Scotland (RBS) and Citi which had been downgraded by Moody's to P2 last year. They have also decided to add Bank of America (BoA), also on A1/P2 and Goldman Sachs (GS) which has an A1 rating but does not have a short term rating from Moody's. Surrey's investment management agreement (IMA) restricts dealing with counterparties whose short term credit rating is below A1 (S&P) or P1 (Moody's). This will result in RBS, Citi and BoA being restricted and this has been agreed by officers. With regard to GS, officers recommend use of this countertparty with its A1 rating (no current Moody's rating), subject to the Pension Fund Board's approval.

Hg Capital	Hg Capital 7	Officers submitted the necessary signed paperwork within the necessary deadlines for the new Hg Capital 7 private equity fund. Confirmation of acceptance by Hg Capital has been received by officers.
ISIS	Growth Fund	Officers received the final documentation for the ISIS Growth Fund on 16 May. This will be completed and returned as early as possible.
Marathon		Update included in minutes of external fund manager meetings held on 25 April 2013 (Annex 2).
Newton	Performance Concern	Update included in minutes of external fund manager meetings held on 25 April 2013 (Annex 2).
Western	Transition of UK Gilts to Fixed Income Absolute Return	Update included in minutes of external fund manager meetings held on 25 April 2013 (Annex 2).

2) Freedom of information requests

The table below summarises the FoI requests received by the fund since the last meeting. There is currently high interest from newspaper journalists in the values of holdings in so called 'sin' stocks. In addition to the list below the Council's communications team also received two press enquiries (non FoIs) from the same journalist at the Epsom Guardian about tobacco investments and investments in the defence industry. The requested information was provided.

Date	Requestor	Organisation	Request	Response
Feb -13	Company	Pitchbook	Information on private equity holdings	Provided summary as at 31 Dec 2012
Mar-13	Individual	N/A	Proportion of SSC expenditure spent on pension contributions.	Provided based on figures in SSC accounts for 2011/12

3) Future Pension Fund Board Meetings/Pension Fund AGM

The schedule of meetings for 2013 is as follows:

- 31 May 2013: Board meeting hosted at Standard Life, London offices.
- 30 Aug 2013: Board meeting hosted at County Hall.
- 15 Nov 2013: Board meeting hosted in City
- 22 Nov 2013: Pension Fund Annual Meeting hosted at County Hall.

Report of the Pension Fund & Treasury Manager

Internally Managed Cash

The internally managed cash balances of the Pension Fund are currently around £32m. This is cash managed by SCC as part of the Treasury Management process and is separate from the cash balance held at the Fund's custodian, Northern Trust. The cash is currently split between a NatWest call account paying interest of 0.60% and an RBS money market fund paying 0.40%. The cash balance was going to be used to fund the majority of the additional allocation to Majedie's global fund. That allocation can no longer take place following the departure of key staff to Marathon. The Statement of Investment Principles (SIP) has been updated to reflect this change. Given the fund's policy of no asset allocations dedicated to cash, an allocation of £25m to an existing approved asset category is desirable. The Pension Fund & Treasury Manager will report at the meeting.

Goldman Sachs Private Equity: Vintage Fund VI

Goldman Sachs Asset Management has informed the Fund of its next private equity secondary fund, named as The Vintage VI Fund. The Vintage VI Fund has closed on $3.4bn in commitments to date and expects to hold a final close on 15 June 2013. The fund is opportunistic in its nature, acquiring interests in private equity funds and companies from sellers who are looking to achieve liquidity for their positions. The Fund is expected to be predominantly focused on mid market buyouts across all industries. The geographic focus is also opportunistic, although historically the funds have allocated more to North America which is also expected to be the case for The Vintage VI Fund. The Fund will seek to outperform public equities and historically has achieved between 573 and 1016bps of outperformance for the prior five Vintage funds compared with the MSCI S World Index when historical cash flows are compared. The investment team (Alternative Investments and Manager Selection group) which is responsible for this Fund has over 270 people across ten offices globally. The investment committee for the Fund comprises 12 Managing Directors who have an average over 16 years of investment experience.

It is recommended that the Surrey Pension Fund make a USD 20m commitment to the Vintage VI fund.

BlackRock Private Equity: DivPep V Fund

BlackRock Private Equity Partners ("PEP") has informed the Fund of its next private equity fund. The DivPEP V Fund has closed on $170 million in total commitments as of 4 January 2013 and has another $230 million scheduled to close in May this year.

DivPEP V's investment strategy mirrors the strategy that PEP has successfully employed in four prior commingled programmes and four customised separate accounts: it is designed to provide exposure to private equity investments while attempting to mitigate risk by constructing a diversified portfolio of private equity funds and direct co-investments. The DivPEP programmes are opportunistic and designed to seek capital appreciation through diversification, asset selection, and experience, and construct a diversified portfolio of primary funds, direct co-investments and secondaries.

PEP takes an opportunistic approach to sector and geographic diversification. DivPEP V will be invested about 50-70% in the United States, 20 - 50% in Europe and up to 20% in the rest of the world. DivPEP V will seek to outperform the equity markets in line with its mature predecessors' performance, which, as of September 2012, have outperformed the S&P 500 by 710 to 720 bps and MSCI World by 460 to 760 bps.

BlackRock has over 460 portfolios managers and 245 research analysts that PEP can tap into as part of its due diligence process. Global staff includes approximately 1,550 investment professionals across asset classes and regions worldwide. BlackRock's Private Equity Partners' Managing Directors average 20 years of private equity and related experience.

It is recommended that the Surrey Pension Fund make a USD 20m commitment to the DivPEP V Fund.

Investment Regulations: Increase of limit on Investment in Partnerships

Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 stipulated a maximum 15% with regard to asset allocation in partnerships. This has now been revised to 30% with the main intention of enabling LGPS schemes to allocate substantial amounts to infrastructure funds. Infrastructure will be the subject of a future report to the Pension Fund Board.

Actuarial Update

The process of data transfer to the Fund's actuary for the triennial actuarial valuation as at 31 March 2013 has now started. Officers are in regular contact with the actuary. The Pension Fund and Treasury Manager has also been in regular contact with the Surrey Treasurer's Association to keep them appraised of progress. The Pension Fund and Treasury Manager will report at the Pension Board meeting.

Fund Manager Meetings on 25 April 2013

Notes of the fund manager meetings are shown as Annex 2.

Report of the Pension Fund & Treasury Manager

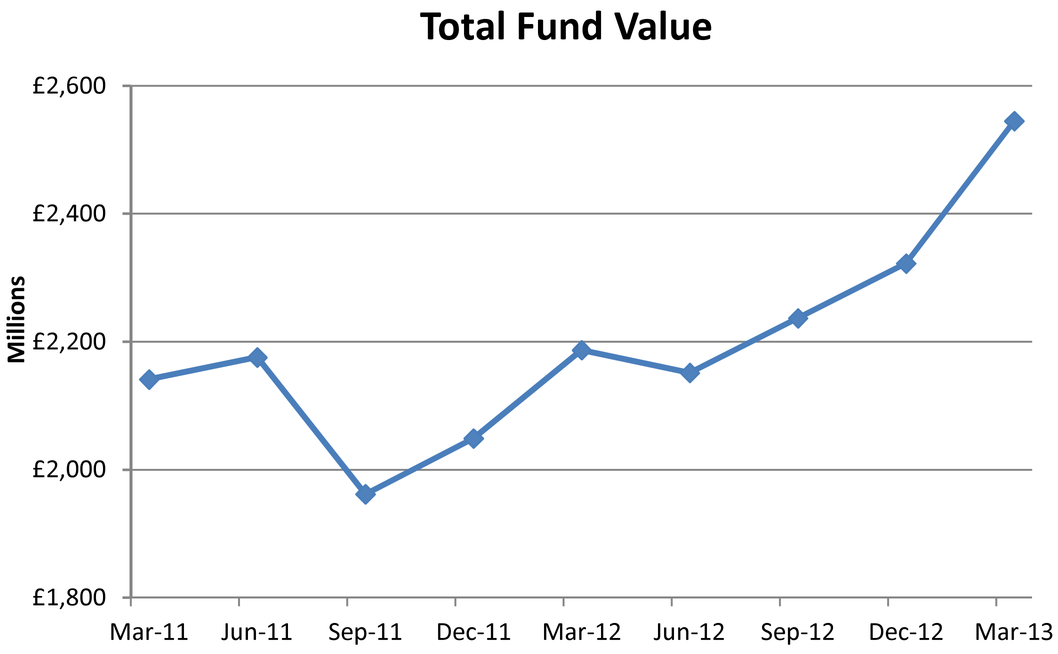
Financial and Performance Report

1. Market Value

The value of the fund was £2,545.0m at 31 March 2013 compared with £2,322.4m at 31 December 2012. Investment performance was 8.9% for the quarter against the customised (hedged) benchmark return of 7.0%

The increase is attributed as follows:

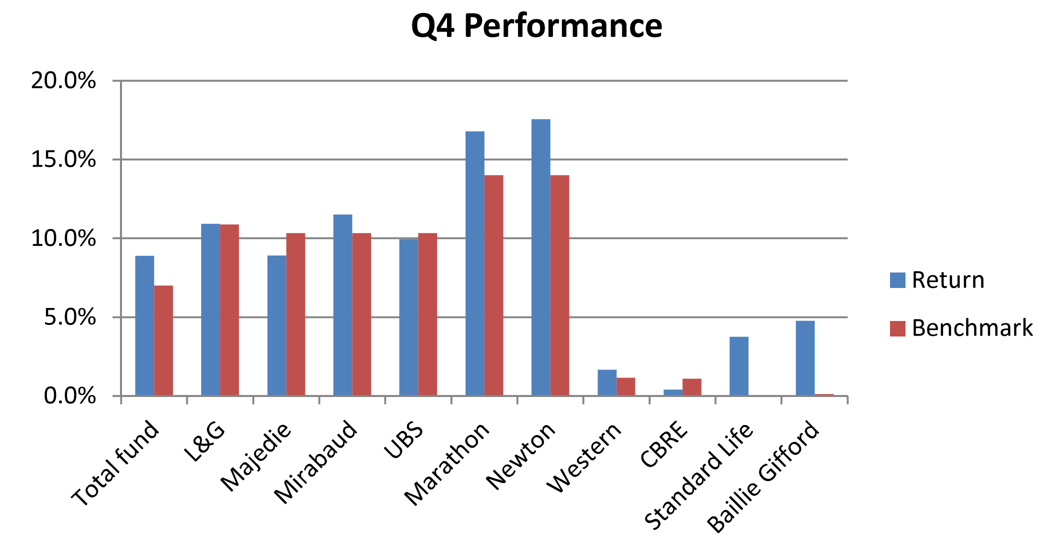
	£m
MARKET VALUE AT 31/12/2012	**2,322.4**
Contributions less benefits and net transfer values	12.6
Investment income received	8.8
Investment expenses paid	-2.2
Market Movements	203.3
Market Value at 31/03/2013	**2,545.0**
Estimated Market Value at 14/05/2013	**2,629.3**



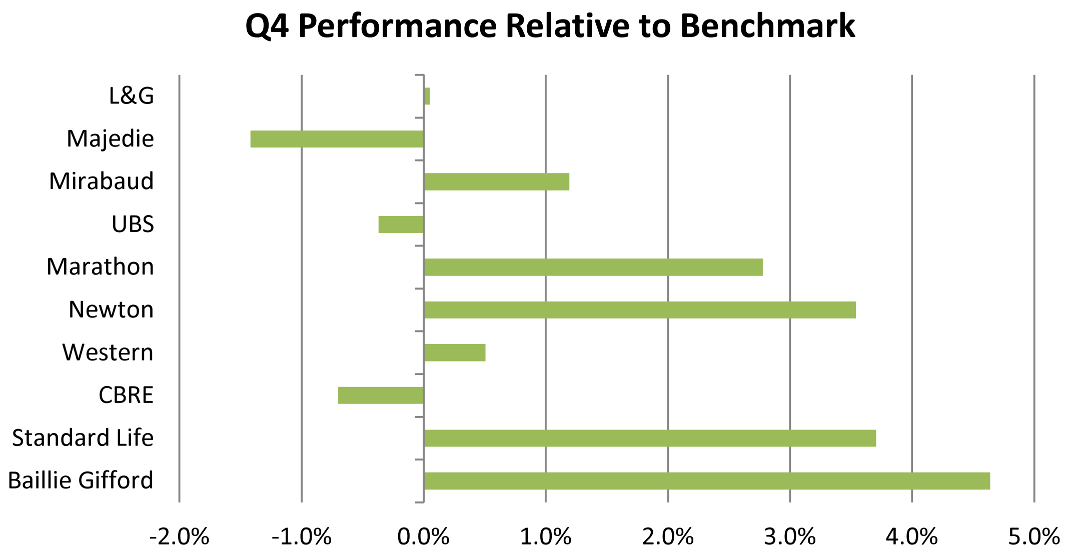
2. Fund Performance

Summary of quarterly results

Overall, the total fund return of 8.9%, was greater than the customised (hedged) benchmark return of 7.0% (+1.9%) during Q4.

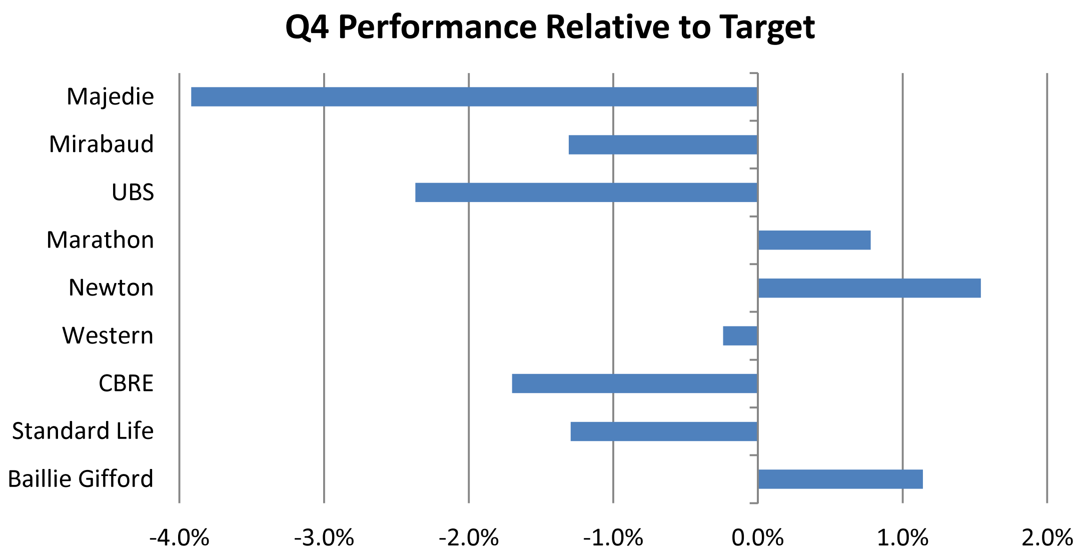


The equity market performed strongly during Q4, especially overseas equity, with the Fund's two global equity portfolios providing an absolute return of +16.8% (Marathon) and +17.6% (Newton).



Relative to benchmark, Standard Life and Bailie Gifford reported the strongest quarterly figures with results surpassing the benchmark by +3.7% and +4.6% respectively. Newton and Marathon also managed to secure strong outperformance figures to the benchmark of +3.5% and +2.8%.

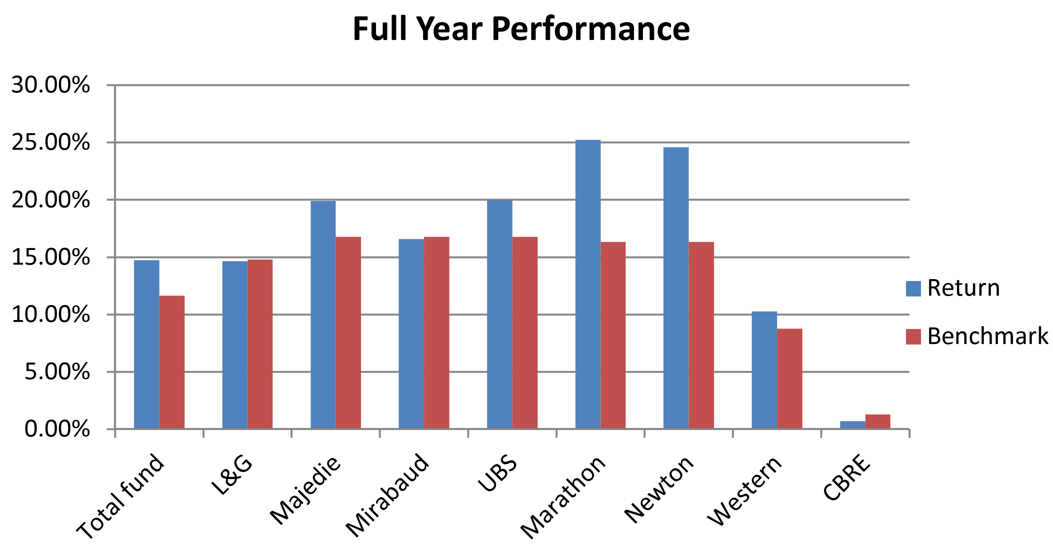
Majedie was the worst performing manager during Q4 in relative terms with a total return of +8.9%, a variance of -1.4% to the benchmark. CBRE and UBS also failed to meet the benchmark with relative performances of -0.7% and -0.4% respectively.



Each actively managed portfolio has an outperformance target over and above the benchmark. Standard Life and Baillie Gifford have comparatively high outperformance targets based upon a less demanding benchmark figure. Only Newton, Bailie Gifford and Marathon achieved their Q4 target.

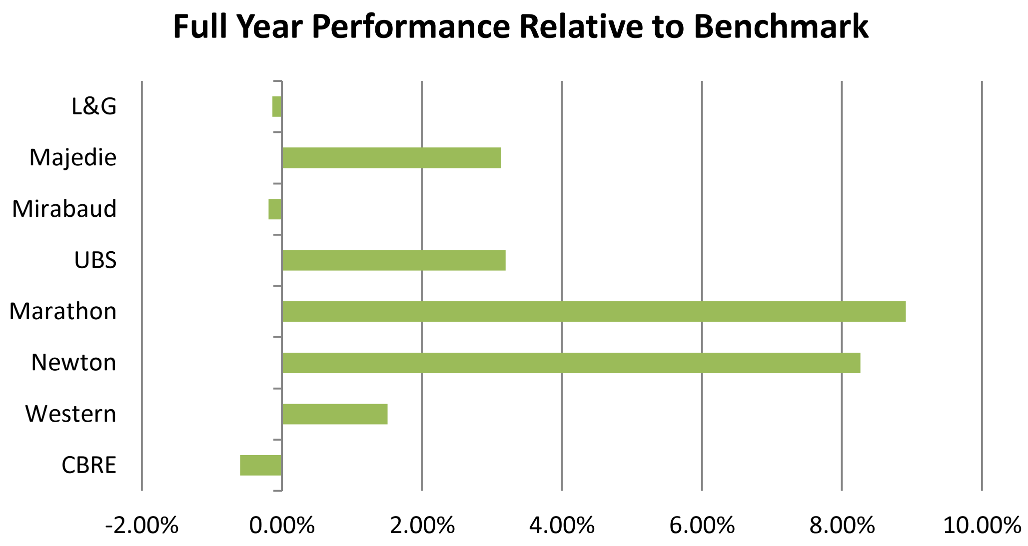
Summary of Full Year Results

Over the past year, the total Fund returned 14.7% outperforming the benchmark by +3.1%.

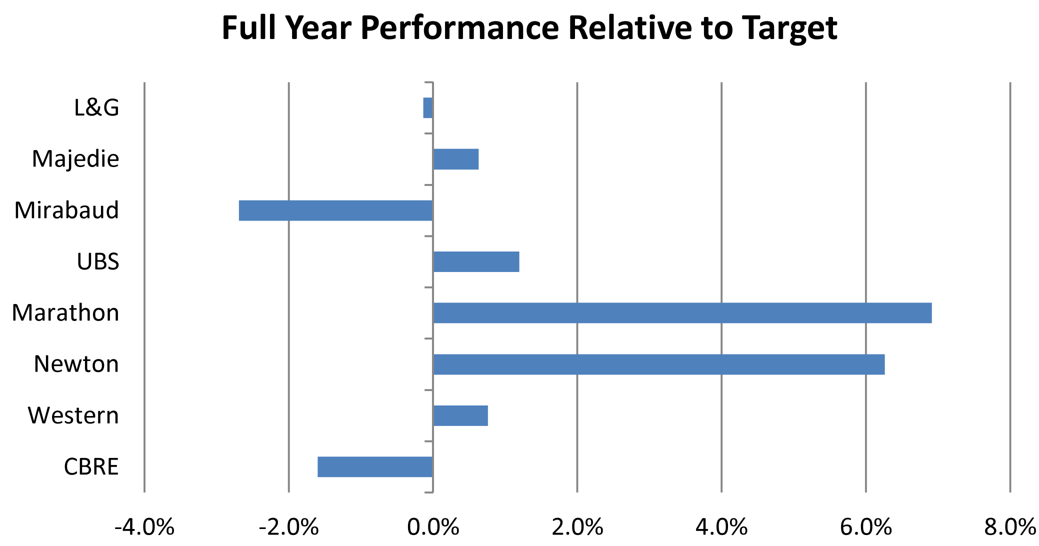


Global Equities provided the greatest overall return for the fund over the last year with Marathon the best performer with +25.2%, closely followed by Newton with +24.6%. CBRE provided the lowest absolute return as property performed markedly worse than other asset classes.

Standard Life and Baillie Gifford have been excluded because their mandates have been in place for less than a year.

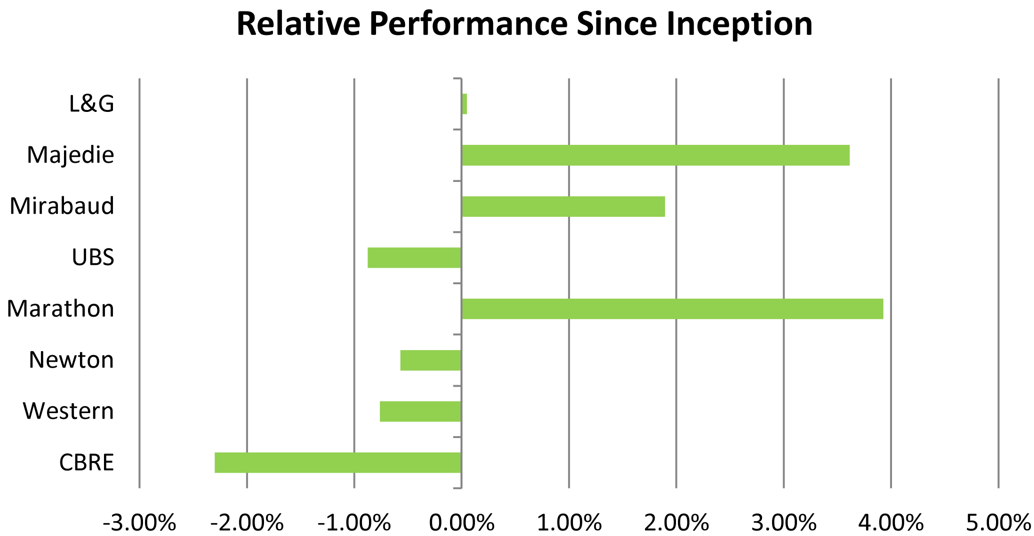


In relative terms, the best performing manager was also Marathon with their return of +8.9% over the benchmark with Newton reporting a similar performance of +8.3%. Both Mirabaud and CBRE failed to surpass the benchmark targets with relative returns of -0.2% and -0.6% respectively.



Marathon and Newton have reported full year returns significantly exceeding their outperformance target for the previous year. UBS, Western and Majedie also managed to meet their outperformance targets.

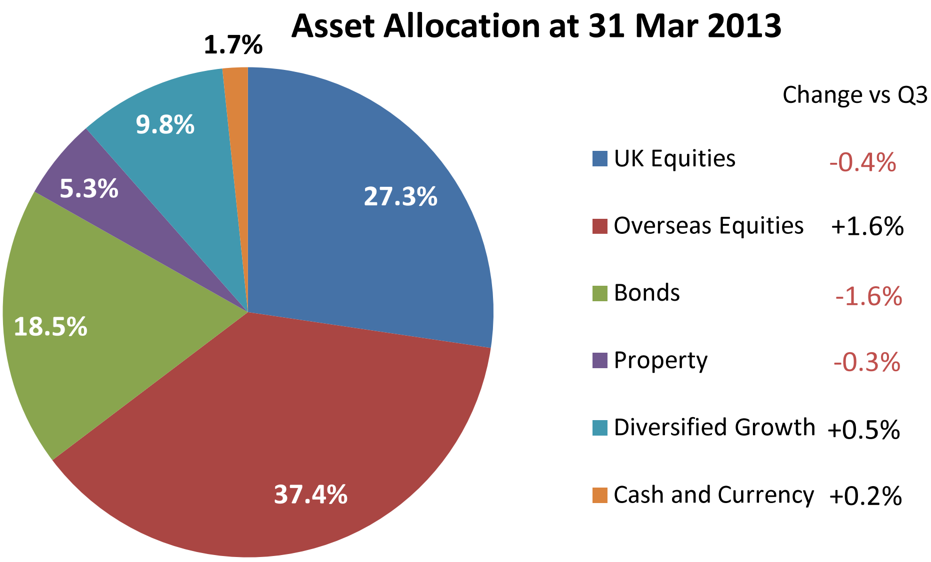
Relative Performance from Inception



Standard Life and Baillie Gifford have been excluded because their mandates have been in place for less than a year.

3. Asset Allocation

The graph and table below summarise the asset allocation of the managed elements of the fund, excluding private equity holdings and internally held cash balances.



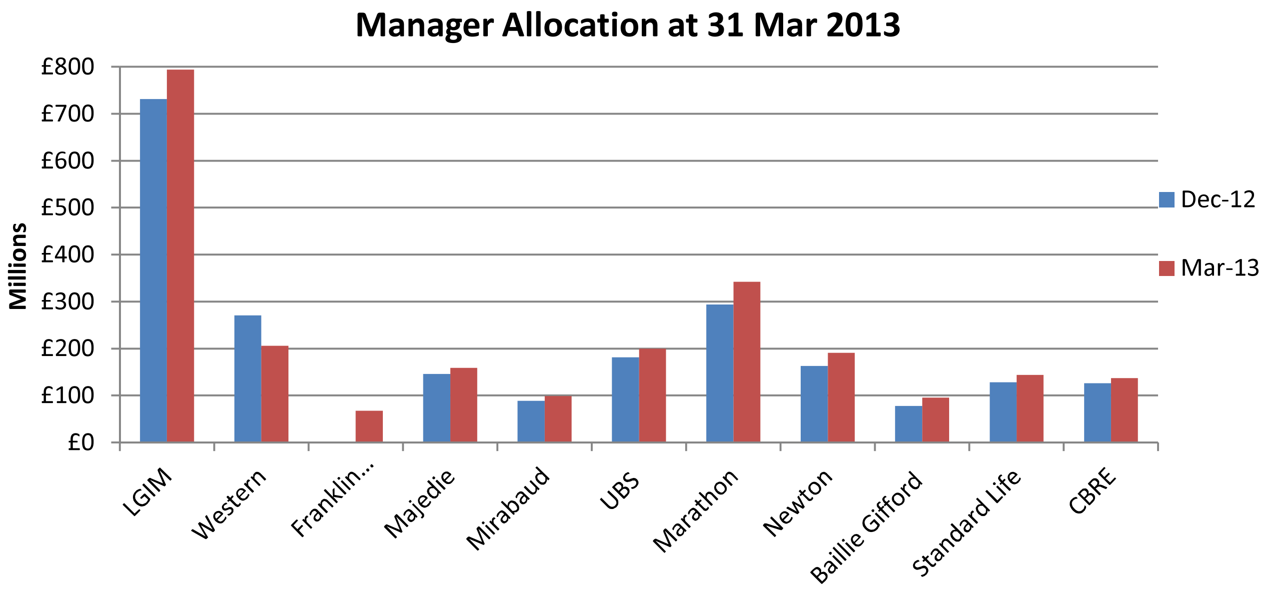
The table below compares the actual asset allocation as at 31 March 2013 against that target asset weightings.

	TOTAL FUND	Actual	Target	Last Quarter	
	£m	%	%	£m	%
Fixed Interest					
UK Government	103.3	4.2	5.2	172.2	7.8
UK Non-Government	178.0	7.3	8.0	178.5	8.1
Overseas	2.2	0.1	0.0	2.3	0.1
Total Return	67.7	2.8	2.8	0.0	0.0
Index Linked	99.4	4.1	4.0	90.3	4.1
Equities					0.0
UK	665.7	27.3	29.0	612.6	27.7
Overseas	909.9	37.4	34.0	791.0	35.8
Property Unit Trusts	129.8	5.3	7.0	123.7	5.6
Diversified growth	239.0	9.8	10.0	205.9	9.3
Cash	46.4	1.9	0.0	27.3	1.2
Currency hedge	-5.9	-0.2	0.0	4.9	0.2
TOTAL	**2,435.4**	**100.0**	**100.0**	**2,208.7**	**100.0**

The value of internally managed cash was £19.2m as at 31 March 2013 and was excluded from this assessment. The above table excludes the Fund's private equity holdings valued at £90.3m, 3.5% of the fund, with a target allocation of 5%.

4. Manager Allocation

The graph below shows the current manager allocation.



The table below includes the actual and benchmark manager allocation weightings.

		Actual		TARGET	LAST QUARTER	
		£m	%	%	£m	%
LGIM	Multi-asset	794.3	32.6	32.0	731.5	33.1
Western	Bonds	206.0	8.5	8.25	270.9	12.3
Franklin Templeton	Bonds	67.7	2.8	2.75	n/a	n/a
Majedie	UK Equity	158.7	6.5	8.0	145.9	6.6
Mirabaud	UK Equity	98.9	4.1	4.0	88.9	4.0
UBS	UK Equity	199.6	8.2	8.0	181.6	8.2
Marathon	Global Equity	342.0	14.0	12.0	294.0	13.3
Newton	Global Equity	190.8	7.8	8.0	162.7	7.4
Baillie Gifford	Diversified Growth	95.4	3.9	4.0	77.8	3.5
Standard Life	Diversified Growth	143.6	5.9	6.0	128.1	5.8
CBRE	Property	137.3	5.6	7.0	126.5	5.7
	Residual Cash	0.9	0.0	0.0	0.9	0.1
TOTAL		**2,435.4**	**100.0**	**100.0**	**2,208.7**	**100.0**

Benchmark weighting for Majedie includes additional 2% allocation to global equities which will no longer take place. Residual cash is from the termination of JP Morgan's and TCW's mandate.

5. Fees

The following table shows a breakdown of fees due for Q4 2012/13.

Manager	MV 31/03/13 £m	Fee Q4 £	Annualised Average Fee %
LGIM	794.3	188,505	0.09
Western	206.0	106,994	0.21
Franklin Templeton	67.7	82,788	0.49
Majedie	158.7	130,819	0.33
Mirabaud	98.9	138,601	0.56
UBS	199.6	49,714	0.10
Marathon	342.0	318,093	0.37
Newton	190.8	107,913	0.23
Baillie Gifford	95.4	117,808	0.49
Standard Life	143.6	231,737*	0.65
CBRE	137.3	58,080*	0.17
Total		**1,531,052**	**0.25**

*Estimated

CONSULTATION:

6 The Chairman elect of the Pension Fund has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

CHIEF FINANCE OFFICER COMMENTARY

9 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

10 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

11 The approval of the various options will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

13 The following next steps are planned:

- Implementation of the various recommendation approvals.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
1. Asset Allocation Policy and Actual
2. Fund manager meeting notes on 25 April 20123

Sources/background papers:
None

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Annex 1

Asset Allocation Update

The table shows the actual managed asset allocation as at 14 May 2013 against the target allocation.

	Category	Allocation Policy %	Allocation at 14/05/13*	Variance %
Equities		**63.0**	**66.8**	**+3.8**
UK				
Legal and General	*Passive*	*10.0*	*8.1*	*-1.9*
Majedie	*Concentrated Active*	*7.0*	*6.7*	*-0.3*
Mirabaud	*Concentrated Active*	*4.0*	*4.1*	*+0.1*
UBS	*Core Active*	*8.0*	*8.5*	*+0.5*
Overseas				
Legal and General	*Passive*	*14.0*	*17.1*	*+3.1*
Marathon	*Concentrated Active*	*12.0*	*14.3*	*+2.3*
Newton	*Core Active*	*8.0*	*8.0*	*0.0*
Property		**7.0**	**5.2**	**-1.8**
CBRE	*Core Active*	*7.0*	*5.2*	*-1.8*
Alternatives		**10.0**	**9.6**	**-0.4**
Standard Life	*Diversified growth*	*6.0*	*5.8*	*-0.2*
Baillie Gifford	*Diversified growth*	*4.0*	*3.8*	*-0.2*
Bonds		**20.0**	**18.4**	**-1.6**
Fixed interest gilts				
Legal and General	*Passive*	*2.5*	*1.7*	*-0.8*
Western	*Core Active*	*2.75*	*3.3*	*+0.5*
Index linked gilts				
Legal and General	*Passive*	*4.0*	*3.9*	*-0.1*
Western	*Core Active*	*0.0*	*0.1*	*+0.1*
Corporate bonds				
Legal and General	*Passive*	*2.5*	*1.9*	*-0.6*
Western	*Core Active*	*5.5*	*4.8*	*-0.7*
Total Return				
Franklin Templeton	*Unconstrained*	*2.75*	*2.75*	*0.0*
Total		**100.00**	**100.00**	**0.00**

Annex 2

Notes of Meetings with Fund Managers: 25 April 2013

Hosted by Newton Investment Management

Time	Manager	Attending
10:00am	CBRE	Deejay Dhananjai Max Johnson Alex Bignell
11:15am	Marathon	Simon Todd Michael Nickson Graeme Neuff
12:30pm	Western	Andrew Belshaw Marian George Paul Shuttleworth
14:15pm	Newton	David Moylett Paul Markham Natalie Milsted

Representing SPF: Phil Triggs
Alex Moylan
John Harrison

CBRE

1. Met with Max Johnson, Alex Bignall and Deejay Dhananjai.

2. CBRE acknowledged that there was only draft Q1 data available, with full results due two days later. The portfolio returned 0.4% in Q1 against the benchmark of 1.1%.

3. CBRE envisaged that 2013 would mark a change in investor sentiment with negative capital value movements slowing during the first half of the year before stabilising, with the prospect of capital value growth in Q4 2013

4. There were signs that competition for assets was increasing, with greater number of active participants in property acquisitions. This was most notable with increased demand for secondary assets, previously absent, as well as for high quality prime and subprime assets. The start of Q2 2013 had shown increased market activity.

5. CBRE were optimistic about further narrowing of the discount to net asset value (NAV) although this remains high for certain asset types, e.g. industrial and retail.

6. In response to questioning, CBRE mentioned that they were not aware of reallocations from equity to property in order to rebalance pension fund portfolios following markedly differing performance between the two asset classes.

7. CBRE outlined their current strategy for the portfolio which includes industry assets in the South East benefitting from shortages of available land and solid demand, as well as leisure assets and student housing to utilise high yields, and in the case of student property very high occupancy rates. CBRE were also bullish on prime shopping centres

8. There was a recommendation to reduce the portfolio's overweight position in relatively low yielding core balance funds to move to distressed value, debt funds in order to take advantage of higher yields. The reduction in the scale of senior debt available creates a gap between available debt and equity. This can be filled by the fund for a high coupon and distribution rate.

9. The portfolio was underweight on central London offices due to the estimated cyclical nature of that asset class and the typically high loan to capital value. This sector has performed well within the benchmark.

10. The reasons for the performance of the portfolio relative to benchmark were attributed to continued weak performance in Europe and write downs within the UBS Triton fund.

11. CBRE provided an update regarding the current position of the UBS Triton Fund. Triton composed a sizable portion of the overall portfolio at 7.2% allocated, according to the draft Q1 data.

12. On 31 January 2013 Triton announced that an orderly liquidation would commence from 1 August 2013 unless £150m redemption requests were to be withdrawn or new capital could be found by 30 April 2013. This was revised to £300m following increased redemption requests received after the announcement. Funds managed by CBRE were included in the redemption queue.

13. CBRE met with representatives of Triton on 26 March 2013 in which they were informed that a number of parties had shown interest in the purchase of capital and that they were likely to have sufficient capacity to buyout the full redemption queue, £523m as at 31 March.

14. Following a review of the redemption request, CBRE did not consider a full withdrawal to be in the Funds best interest.

15. The value of Triton has been written down considerably since 2012 and CBRE consider that the latest valuations are fair and that the UK real estate market has reached, or is shortly to reach, the bottom of the cycle.

16. Triton was close to completing on the sale of a number of poorer quality assets. Excluding these poorer assets, CBRE believes Triton is well placed to improve performance. The current distribution yield was 6.1%, ahead of most of the core balanced funds in the UK funds universe.

17. As such CBRE was minded to withdraw the majority of the portfolio's redemption requests, as well as communicating the need to improve Triton's redemption and governance arrangements. Furthermore, CBRE sought to retain the availability of an orderly liquidation in the event that the capital injection and redemption requests are insufficient.

18. CBRE responded to questioning on the likelihood that other funds would emerge with similar problems as Triton. There were a number of funds with similar open-ended redemption mechanisms as Triton.

19. Rockspring Hanover made up 2.5% of the fund's portfolio at 31 March 2013. This was under similar redemption pressure to Triton with older redemption mechanisms. However, it was hoped that potential changes to a close ended redemption as well as a more cautious approach by investors will alleviate this pressure.

20. Other funds with less resilient redemption mechanisms were BlackRock, Schroders and Hermes. CBRE was confident that these were not as liable due to large fund sizes, strong assets and, in the case of Hermes, limits placed upon redemption requests.

Marathon

1. Met with Michael Nickson, Simon Todd and Graeme Neuff

2. SPF were introduced to Michael Nickson and Simon Todd who joined Marathon in December 2012 as global portfolio managers, inheriting the existing portfolio. Michael and Simon explained how their investment strategy is very similar to that of their predecessors, but with some important differences.

3. As before, the focus is on supply side assessment of organisations and sectors, ensuring a solid understanding of the capital cycle in which the organisation operates. That profitability is inversely proportional to competition.

4. Marathon have an average holding period in excess of eight years. The key measure of an organisation's strength is sustainable free cash flow measured against long term growth expectations. It was claimed that they were even stricter with the ratio of share price to free cash flow, which led to a few changes in the portfolio.

5. The portfolio's holdings of Amazon were sold on this basis. This was despite Amazon recording a sizable return to the fund and the belief that the stock was well placed to do well in the future. The downside risk was considered too great. The primary aim is not to lose capital.

6. In light of this Marathon will not hold companies where the earnings reported are considered as risky. This has applied to consumer technology where Marathon was underweight, with a zero holding in Apple. The market was seen as too competitive with examples of dominant market players collapsing. e.g., Nokia.

7. In comparison, Marathon was overweight to "old technology" including Microsoft, Cisco Systems and Intel as they benefitted from low earnings multiples and robust dividends.

8. Marathon had previously been overweight in house builders but the share value to book value rose to 2:1 and as such the shares were sold on valuation.

9. Liberty Holdings returned the largest contribution to the portfolio over the previous 12 months. This holding has now been sold due to increases in leverage and worsening interest cover ratios.

10. Marathon still intends to add a North American specialist to be based in London, but will not rush to hire someone who does not match the company's investment philosophy. The North American section is currently managed by Michael Nickson and Simon Todd.

Western

1. Met with Andrew Belshaw, Marian George and Paul Shuttleworth

2. SPF were informed that the jointly held position of Co Chief Investment Officer in Western's London team would be remerged into the singular post of Chief Investment Officer following the return to health of the previous incumbent.

3. Investment results for Q1 were 1.6% returned against a benchmark of 1.2%. Western discussed their expectations of high volatility throughout 2013 and the potential risks and opportunities that this brings to the portfolio.

4. In particular, there was an emphasis on the likelihood of increased event risk adversely affecting bond prices. The macroeconomic environment has led to an increased availability of finance and therefore potential for leveraged buyouts. Whilst generally beneficial for equity positions, takeovers are often detrimental to the value of bond holdings.

5. The portfolio held positions in corporate debt for Virgin Media, which was recently acquired by Liberty Global. The debt holdings were downgraded and the price fell, although the buyout in this instance was not leveraged. The takeover of Heinz by Berkshire Hathaway and private equity firm 3G saw a considerable increase in bond spreads and therefore a reduction in value. However, the portfolio did not have any exposure to Heinz.

6. Further volatility was expected as a result of policy action by government and central banks. The future Bank of England Governor, Mark Carney, has publicly advocated a less stringent inflation target coupled with the use of other economic objectives, for example, the Federal Reserve's dual commitment to maximum employment and stable prices. Looser monetary policy is also expected in the Euro Zone with Western predicting the European Central Bank will cut rates closer to 0%.

7. The Bank of Japan (BoJ) began a huge monetary expansion on the 4 April 2013 to (officially) arrest deflationary pressure and (unofficially) to reduce the exchange value of the Yen. Over a two-year period, the BoJ will double the monetary base and double the amount of Japanese Government Bonds held. Western believes that a significant proportion of this expansion will move abroad impacting on UK, Euro and US yields.

8. Western will remain overweight in UK index-linked gilts to act as a defence against bank policy, as well as overweight in 10-year gilts. This has profited from a decision by the Office for National Statistics (ONS) not to adjust the RPI formula for index-linked measurements. Western have benefitted from an overweight position in UK asset backed securities which performed well against the benchmark. Western also remain cautiously optimistic on German government debt.

9. Given expectations of future volatility, Western will seek to diversify the portfolio to hedge against risk including increasing the overall cash holdings to allow for advantageous purchases during periods of volatility. The portfolio will remain underweight on utilities and financials.

Newton

1. Met with David Moylett, Paul Markham and Natalie Milsted

2. The portfolio returned 17.6% during Q1 2013 against the benchmark return of 14.0%.

3. Newton outlined the process they undertake when deciding on investment strategies, in which they seek to identify themes which underpin the key risks to, and growth drivers of, economies and industries over the medium to long term.

4. One such theme was that deleveraging was not occurring as estimated: policy has not encouraged reducing debts but has increased the ease to which debt interest can be managed through reductions in interest rates.

5. State intervention has reduced the cost of debt capital and supported risk assets, which has contributed to the recent strong equity returns. Given the lower bond yields, investment has flooded into higher yielding equity. Newton were concerned about the perception of some equity sectors as safe havens, leading to potential bubbles. Newton also raised an unease regarding certain companies where debt has been raised in order to pay dividends.

6. Faced with continuing volatility, Newton's strategy will be to focus upon stable, cash generative businesses with strong balance sheets and earnings growth potential.

7. Newton were overweight on healthcare and consumer staples; both sectors had strong returns over the last year. There was some optimism about the increase in pharmaceutical drug patent approvals as well as the performance of generic drug companies. Reference was made to a recent policy decision in Japan to ensure that 60% of drug prescriptions will be generic.

8. Fears over the high level of unfavourable risk involved in the financial sector led Newton to hold an underweight position against the benchmark. Financials performed strongly in the last 12 months. Where Newton held financials, US regional banks were generally considered superior to European banks.

9. The BoJ's monetary expansion combined with slowing Indian growth and a forced sale of Cypriot reserves caused a substantial collapse in the value of gold futures. Newton remain overweight in gold mining as a hedge against currency debasement, although they have reduced their exposure to only two companies following the divestment of Barrick Gold.

10. The portfolio was also overweight in Japan. The loosening of policy by the BoJ is expected to have a substantial impact upon the profitability from Yen denominated export markets. Toyota has received a significant boost in profit margins from the US sales market as the majority of the manufacturing is carried out in Japan.

11. Newton were underweight in mining which returned poorly compared with other sectors. There is no expectation that the commodity supercyle will continue. Growth in industrial demand from China is anticipated to slow further, weighed down by substantial bad loans within Chinese banking and regional government.

12. A collapse in Chinese banking is predicted to have significant negative consequences for Australia. Australian banks were trading at a substantial premium to book value on the back of high property prices which are dependent upon the mining sector.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW**

SUMMARY OF ISSUE:

The Surrey Pension Fund has a commitment to invest 5% of the fund in private equity. This is achieved by investing in funds of funds and directly managed funds, managed by a number of private equity specialists.

The Pension Fund Board reviews the private equity strategy annually. This report is the 2012/13 review.

RECOMMENDATIONS:

It is recommended that:

1 The Board note the current position on the Fund’s Private Equity investment performance.

2 The Fund continue to commit to follow-on funds of the existing private equity managers as they become available and subject to each case going to the Pension Fund Board for approval.

REASON FOR RECOMMENDATIONS:

A solid framework of review is required in order to benefit from this long term asset category.

DETAILS:

Background

1 Private Equity investment can be characterised by investment in start-ups and early stage companies in order to provide development capital, or capital for management buy-outs (MBO) and management buy-ins (MBI). Many of these small companies that are seeking private equity or venture capital investment are regarded as high risk and cannot raise capital via public listings on the stock markets or borrowing from banks.

2 In return for taking the extra risk, private equity investors look for substantial equity and significant influence in the company, possibly through a seat on the company board. Sometimes they provide management and financial administration support to their investee companies. They will look for an exit through a sell on, trade sale or a flotation of the company within two to five years. Private equity investments are a means of achieving diversification, enhancing returns, and spreading risk.

Choosing Private Equity Investments

3 There are a number of different options for investing in private equity:

- direct investments;
- direct investments via a specialist manager;
- investment in a fund or limited partnership;
- investment in a fund of funds;
- and investment in a listed trust.

4 Surrey’s current strategy is to invest via Limited Partnerships (LP) or Fund of Funds (FoF). Factors to consider when making the decision on which FoF or LP to choose include:

- performance track record;
- people;
- investment philosophy;
- and strategy.

The latter includes an assessment of business alliances, deal flow, sector knowledge, market knowledge and, in the case of FoFs, the ability to access good opportunities.

Governance Arrangements

5 Private equity managers provide formal quarterly reports. The Pension Fund and Treasury manager aims to meet with the private equity managers on at least an annual basis to discuss strategy and returns, and also aims to attend all Fund AGMs when they are held.

Performance Measurement

6 Private equity performance is measured either by the multiple of capital appreciation (ratio of final realised value to initial cost) or the Internal Rate of Return (IRR), which is more commonly used by institutional investors. IRR is a money-weighted return expressed as a percentage and uses the present sum of cash drawdowns (money invested), the present value of distributions (money returned from investments) and the current value of unrealised investments and determines the effective annualised return of the investment.

7 Whilst investing in private equity within a portfolio is a way for long-term investors to diversify their risk (although taking on illiquidity risk) and enhance returns, public and private equity markets are somewhat correlated over the long term. The correlation between public market returns and private equity is estimated to be around 0.7. Global private equity has delivered returns of 14.4%, 4.4% and 19.1% for the three, five and ten-year periods to 30 September 2012. This compares with annualised returns of 5.7%, -4.3% and 5.3% for the MSCI World Index over the same time periods (source: Prequin).

8 An estimate of the IRR of the whole of the Surrey private equity programme gives a return of 12.1% since April 2000, when the first of the current funds was set up. It is known that in the 10 years to the end of 30 September 2012, the MSCI World Index returned 5.3% p.a. The target level of return sought was the FTSE All Share plus 2% over the life of the funds, so latest estimates suggest that the target has been exceeded by a significant margin.

Surrey Pension Fund Private Equity Strategy

9 The Surrey Pension Fund first invested in Private Equity in 1986, initially investing directly in companies on the advice of a specialist manager. More recently the Fund has invested in Private Equity funds, primarily in the UK but also in Europe and globally, the latter predominantly in the US but with increasing emphasis on Europe and the Far East.

10 The previous Investment Advisory Group (IAG) considered its overall strategy on Private Equity in October 2000 in the light of an Asset Liability Modelling (ALM) study conclusion that investment be increased to between 3% and 5% of the Fund. This strategy was revisited in December 2008, when it was agreed to invest in follow-on funds offered by the Fund's stable of private equity managers.

11 The overall strategy is designed to diversify by manager, vintage year (year of investment), sector, geographically and by investment stage. Decisions on individual private equity investments are delegated to the Chief Financial Officer after approval by the Pension Fund Board. The current strategy is as follows:

- Core UK holdings via ISIS private equity partners
- Investment in UK through HG Capital funds
- Investment in Europe through Standard Life Capital Partners Fund of Funds
- Investment in Global (predominantly US but with increasing emphasis on Europe and Far East) private equity through Goldman Sachs and Blackrock (formerly Merrill Lynch) backed Fund of Funds
- Investment in Capital Dynamics US solar Fund, which was a new commitment made in 2011/2012

Current Position

12 Private Equity investment in Funds involves a commitment (a potential obligation to invest) and subsequent draw downs of cash. Typically, draw downs might average only 75% of the commitment, as Funds may raise more commitments than they invest. The fund is invested both in Fund of Funds (i.e. a selection of funds chosen by a fund manager) and individual funds. The Fund of Funds route is generally less risky for overseas investment, but also enables access to Funds that might not be available to single institutions.

13 The private equity strategy ensures compliance with best practice through diversification and the Surrey Fund meets all the CIPFA/Myners principles in this respect. The Fund has made follow on investments in new funds raised by the managers selected. In practice, managers will raise new funds every three years or so. The last follow on commitments were made in February 2013 to Hg Capital 7 and the ISIS Growth Fund.

14 The detailed position on commitments and cash invested at 31 March 2013 is shown in Annex 1 and is summarised as follows:

	Total Commitment	% of Fund
	£m	
Total Commitment	196.0	7.7
Investment (drawn)	135.2	5.3
Commitment Outstanding	60.8	2.4
Distributions Received	93.9	3.7
Fair Value of Remaining Investments	90.3	3.5
Distributions + Remaining Investments	184.2	7.2
Implied Gain	49.0	
Estimated IRR	12.1%	
Total Fund Value	2,545	

Where relevant valuations converted to £ equivalent as at 31 March 2013

15 Based on a current market value of £2.545bn as at 31 March 2013, 7.7% of the Fund is committed to private equity investments. However, the actual level of investment (based on the Fair Value of the remaining investments) is around 3.5% of the Fund. Given that the majority of the Funds are making cash distributions, any additional draw downs are being financed by income. Consequently, the valuation of the existing private equity investments will not reach the targeted 5% of the Fund.

16 Making additional commitments of 2.6% of the Fund (to take the commitment outstanding to 5% of the Fund) will mean, at current valuations, committing an additional £66.2m.

17 A schedule of the private equity investments at 31 March 2013 is shown in Annex 1.

18 A comparison of each portfolio's performance (measured using IRR) is shown below:

Name	Currency	Inception	Commitment £m	IRR Latest Available
UK Funds				
HG Capital MUST 3	£	2001	2.0	11.0%
HG Capital MUST 4	£	2002	3.0	25.0%
HG Capital 5	£	2006	10.0	14.6%
HG Capital 6	£	2009	10.0	5.5%
ISIS II	£	1999-2002	12.0	17.0%
ISIS III	£	2003	14.0	24.0%
ISIS IV	£	2007	15.0	14.1%
Euro Funds				
Standard Life ESP II	€	2004	8.8	13.5%
Standard Life ESP 2006	€	2006	13.2	1.6%
Standard Life ESP 2008	€	2008	10.6	1.3%
Standard Life ESF	€	2011	14.0	Too early
US Funds				
Blackrock Div PEP I	$	2001	3.1	13.5%
Blackrock Div PEP II	$	2003	3.1	10.7%
Blackrock Div EP III	$	2005	10.9	2.5%
GSAM PEP 2000	$	2000	5.9	14.3%
GSAM PEP 2004	$	2004	6.2	5.9%
GSAM PEP 2005	$	2006	10.6	-0.7%
GSAM PEP X	$	2008	11.2	2.4%
GSAM PEP XI	$	2011	11.2	Too early
Capital Dynamics US Solar	$	2011	15.6	Too early

$/€ commitments are converted to a £ equivalent based on the prevailing exchange rate at the date of the last valuation.
Performance of individual funds should not be compared at face value since the Funds are at different stages of maturity and have different strategies and geographic/industry focus.
Standard Life does not disclose IRR information in valuations due to the FoIA.

CONSULTATION:

19 The Chairman elect of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

20 Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

21 Financial and value for money implications are contained within the report.

CHIEF FINANCE OFFICER COMMENTARY

22 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered, and that private equity has been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

23 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

24 The review of the Fund's private equity programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

26 The following next steps are planned:

- Review of strategy by Pension Fund Board.
- Consideration of further investment opportunities by Pension Fund Board (separate report).

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Schedule of Private Equity investments

Sources/background papers:
Private equity manager reports

Annex 1

Manager	Investment	Vintage Year	Investment (drawn) as at 31 March 2013 £	Commitment Outstanding as at 31 Mar 2013 £	Total Commitment GBP £	% drawn	Distributions Received £	Fair Value of Remaining Investments £	Distributions + FV	Date of Valuation	IRR
UK Funds											
HG Capital	MUST 3	2001	1,667,613	332,387	2,000,000	83%	1,891,646	0	1,891,646		11.00%
HG Capital	MUST 4	2002	2,350,050	649,950	3,000,000	78%	1,899,185	62,775	1,961,960	31/03/2012	25.00%
HG Capital	HG 5	2006	7,768,106	1,231,894	9,000,000	86%	7,799,224	5,863,576	13,662,800	31/03/2013	14.60%
HG Capital	HG 6	2009	7,744,023	2,255,977	10,000,000	76%	1,485,509	7,188,144	8,673,653	31/03/2013	5.50%
0000ISIS	ISIS II	1999-2002	7,256,504	4,743,496	12,000,000	60%	13,371,425	147,062	13,518,487	31/03/2013	17.00%
ISIS	ISIS III	2003	12,361,837	1,638,163	14,000,000	88%	26,282,736	1,835,699	28,118,435	31/12/2012	24.00%
ISIS	ISIS IV	2007	11,829,479	3,170,521	15,000,000	79%	3,687,491	11,363,398	15,050,889	31/12/2012	14.10%
Euro Funds											
Standard Life	Standard Life ESP II	2004	7,814,930	613,870	8,428,800	93%	7,671,320	4,496,780	12,168,100	31/03/2013	n/a
Standard Life	Standard Life ESP 2006 B	2006	10,768,400	1,874,800	12,643,200	85%	1,617,060	9,758,840	11,375,900	31/03/2013	n/a
Standard Life	Standard Life ESP 2008	2008	4,658,240	7,984,960	12,643,200	37%	317,563	4,465,410	4,782,973	31/03/2013	n/a
Standard Life	Standard Life ESF	2011	774,396	13,976,004	14,750,400	5%	0	492,908	492,908	31/03/2013	n/a
Dollar Funds											
Blackrock	Vesey Street 1	2001	3,123,170	164,280	3,287,450	95%	4,761,171	731,359	5,492,530	31/12/2012	13.54%
Blackrock	Vesey Street II	2003	3,096,562	190,888	3,287,450	94%	3,104,813	2,029,639	5,134,452	31/12/2012	10.74%
Blackrock	Vesey Street III	2005	10,125,400	1,380,675	11,506,075	88%	1,968,958	9,487,133	11,456,090	31/12/2012	2.45%
Goldman Sachs	GS PEP 2000 LP	2000	6,672,370	-97,470	6,574,900	101%	9,350,109	1,483,691	10,833,800	31/12/2012	14.27%
Goldman Sachs	GS PEP 2004 LP	2004	6,761,883	-186,983	6,574,900	103%	4,158,520	4,616,923	8,775,443	31/12/2012	5.90%
Goldman Sachs	GS PEP 2005 LP	2006	10,504,900	672,430	11,177,330	94%	3,011,783	7,713,027	10,724,810	31/12/2012	-0.69%
Goldman Sachs	GS PEP X LP	2008	6,734,094	5,100,726	11,834,820	57%	1,439,025	6,287,579	7,726,604	31/12/2012	2.44%
Goldman Sachs	GS PEP XI LP	2011	734,431	11,100,389	11,834,820	6%	5,667	89,282	94,949	31/12/2012	Too early
Capital Dynamics	US Solar Fund	2011	12,410,200	4,027,050	16,437,250	76%	17,212	12,222,400	12,239,612		Too early
TOTAL			**135,156,587**	**60,824,008**	**195,980,595**		**93,840,417**	**90,335,624**	**184,176,041**		

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **REVISED STATEMENT OF INVESTMENT PRINCIPLES**

SUMMARY OF ISSUE:

With the introduction of a new Total Return investment asset class earlier in 2013, it is now necessary to approve a revised Statement of Investment Principles (SIP).

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board approve the revised Statement of Investment Principles shown in Annex 1.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must approve all working documents produced for the Pension Fund.

DETAILS:

Background

1 In accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as an administering authority, the Council must prepare and maintain a written statement of the principles governing its decisions about the investment of fund money. It also has to review the policy from time to time and revise it if it considers necessary following such a review, as is recommended here in the light of changed circumstances.

2 Members will recall the introduction of Total Return to the Pension Fund Investment portfolio earlier in 2013 in exchange for 50% of the UK Gilt portfolio, necessitating a revision to the statement.

Revised Statement

3 The revised Statement of Investment Principles (SIP) is shown as Annex 1.

Ethical Considerations

4 Members are invited to scrutinise Paragraph 10 of the statement which deals with the Fund's refined approach to stewardship and responsible investment. The statement requires fund managers to take into account environmental, social and governance (ESG) and other reputational issues that could bring investment decisions into the public arena.

5 The revised statement makes clear that whilst the Fund has no specific policy on ESG issues, external fund managers can bring in ESG considerations into play in their selection process where comparisons of the differences of predicted returns of potential investment decisions are deemed immaterial.

Monitoring and Review

6 Members are invited to discuss the redraft and put forward any suggestions for additions or amendments.

7 The SIP is kept under constant review and will be brought for approval to future Board meetings when any revision is required.

CONSULTATION:

8 The Chairman elect of the Pension Fund has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

9 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

10 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

11 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed SIP offers a clear structure, reflecting the current investment strategies approved by the Pension Fund Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

12 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

13 The approval of the SIP will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

15 The following next steps are planned:

- Adoption of the revised SIP
- SIP is kept under review

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Revised Statement of Investment Principles

Sources/background papers:
None

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Statement of Investment Principles 2013/14

Statement of Investment Principles

1. Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension 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 and carrying out regular reviews and monitoring of investments. The content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which can be found at Annex 2.

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement.

A copy of the Surrey Pension Fund's current governance policy statement can be found on the County Council's website. **www.surreypensionfund.org**

Investment policy and associated monitoring and review are delegated to the Surrey Pension Fund Board, which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Local Government Association;
- one representative from the external employers;
- one representative of the members of the Fund.

The Pension Fund Board is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Chief Finance Officer and the Strategic Finance Manager (Pension Fund and Treasury).

The Pension Fund Board meets on a quarterly basis.

2. Investment Objectives

The Pension Fund Board seeks to ensure that the Pension Fund has sufficient assets to be able to meets 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 Board recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a steady 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 Fund's liabilities.

iii) To appoint managers that the Board believes can consistently achieve the performance objectives set 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 Board will have regard to best practice in managing risk.

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

vi) To achieve an overall Fund return 1% per annum in excess of the overall benchmark over rolling three-year periods.

3. Investment Style and Management

The Board has delegated day-to-day management of various parts of the Fund to external fund managers each of which has been given an explicit benchmark and performance objective. The Board retains responsibility for ensuring the mix of managers and by implication the overall asset allocation is suitable for the long-term objectives defined above.

The Board has appointed two different types of manager: 'Index Relative' who seek to achieve a return relative to a market index within a specified asset type and 'Absolute Return' who seek to achieve a desired return outcome by moving between different asset types.

Index Relative managers

The managers in this category have been set differing performance targets and will take accordingly differing levels of risk relative to the benchmark index they are given.

Passive mandates seek to replicate the market index as closely as possible and are expected to take very little relative risk. Typically, such portfolios will have the largest number of individual holdings each of which will be close to the index weighting. The expected performance should be within 0.5% of the index return in any year.

Core active mandates seek to achieve a performance between 0.75% per annum and 2% per annum ahead of the relevant market index. Typically, core active mandates have diversified portfolios and take medium levels of relative risk. Most managers will only be appointed to manage a single asset class (for example, global equities, bonds or property).

Concentrated active mandates seek to outperform their relevant index by 3% per annum or more and take larger relative risks by owning a smaller number of individual holdings. The Pension Fund Board usually confines such mandates to specialist managers in regional equities.

Absolute Return managers

The managers in this category are all expected to achieve returns well ahead of cash or inflation in the long-term.

Diversified Growth managers use a very broad range of asset classes and actively vary allocations between asset types depending on investment market conditions. They will also use derivatives from time to time to limit the scope for large falls in value. The expected returns from such mandates will be close to the long term return from equity markets but with much less volatility.

Absolute return managers also seek to achieve good long term returns with dampened down volatility, but typically they are focused on a particular investment area. The desired outcome is similar to Diversified Growth mandates but with possibly greater variability across mandate types and usually with a much smaller amount invested in each capability.

Fees

The level of fees paid to managers varies greatly according to the complexity of the mandate and the geographic area involved. Fees are usually expressed as a proportion of assets under management. There may also be additional performance related fee charges.

Fees for passive mandates tend to be very low, particularly in developed markets where information is readily available. Fees are higher for mandates that require greater manager skill. Typically a concentrated active mandate will have a higher fee rate than a core active manager and a small absolute return mandate will have a higher fee rate than a larger diversified growth mandate.

Current Manager Structure

The table below shows the current asset allocation and manager structure of the Fund.

	Category	Allocation Policy %	Fund %	Control Range% +/-
Equities			**63.0**	
UK			29.0	
Legal and General	*Passive*	*10.0*		
Majedie	*Concentrated Active*	*7.0*		
Mirabaud	*Concentrated Active*	*4.0*		
UBS	*Core Active*	*8.0*		
Overseas			34.0	
Legal and General	*Passive*	*14.0*		
Marathon	*Concentrated Active*	*12.0*		
Newton	*Core Active*	*8.0*		
Property			**7.0**	
CBRE	*Core Active*	7.0		
Alternatives			***10.0***	
Standard Life	*Diversified growth*	*6.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**20.0**	
Fixed interest gilts			5.25	
Legal and General	*Passive*	*2.5*		
Western	*Core Active*	*2.75*		
Index linked gilts			4.0	
Legal and General	*Passive*	*4.0*		
Corporate bonds			8.0	
Legal and General	*Passive*	*2.5*		
Western	*Core Active*	*5.5*		
Total Return			*2.75*	
Franklin Templeton	*Unconstrained*	*2.75*		
Total			**100.0**	

The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Pension Fund Board reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund.

Fees paid to managers vary due to the levels of risk taken and the geographic areas in which the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers.

The following table shows the Fund's private equity investments as at 31 March 2013.

Name	Currency	Inception	Commitment
UK Funds			**£/€/$**
HG Capital MUST 3	£	2001	2.0
HG Capital MUST 4	£	2002	3.0
HG Capital 5	£	2006	10.0
HG Capital 6	£	2009	10.0
HG Capital 7	£	2013	15.0
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
ISIS Growth Fund	£	2013	10.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
US Fund of Funds			
Blackrock Div PEP I	$	2001	5.0
Blackrock Div PEP II	$	2003	5.0
Blackrock Div EP III	$	2005	17.5
GSAM PEP 2000	$	2000	10.0
GSAM PEP 2004	$	2004	10.0
GSAM PEP 2005	$	2006	17.0
GSAM PEP X	$	2008	18.0
GSAM PEP XI	$	2011	18.0
US Funds			
Capital Dynamics US Solar Fund	$	2011	25.0

4. Policy on Kinds of Investment

The Pension Fund Board, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The following table shows the strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund:

	Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds	%	
Gilts	5.25	5.0
Corporate Bonds	8.0	7.6
Index-Linked gilts	4.0	3.8
Unconstrained	2.75	2.6
Property	7.0	6.7
Total Bonds/Property	27.0	25.7
UK Equity	29.0	27.5
Overseas Equity	34.0	32.3
Global	30.0	28.5
Emerging markets	4.0	3.8
Total Equity	63.0	59.8
Diversified Growth	10.0	9.5
Private Equity	n/a	5.0
TOTAL	100.0	100.0

Acceptable asset classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- UK Property through pooled funds
- Overseas Equities, major classes being:
  - North America
  - Europe
  - Pacific Rim including Japan
  - Emerging Markets
- Global Bonds
- Overseas Index Linked Stocks
- Unquoted Equities via Pooled Funds
- Emerging Market Equities via Pooled Funds, unless specifically authorised
- Direct investment in private equity funds or fund of funds

The use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging. Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria. Stock lending is only permitted subject to specific approval.

There are statutory limits on the proportion of the Fund that can be invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013.

5. Investment Performance Targets and Benchmarks

Manager	Portfolio	Benchmark Index	Benchmark Index
UBS	UK Equities	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Mirabaud	UK Equities	FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods
Marathon	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Newton	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Western	Fixed Income	70.0%: Markit i Boxx £ Non-Gilts ex-BBB All Stocks 30.0%: FTSE A UK Gilts – All Stocks	+0.75% p.a. (gross of fees) over rolling 3-year periods
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds	Combination of indices as per agreed mandate	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods
CBRE	Property	IPD UK All Balanced Funds	+1.0% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5% p.a. (net of fees) over rolling 5-year periods
Standard Life	Diversified Growth	6 month LIBOR	+5.0% p.a. (gross of fees) over rolling 5-year periods
	Cash	LIBID 7-day rate	LIBID 7 day rate

The over-riding aim is to run the Pension Fund in accordance within the relevant legislation and subject to the following performance target: “to outperform the Surrey benchmark by 1% per annum over rolling 3-year periods, with a maximum underperformance of -2% in any one year.”

The overall Surrey benchmark is shown below in detail.

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Core Active	Medium	0.75% - 2.0%
Concentrated Active	High	2.0 - 2.5%
Diversified growth	Medium	3.5% - 5%
Unconstrained	Medium	4% - 7%
Total	Medium	1%

The performance target for the private equity Funds is to outperform returns on quoted UK Equities (FTSE All Share Index) by 2% per annum.

6 Risk Measurement and Management

There are a number of risks to which any investment is exposed. The Pension Fund Board 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 appropriate overall level of investment risk, the Pension Fund Board seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Board aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The following risks are recognised and considered by the Pension Fund Board:

Mismatch risk: the primary risk upon which the Pension Fund Board focuses is the arising of a mismatch between the Fund's assets and its liabilities.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Pension Fund Board and is reviewed on a regular basis.

Diversification risk: the Pension Fund Board 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 Pension Fund Board aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Pension Fund Board is also aware of 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 Pension Fund Board recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Pension Fund Board 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 Pension Fund Board 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 hedging policy in place: 50% of its exposure to the US dollar, Euro and Yen.

The documents governing the appointment of each investment manager include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Managers are prevented from investing in asset classes outside their mandate without the Pension Fund Board's prior consent.

Arrangements are in place to monitor the Fund's investments to help the Pension Fund Board check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Pension Fund Board meets with the Investment Managers from time to time, and receives regular reviews from the Investment Managers and its investment advisors.

The safe custody of the Fund's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Fund's circumstances, the Pension Fund Board will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk exposure remains appropriate.

7 Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund Managers are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant, against their strategy, and to seek approval for variations to their strategies.

8 Policy on Realisation of Investments

Fund Managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

9 Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the Fund Actuary as the average expected future working lifetime of the scheme membership (20 years).

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The SIP will also be reviewed annually.

A review of investment management arrangements is carried out at least every three years. Investment management performance is reviewed annually upon receipt of the third party performance information.

The individual manager's current activity and transactions are presented quarterly in discussion with the Pension Fund Board.

An Annual Meeting is held in November each year and is open to all Fund employers.

10 Stewardship and Responsible Investment

The Council wishes to have an active influence on issues of environmental, social or governance (ESG) 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., ESG or reputational issues that could bring a particular investment decision into the public arena.

Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection.
The Pension Fund also holds expectations of its fund managers to hold companies to

account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Whilst work is being undertaken to bring the share voting process in-house, managers are delegated authority to exercise the Fund's voting rights, subject to seeking the Council's specific approval in respect of potentially contentious issues and report quarterly on action taken.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

11 Custody

Managers are required to hold cash and stocks in an account managed by Northern Trust, the Fund's independent global custodian, or by agreement otherwise as appropriate. The Pension Fund aims to hold only a minimum working cash balance. A separate bank account is in place to hold any excess funds held by the administering authority for the purpose of day-to-day cash management of the pension fund.

12 Administration

Funds officers prepare a quarterly report to the Pension Fund Board, preparing the audited annual report and financial statements in line with statutory deadlines, and maintain an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly and resources are available to meet the benefit outflow as it arises.

Annex 1

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 Pension Fund Board is supported in its decision making role by the Chief Finance Officer and the Pension Fund and Treasury Manager.

Members of the Pension Fund 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 Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme 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 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 following 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 regularly against 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 target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to Pension Fund Board on a quarterly basis. Fund managers present to the Pension Fund Board on at least an annual basis and officers have at least one additional meeting per annum to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Pension Fund Board although options other than measuring meeting attendance 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 statement of investment principles.
- 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.

Many of the Fund's managers are signed up to the Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

On an annual basis, those managers that are not signed up to the Stewardship Code and PRI are required to provide a statement on how far they do comply with the requirements and their reasons for not becoming a signatory.

Principle 6: Transparency and reporting

Administering authorities should:

- 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
- 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, Funding Strategy Statement and Statement of Investment Principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

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

Pensions newsletters are sent to Fund members.

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **31 MAY 2013**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **FUNDING STRATEGY STATEMENT**

SUMMARY OF ISSUE:

With the formation of a new Surrey Pension Fund Board, it is proper that the Board should approve the existing Fund Strategy Statement for the Pension Fund.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board approve the current Funding Strategy Statement shown in Annex 1.

REASON FOR RECOMMENDATIONS:

The Funding Strategy Statement is vital as a working plan for the future funding of the Scheme's pensions liability.

DETAILS:

Background

1 The Pensions Fund's future liability funding plan is set out in the Funding Strategy Statement (FSS). Individual employer funding plans and each employer's contribution rates have been determined in accordance with the FSS.

2 The FSS was originally prepared by the Council in accordance with section 76A of the Local Government Pension Scheme Regulations 1997. Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 requires an administering authority to keep this statement under review and make any revisions as appropriate.

Current Statement

3 The current FSS (drafted and approved after the 2010 actuarial valuation) is shown in Annex 1. Funding plans are usually compiled every three years at the time that the actuarial valuation result becomes known.

4 It should be noted that work is currently underway with regard to the 2013 actuarial valuation and the funding strategy and statement supporting the outcome will be rewritten and presented to the Board as soon as practicable.

CONSULTATION:

5 The Chairman elect of the Pension Fund has been consulted on the statement and has confirmed support for the current funding strategy.

RISK MANAGEMENT AND IMPLICATIONS:

6 Risk related issues are contained within the FSS document.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

7 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

8 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed, and that the current FSS provides a sound funding strategy for the Pension Fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

9 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

10 The approval of the current strategy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

12 The following next steps are planned:

- Completion of the current actuarial valuation.
- Work to commence on the future funding strategy.
- Board to approve next statement when practicable.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Funding Strategy Statement (2010 version)

Sources/background papers:
None

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Funding Strategy Statement

Introduction:

1. This is the Funding Strategy Statement (FSS) of the Surrey Pension Fund, which is administered by Surrey County Council. This statement updates the FSS that was published in March 2008 following receipt of the 2007 actuarial valuation results and consultation with scheme employers and the Fund Actuary (Hymans Robertson LLP).
2. This statement reflects the discussions between the Administering Authority, scheme employers and Hymans Robertson LLP during the 2010 actuarial valuation process, and is effective from 31 March 2011.
3. The FSS is reviewed in detail at least every three years in line with triennial actuarial valuations being carried out. The next full review is due to be completed by 31 March 2014.
4. The FSS forms part of a framework which includes:

a) the LGPS Regulations (Regulation 76A and 77 of the 1997 Regulations and Regulations 35-37 of the LGPS (Administration) Regulations 2008 are particularly relevant);
b) the Rates and Adjustments Certificate, which can be found appended to the Fund Actuary's latest triennial actuarial valuation report;
c) the Statement of Investment Principles (SIP)
d) the Fund's governance statement and governance compliance statement

5. All of the above mentioned documents are publicly available with the latter three documents published on the Surrey County Council website at www.surreycc.gov.uk.
6. This is the framework within which the Fund's actuary carries out triennial valuations to set contribution rates for individual scheme employers and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

Purpose of the Funding Strategy Statement:

7. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect on 1 April 2004. The Regulations provided the statutory framework within which LGPS administering authorities were required to prepare a first Funding Strategy Statement (FSS) by 31 March 2005.

   The Department for Communities and Local Government (CLG) has stated that the purpose of the funding strategy is:
   - to establish a clear and transparent fund-specific strategy, which will identify how employers' pension liabilities are best met going forward;
   - to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
   - to take a prudent longer-term view of funding those liabilities.

8. The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that these will be individually desirable but conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the FSS, it must remain

a single strategy for the Administering Authority to implement and maintain.

This statement aims therefore to set out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employer contributions and prudence in the funding basis.

Background to the Surrey Pension Fund:

9. As at 31 March 2010 the total value of the Pension Fund was £1.94bn and in 2009/2010 employer contributions into the pension fund amounted to £106.6m. Employee contributions amounted to £32.3m.

10. There are over 70 employers involved in the Surrey Pension Fund. The largest employers, in terms of the number of active members and monetary contributions to the Pension Fund, are Surrey County Council, the Borough and District Councils, Surrey Police Authority and the University of Surrey.

11. The level of contributions into the fund to be paid by each employer is determined by the triennial actuarial valuation. The 2010 actuarial valuation has determined the level of contributions to be paid by employers during the period 1 April 2011 to 31 March 2014.

12. Officers of Surrey CC received the preliminary results of the valuation in October 2010. Results were circulated to all employers by early January 2011. This allowed employers to comment on, or query, assumptions or individual results and to ensure that any changes in contribution rates could be incorporated into the budget setting process for 2011/2012.

13. This activity was key to ensuring that the requirement of consulting with relevant interested parties on the Funding Strategy and actuarial valuation process could take place.

The aims and purpose of the Pension Fund:

14. The **aims** of the Fund are to:

    - enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
    - manage employers' liabilities effectively
    - ensure that sufficient resources are available to meet all liabilities as they fall due
    - maximise the returns from investments within reasonable risk parameters.

15. The **purpose** of the Fund is to:

    - receive monies in respect of contributions, transfer values and investment income, and
    - pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

Responsibilities of key parties:

16. Surrey County Council, as Administering Authority, will:

    - collect employee and employer contributions
    - invest surplus monies in accordance with the relevant regulations
    - ensure that cash is available to meet liabilities as and when they fall due
    - manage the actuarial valuation process in consultation with Hymans Robertson LLP, the Fund Actuary
    - prepare and maintain a Funding Strategy Statement (FSS) and a Statement of Investment Principles (SIP), both after proper consultation with interested parties, and
    - monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as appropriate.

17. Individual employers in the Fund will:

    - deduct contributions from employees' pay correctly
    - pay all contributions, including their own as determined by Hymans Robertson LLP, promptly by the due date
    - exercise discretions within the regulatory framework
    - make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain, and
    - notify Surrey County Council promptly of all changes to membership, or as may be proposed, which affect future funding.

18. Hymans Robertson LLP, the Fund Actuary, will:

    - prepare actuarial valuations, including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS, and
    - prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Solvency issues and target funding levels:

19. Surrey County Council, as Administering Authority, prudentially seeks to achieve full funding.

20. The Fund actuary is required to report on the "solvency" of the whole fund at least every three years. 'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund Actuary's *ongoing funding basis*. This quantity is known as a funding level.

21. The Fund Actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority. The fund operates the same target funding level for all other employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see below).

22. The overall solvency of the Fund at the 2010 valuation was 72%, which compares with 79% at the 2007 valuation.

23. The ongoing funding basis has traditionally been used for each

triennial valuation for all employers in the fund. This approach assumes a long-term participation in the Fund, and is described in the following sections.

24. In the circumstances where:

 - the employer is an Admission Body but not a Transferee Admission Body, and
 - the employer has no guarantor, and
 - the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe:

 the Administering Authority may vary the discount rate used to set the employer contribution rate. In particular, contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

25. The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Contribution rates:

26. The employer's contribution rate consists of two elements:

 i. The ongoing rate, which provides for the year-by-year accrual of benefits for current employees

 ii. A lump sum in respect of past service liabilities, which is determined by an employer's share of the Fund deficit, liquidated over a specified number of years

Background and historical funding levels:

27. For many years up to 1989, legislation required that the Fund was adequate to meet all liabilities, i.e. was 100% solvent. In 1989 the regulations in force specified that the target level of funding need only be 75% of future liabilities, thereby leading to a reduction in costs that was intended to offset the impact of the new community charge system.

28. A further complexity arose in 1990 following the 1989 review. Prior to that year the employers' contribution had been set in two parts.

 i. A rate was set to provide for the basic benefits of the Scheme through the Fund

 ii. A further rate was set to meet the cost of pension increases and other non-statutory benefits on a "pay as you go" basis. Pension increases are the annual uprating of pensions in payment for cost of living.

29. Following the implementation of new regulations from 1 April 1990, the cost of inflation proofing both pension payments and deferred benefits was incorporated within the overall fund

and met through a single employers' contribution rate. This change resulted in a reduction in the solvency level and also to an overall reduction in employers' contributions.

30. Regulations issued by the Department of the Environment in 1992 specified a return to the former target funding level of 100%. Consequently, since April 1993, those employers with an excess of liabilities over assets ("past service deficiency") have been paying additional contributions into the Fund in order to return to 100% solvency over the remaining working lifetime of the members of the Fund.

31. The actuarial valuation as at 31 March 1998 determined that the fund was 75% funded, i.e. that the assets of the fund were sufficient to cover 75% of its liabilities. The reasons behind the funding level include those issues mentioned above, together with a change in the tax treatment of pension funds in 1997, which removed the ability for funds to claim credits on tax paid on dividends. This government policy change reduced the funding level of the Surrey Pension Fund by around 8%.

32. The overall funding level at 31 March 2001 remained broadly unchanged over the three year inter-valuation period (1998-2001), mainly because poor investment performance relative to the 1998 valuation assumptions offset the contributions being made toward liquidating the deficiency.

33. The funding level as at 31 March 2004 reduced to 68%. This was again because poor investment performance relative to the 2004 valuation assumptions offset the contributions being made toward the deficiency.

34. At the time of the 2004 valuation a number of ways of mitigating the impact of the increase in contribution rates resulting from the reduction in funding level were identified. Following consultation with fund employers and the Fund Actuary it was agreed to allow for the proposed abolition of the 'rule of 85' and to take credit for the additional return that the Fund was expected to generate as a result of being more heavily invested in equities after a change in investment strategy. In addition, the deficit recovery period was increased from 13 years to 20 years to reflect the increase in the remaining working life-time of active members.

35. The previous actuarial valuation, carried out as at 31 March 2007, saw the funding level increase to 79.3%. However, ongoing contribution rates increased as a result of the changes in the regulations governing the application of the LGPS, effective from 1 April 2008, the allowance for improvements in longevity and an increase in expected future salary and price inflation.

Ongoing funding basis:
Life expectancy

36. The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds that participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

37. The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis,

which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

38. It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1% p.a. minimum underpin to future reductions in mortality rates. The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security that underpins members’ benefits.

Financial assumptions:

38. Having analysed historic results and future projections of equity returns the Fund Actuary and the Administering Authority agreed that credit should be taken for the additional return that the Fund should generate due to being more heavily invested in equities. To ensure prudence it was assumed that this return would again be 1.6% p.a. more than that which may be achieved if the Fund was invested solely in government bonds. Applying a higher equity premium than 1.6% would result in a higher funding level and lower contribution rates but it is felt that it would be imprudent to do so. Similarly, applying a lower equity risk premium (say 1.25%) would result in a lower funding level and higher contribution rates but it is the intention of the Funding Strategy Statement to ensure that employer contribution rates should be kept as nearly constant as possible and at reasonable cost to the taxpayers and employing bodies.

39. The other financial assumptions used during the 2010 valuation are as follows:

	2007 % p.a.		2010 % p.a.	
	Nominal	Real	Nominal	Real
Gilt yield (base discount rate)	4.5%	1.3%	4.5%	1.2%
Asset Outperformance Assumption	1.6%		1.6%	
Discount Rate	6.1%		6.1%	
Pay increases[1]	4.7%	1.5%	5.3 %	2.0%
Pension Increases[2]	3.2%	-	3.3 %	-
Price inflation	3.2%	-	3.8%	-

[1]Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next two years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11 and 2011/12. After this point, the assumption will revert back to RPI plus 1.5% pa, as adopted for the previous valuation.

[2]The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010. At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

Future service contribution rates:

40. The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service.

41. The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so, the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a lower discount rate (most usually for Admission Bodies in the circumstances outlined in paragraph 24).

42. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts:

    i. Employers that admit new entrants
    The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one-year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership profile of employees matures (e.g. because of lower recruitment) the rate would rise.

ii. Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long-term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

Adjustments for individual employers:

43. Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

    The combined effect of these adjustments for individual employers applied by the Fund Actuary relate to:

    - past contributions relative to the cost of accruals of benefits;
    - different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
    - the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
    - any different deficit/surplus spreading periods or phasing of contribution changes;
    - the difference between actual and assumed rises in pensionable pay;
    - the difference between actual and assumed increases to pensions in payment and deferred pensions;
    - the difference between actual and assumed retirements on grounds of ill-health from active status;
    - the difference between actual and assumed amounts of pension ceasing on death;
    - the additional costs of any non ill-health retirements relative to any extra payments made;

    over the period between each triennial valuation.

44. Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

45. The Fund Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation when calculating the share of the Fund assets attributable to

each employer (see paragraph 48), including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

Asset share calculations for individual employers:

46. The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

47. The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Stability of employer contributions:

48. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include, where circumstances permit:-

    a. capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")
    b. the use of extended deficit recovery periods
    c. the phasing in of contribution increases / decreases
    d. the pooling of contributions amongst employers with similar characteristics

Stabilisation:

49. There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

50. In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes to +1% / -1% of employers' contributions per annum from 1 April 2014, with fixed contributions until then, subject to the following conditions being met:
    - The Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
    - there are no material events between now and 1 April 2011 which render the stabilisation unjustifiable.

51. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

52. The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

53. The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation, and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

Deficit recovery periods:

54. The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table overleaf:

	Maximum Length of Recovery Period
Statutory bodies with tax raising powers	20 years
Academies	20 years
Admission bodies with funding guarantees	20 years
Private contractors admitted under Best Value Regulations	The remaining contract period
All other types of employer	A period equivalent to the remaining working lifetime of active members

55. This *maximum* period is used in calculating each employer's *minimum* contributions. And employers may opt to pay higher regular contributions than these minimum rates. The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

56. Following the completion of the 2010 valuation, some employers may have a funding level greater than 100%. These employers will have a choice not afforded to many other employers in the fund. Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contribution. However if they take the full benefit of their surplus re-payments then their ability to withstand future adverse shocks in the 2013 valuation will be diminished. Employers should consider carefully whether or not to take the full benefit of their current surplus. It is recommended that employers in surplus do not reduce their contribution rate from the rate certified at the 2007 valuation.

Phasing of contribution rates:

57. Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

58. Any contribution reductions will be subject to the 'stabilisation mechanism' set out in paragraph 49 for public sector bodies. Other bodies (including Transferee Admission Bodies) can take the reduction with immediate effect.

59. Employers that are permitted, and elect to use, a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a

greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

60. However any adjustment is expressed for different employers, the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

Pooled contributions:

61. With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

62. Employers who are permitted to enter (or remain in) a pool at the 2010 valuation will be advised of their contribution rate and that it is subject to a pooling arrangement unless they seek in writing to be excluded from the pool.

63. Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools such as Academies.

64. From time to time the Administering Authority may set up pools for employers with similar characteristics

Additional flexibility in return for added security:

65. Where the above methods for improving stability of employer contributions do not automatically apply, the Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority. Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority). Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

66. The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

Regular reviews:

67. The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admitted Bodies and/or in the last few years of the employer's contract.

68. Such reviews may be triggered by significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

69. The result of a review may be to require increased contributions payable (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), an increased level of security or guarantee, or some combination of these.

Admitted bodies ceasing:

70. Admission Agreements for Transferee Admitted Bodies are assumed to expire at the end of the contract. Admission Agreements for other employers are generally assumed to be open-ended but can be terminated at any point subject to the terms of the agreement.

71. Notwithstanding the provisions of the Admission Agreement, the Administering Authority considers any of the following as triggers for the termination of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admitted Body;
- Any breach by the Admitted Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admitted Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admitted Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

72. If an Admitted Body's admission agreement is terminated, the Administering Authority will instruct the Fund Actuary to carry out a termination valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admitted Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admitted Body.

73. The approach adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admitted Bodies, the assumptions applying at the contract end would normally be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For non Transferee Admitted Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in paragraph 40. Where such a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis” with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This could give rise to significant payments being required.

c) For Admitted Bodies with guarantors, it may be possible to simply transfer the former Admitted Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

74. Under 72(a) and 72(b), any shortfall would usually be levied on the departing Admitted Body as a lump sum payment unless there are alternative sources of funds such as guarantees or bonds in place.

75. In the event that the Fund is not able to recover the required payment in full directly from the Admitted Body or from any bond, indemnity or guarantor, then:

i) in the case of Transferee Admitted Bodies the Awarding Authority will be liable for future deficits and contributions arising. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the Awarding Authority’s contribution rate over an agreed period, outside any stabilisation mechanism in place.

ii) in the case of other Admitted Bodies where there is no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

76. As an alternative to 74(ii) above, where the ceasing Admitted Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admitted Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing valuation basis: deficit recovery payments would be derived from this cessation amount. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering

Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

Early retirement costs:
Non ill health retirements

77. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. With the agreement of the Administering Authority the payment can be spread as follows:
    - Major Employing bodies - up to 5 years
    - Community Admitted Bodies - up to 3 years
    - Transferee Admitted Bodies - payable immediately.

78. However, due to the current difficult economic conditions and cuts in budgets, the Administering Authority may permit alternative repayment terms for a temporary period: for the most secure employers only (i.e. those who are precepting and eligible for the stabilisation mechanism), the Fund will allow the option of repayment of early retirement strain costs over a longer period. In practice this will be effected by:
    - assessing at the end of each financial year the additional liabilities arising from early retirements in that year,
    - converting these into an additional contribution rate expressed as a percentage of payroll (based on a 20 year deficit recovery period). This is paid in addition to the stabilised contribution rate.

79. It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to any of their benefit and without requiring their employer's consent to retire. The additional costs of premature retirement are calculated by reference to these ages (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008).

Ill health monitoring:

80. Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. Under these circumstances, the Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

Ill health insurance:

81. If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:
    - the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;
    - there is no need for monitoring of allowances.

82. The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

The 2010 valuation results:

83. The following table summarises the main results of the 2010 valuation together with comparative figures for the previous valuation:

	2007 Valuation	2010 Valuation
Active Members		
Number of active members	25,358	28,651
Total Annual Pensionable Pay	£540.2m	£665.4m
Average Pensionable Pay	£21,307	£23,226
Deferred Pensions		
Number of Deferred Pensioners	20,737	25,659
Total annual value of deferred pensions payable in future	£25.2m	£30.4m
Pensioners and Widow(er)s		
Number of pensioners	15,896	17,999
Total annual pensions payable	£62.6m	£78.2m
Average pension in payment	£3,937	£4,347
Value of Liabilities	£2,218.8m	£2,698.9m
Market Value of the Fund	£1,759.3m	£1,944.4m
Deficit	£459.6m	£754.5m
Solvency Level of the Fund	79%	72%
Employer Average Contribution Rate		
Future Service	14.70%	16.30%
Past Service Deficit	6.20%	8.90%
Total Employer Rate	20.90%	25.20%

84. The resultant employer contribution rates applicable from 1 April 2011 are shown in Annexe A, together with deficit recovery periods agreed for all employers in the Fund. This is a statement of the minimum contributions to be paid by each employer and employers can pay additional amounts toward the deficit.

85. Historically, tax raising bodies have preferred to express the deficit recovery contributions as a monetary amount rather than as a percentage of payroll. This is to ensure that any large

reductions in payroll do not result in lower than expected contributions to the fund deficit. For the 2010 valuation, deficit recovery contributions for the majority of employing bodies are being expressed as a monetary amount (rather than a percentage of payroll). Academy schools that have been admitted to the Fund subsequent to the valuation are the only exception and will pay deficit contributions expressed as a percentage of payroll until the 2013 valuation results are implemented.

Links to the Fund's investment policy set out in the Statement of Investment Principles:

86. The county council is the designated statutory body responsible for administering the Surrey Pension 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 and carrying out regular reviews and monitoring of investments.

87. The Fund's Statement of Investment Principles is a formal statement of how the county council carries out these responsibilities. The latest effective SIP is published on Surrey County Council's website.

88. The Pension Fund Board, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The Fund has had a customised benchmark in place since the 2000 asset-liability modelling (ALM) study.

The identification of risks and counter-measures:

89. The County Council recognises that there are certain risks that may impact on this FSS. The risks and measures to be taken to counter these risks include:

Financial Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward to liabilities between formal valuations subject to market experience.
Inappropriate long-term investment strategy.	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance relative to bond-based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	The Investment Management Agreement (between SCC and the fund manager) clearly states the Customer's expectations in terms of performance targets. Investment manager performance is reviewed on a quarterly basis. The Pension Fund Board is positioned to move quickly if it is felt that targets will not be met.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission scheduled bodies.	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

Demographic Risks	Summary of Control Mechanisms
Pensioners living longer.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. The council encourages any employers concerned at costs to promote later retirement culture. Each one-year rise in the average age at retirement would save roughly 5% of pension costs.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health requirements following each individual decision. Employer ill health requirement experience is monitored.
A company admitted to the Fund as an admission body may become financially unviable.	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provided adequate cover for the financial risks involved.
Ill-health retirements significantly more than anticipated.	Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.
Reductions in payroll causing insufficient deficit recovery payments.	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

<table>
<tr><th>Regulatory Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.</td><td rowspan="2">Surrey CC considers all consultation papers issued by the Government and comments where appropriate.
The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</td></tr>
<tr><td>Changes to national pension requirements and/or HMRC rules e.g. changes arising from the Hutton Review of public sector pensions.</td></tr>
</table>

Governance Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. Large fall in employee members, large number of retirements).	Employers are required to inform Surrey CC of any significant changes in membership numbers on a timely basis. Surrey CC monitors employer contributions on a monthly basis and queries any obvious variations. Employers are required to produce a year-end report on membership numbers. The council carries out in depth movement analysis on an annual basis. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions are expressed as monetary amounts (see Annexe A).
Administering Authority not advised of an employer closing to new entrants.	This is only relevant to employers with an admission agreement (scheduled and resolution bodies cannot close the scheme to new entrants). It is a requirement of the admission agreement that Surrey CC is informed if the employer closes to new members.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to Surrey CC monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	Surrey CC believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: 1. Seeking a funding guarantee from another scheme employer, or external body, where possible. 2. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. 3. Vetting prospective employers before admission. 4. Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed. 5. Reviewing bond or guarantor arrangements at regular intervals. 6. Reviewing contributions if thought appropriate.

Consultation and publication:

90. This is the third Funding Strategy Statement for the Surrey Pension Fund. This updates the Funding Strategy Statement that was published following the 2007 actuarial valuation and reflects discussions between the Administering Authority, Hymans Robertson LLP and scheme employers during the 2010 actuarial valuation process.

91. The Administering Authority consulted the employers in the Fund on the funding strategy in the run up to the publication of the first strategy in 2005, the second strategy in 2008 and once again throughout the 2010 actuarial valuation process.

92. Draft valuation results were circulated to all employers by early January 2011. This allowed employers to comment on, or query, assumptions or individual results and to ensure that any changes in contribution rates could be incorporated into the budget setting process for 2011/2012.

93. The funding strategy is posted on Surrey CC’s website, together with a copy of the Fund Actuary’s report on the actuarial valuation. All employers will be sent a link to the website so that they can access the reports.

Annexe A

Statement of MINIMUM contributions to be paid by participating employers

	Deficit Recovery Period	Percentage of payroll due	Additional Monetary Amount		
		1 April 2011 to 31 March 2014	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Large Scheduled bodies					
Surrey County Council	20	14.8%	16,797,000	16,797,000	16,797,000
Surrey Police Authority	20	12.0%	1,026,000	1,026,000	1,026,000
Elmbridge Borough Council	17	14.5%	756,000	756,000	756,000
Epsom & Ewell Borough Council	20	15.5%	418,000	418,000	418,000
Guildford Borough Council	20	14.6%	1,483,000	1,483,000	1,483,000
Mole Valley District Council	20	15.5%	578,000	578,000	578,000
Reigate & Banstead Borough Council	20	15.2%	1,167,000	1,167,000	1,167,000
Runnymede Borough Council[2]	20	16.3%	362,000	362,000	362,000
Spelthorne Borough Council	20	15.8%	478,000	478,000	478,000
Surrey Heath Borough Council	20	15.7%	381,000	381,000	381,000
Tandridge District Council	20	16.5%	931,000	931,000	931,000
Waverley Borough Council	17	16.5%	1,009,000	1,009,000	1,009,000
Woking Borough Council	20	15.0%	1,360,000	1,360,000	1,360,000

Notes to Large Scheduled Bodies schedule:

1. All employers accepted the proposal to stabilise contributions at the rate in payment in 2010/2011.
2. Deficit recovery period increased from 17 to 20 years.

Small Scheduled bodies	Deficit Recovery Period	Percentage of payroll due 1 April 2011 to 31 March 2014	Additional Monetary Amount 1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Ash Parish Council	20	19.2%	5,202	6,819	8,437
Bisley Parish Council	20	18.6%	0	0	0
Bramley Parish Council	20	19.2%	147	328	510
Claygate Parish Council	20	18.7%	119	66	13
Compton Parish Council	20	17.9%	0	0	0
Cranleigh Parish Council	20	19.2%	3,531	3,674	3,818
East Horsley Parish Council	20	18.7%	106	63	21
Effingham Parish Council	20	18.7%	0	7	14
Epsom & Walton Downs Conservators	20	19.2%	6,526	6,639	6,753
Farnham Town Council	20	19.2%	4,419	11,002	17,585
Frensham Parish Council	20	18.7%	157	83	10
Godalming Town Council	20	19.2%	5,366	6,206	7,046
Godstone Parish Council	20	18.7%	62	39	17
Haslemere Town Council	20	18.7%	434	241	49
Horley Town Council	20	19.2%	3,006	4,178	5,349
Lingfield Parish Council	20	18.7%	0	6	11
Merton & Sutton Joint Cemetery Board	20	19.2%	5,440	6,497	7,554
Nonsuch Park Jt. Management Committee	20	19.2%	6,143	6,311	6,480
Send Parish Council	20	19.2%	452	757	1,062
Shere Parish Council	20	19.2%	1,250	1,853	2,456
Tongham Parish Council	20	19.2%	171	393	616
Valuation Tribunal Service	20	15.6%	9,000	10,000	11,000
Warlingham Parish Council	20	18.7%	39	23	7
West End Parish Council	20	18.7%	84	51	18
Windlesham Parish Council	20	19.2%	1,714	3,865	6,017
Witley Parish Council	20	19.2%	891	2,105	3,318
Worplesdon Parish Council	20	18.7%	331	179	27

Notes to Small Scheduled Bodies schedule:

1. The statement reflects the decision to permit phasing in of deficit recovery payment increases.

	Deficit Recovery Period	Percentage of payroll due	Additional Monetary Amount		
		1 April 2011 to 31 March 2014	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Academies[1]					
Cleves	20	25.6%	n/a	n/a	n/a
Glyn School	20	22.3%	n/a	n/a	n/a
Sunbury Manor	20	22.4%	n/a	n/a	n/a
Weydon	20	19.3%	n/a	n/a	n/a
Blenheim High School	20	24.2%	n/a	n/a	n/a
Collingwood	20	21.6%	n/a	n/a	n/a
Epsom and Ewell High School	20	21.6%	n/a	n/a	n/a
Fullbrook School	20	26.3%	8,000	8,000	8,000
George Abbot	20	22.9%	n/a	n/a	n/a
Goldsworth School	20	24.1%	n/a	n/a	n/a
Hinchley Wood School	20	22.2%	n/a	n/a	n/a
Howard of Effingham	20	22.2%	n/a	n/a	n/a
Magna Carta	20	22.2%	n/a	n/a	n/a
Rodborough Technology College	20	24.5%	n/a	n/a	n/a
Rosebery School	20	28.4%	n/a	n/a	n/a
Rydens	20	19.4%	n/a	n/a	n/a
South Farnham	20	21.5%	n/a	n/a	n/a
Thamesmead	20	22.5%	n/a	n/a	n/a
The Beacon School	20	32.7%	n/a	n/a	n/a
The Raleigh	20	25.4%	n/a	n/a	n/a
Thomas Knyvett	20	22.2%	n/a	n/a	n/a
Woolmer Hill Technology College	20	27.7%	n/a	n/a	n/a

	Deficit Recovery Period	Percentage of payroll due 1 April 2011 to 31 March 2014	Additional Monetary Amount 1 April 2011 to 31 March 2012	 1 April 2012 to 31 March 2013	 1 April 2013 to 31 March 2014
	Yrs		£	£	£
Colleges/Universities[2]					
Brooklands College	20	17.1%	83,284	124,142	165,000
East Surrey College	20	16.1%	63,919	103,596	144,000
Esher College3	20	16.7%	21,200	22,300	23,600
Godalming College	20	16.7%	9,664	18,132	26,600
Guildford College of FE & HE[3]	20	15.6%	440,000	463,000	488,000
NESCOT	20	16.6%	139,126	232,563	326,000
Reigate College	20	16.7%	10,158	19,029	27,900
Strodes College	20	16.7%	7,213	13,507	19,800
University for the Creative Arts	20	16.0%	307,372	440,686	574,000
University of Surrey	20	16.4%	492,277	822,639	1,153,000
Woking College	20	16.7%	4,021	7,561	11,100

Notes to Academies/Colleges/Universities Schedule:

1. For ease of administration, deficit contributions are to be recovered as a percentage of payroll for the period to 1 April 2014, hence there is no additional monetary amount.
2. Reflects the decision to permit phasing in of deficit contribution increases unless otherwise stated.
3. Reflects an employer decision not to phase in increases in deficit contributions.

	Deficit Recovery Period	1 April 2011 to 31 March 2014	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Admitted bodies					
Ability Housing	n/a	21.5%	0	0	0
Accent Peerless Housing Group	7.9	18.8%	338,000	356,000	375,000
A2 Dominion Housing[1 3]	10.0	23.1%	178,000	187,000	197,000
Babcock 4S Ltd	7.2	20.2%	419,000	442,000	465,000
Carillion	5.9	21.1%	52,000	55,000	58,000
Childhood First[12]	5	24.3%	250,000	263,000	277,000
Care Quality Commission	6	21.0%	79,000	84,000	88,000
Elmbridge Housing Trust	6.6	20.0%	75,000	79,000	83,000
Fusion Lifestyle[1]	n/a	17.7%	0	0	0
George Burley & Sons	n/a	18.2%	0	0	0
Hanover Housing Association	7.9	18.1%	1,201,000	1,264,000	1,331,000
Mole Valley Housing Association	7.5	20.7%	50,000	52,000	55,000
Moor House School[1]	7.4	16.8%	169,000	179,000	188,000
Princess Alice Hospice[1]	4.5	19.2%	8,500	9,000	9,500
Raven Housing Trust	8.2	19.9%	100,000	105,000	111,000
Reigate Grammar School[12]	20	19.2%	94,000	99,000	104,000
Ringway	10	21.2%	2,000	2,000	2,000
Rosebery Housing Association	7.3	19.2%	11,000	11,500	12,000
Royal Grammar School, Guildford[12]	20	19.2%	54,500	57,000	60,000
SERCO	n/a	18.3%	0	0	0
Sir William Perkins's School[12]	20	19.2%	26,000	27,000	28,500
Skanska Construction UK	n/a	21.3%	0	0	0
Southern Alcohol Advisory Service[1]	9.4	15.5%	17,000	18,000	19,000
Surrey Association for Visual Impairment[1]	7	19.2%	97,000	102,000	108,000
Surrey Sports Park	n/a	10.9%	0	0	0
SWT Countryside Services Ltd[1]	8.8	22.1%	20,000	21,000	22,000
Waverley Hoppa Transport	6.3	19.4%	8,000	8,000	8,000
Woking Community Transport	7.3	19.2%	10,500	11,100	11,700

Notes to Admitted Bodies Schedule:

1. Denotes registered charity.
2. Deficit recovery period extended beyond the average remaining future working life to remaining future working life of the youngest active member. This recovery period will be revisited when the youngest active member leaves the employing body and the employer has been advised that higher deficit contributions may be required.
3. The employer is required to provide a bond to cover the difference between the actual contributions paid and the higher contributions that would be required if a lower deficit recovery period was used. If agreement on the adequacy of the bond is not in place by 30/6/2011 then the employer is required to pay the higher contributions.