Notice of Meeting

Surrey Pension Fund Board

Date & time	Place	Contact	Chief Executive
Friday, 20 September 2013 at 9.30 am	Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN	Cheryl Hardman Room 122, County Hall Tel 020 8541 9075 cherylh@surreycc.gov.uk	David McNulty

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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 (Borough/District Representative), Judith Glover (Borough/District Representative), Ian Perkin (Office of the Surrey Police and Crime Commissioner) and Philip Walker (Employee Representative)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 31 MAY 2013

(Pages 1 - 30)

To agree the minutes as a true record of the 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 (*16 September 2013)*.
2. The deadline for public questions is seven days before the meeting (*13 September 2013)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 AFFIRMATION OF DISCUSSIONS HELD AT THE INFORMAL BOARD MEETING OF 31 MAY 2013

(Pages 31 - 38)

A summary of notes of the Board's informal London meeting of 31 May 2013 is included for discussion and approval.

6 MANAGER ISSUES AND INVESTMENT PERFORMANCE

(Pages 39 - 64)

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.

7 **PENSION FUND RISK REGISTER** (Pages 65 - 70)

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.

8 **KEY PERFORMANCE INDICATORS** (Pages 71 - 76)

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.

9 **REVISED STATEMENT OF INVESTMENT PRINCIPLES** (Pages 77 - 94)

With the slight changes to the private equity portfolio and the property manager benchmark outperformance requirement, it is now necessary to approve a revised Statement of Investment Principles (SIP).

10 **LGPS: CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME** (Pages 95 - 104)

The Department for Communities and Local Government has issued a call for evidence on the future structure of the Local Government Pension Scheme. This paper sets out a summary of the various issues that need to be considered.

11 **SURREY PENSION FUND ACCOUNTS 2012/13** (Pages 105 - 176)

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2013, in respect of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) has issued an unqualified opinion on the accounts and this is outlined in the Audit Findings for Surrey Pension Fund Report.

12 **LIABILITY MANAGEMENT, INFRASTRUCTURE DEBT**

To receive a presentation on Liability Management and Infrastructure Debt.

13 PRESENTATION: STANDARD LIFE

To receive a presentation from Standard Life.

14 PRESENTATION: CBRE

To receive a presentation from CBRE.

15 PRESENTATION: MANIFEST

To receive a presentation from Manifest.

16 THE STEWARDSHIP CODE

(Pages 177 - 184)

The report sets out the case for adopting The Stewardship Code as a step towards achieving effective corporate governance and acting as a responsible investor with regards to the companies that it owns.

17 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Board will be on 15 November 2013.

David McNulty
Chief Executive
Published: 12 September 2013

MOBILE TECHNOLOGY – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 31 May 2013 at Committee Room A, County Hall.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

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

Co-opted Members:

* Mr Tony Elias, District Representative
Ian Perkin, Office of the Surrey Police and Crime Commissioner

In attendance:

* Mark Hammond, Unison

1/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies for absence were received from Nick Skellett and Ian Perkin.

2/13 MINUTES OF THE PREVIOUS MEETING [15 FEBRUARY 2013] [Item 2]

The minutes of the last meeting of the Pension Fund Investment Advisors' Group were noted.

3/13 DECLARATIONS OF INTEREST [Item 3]

Mike Goodman declared a personal interest in Item 15 as his son works for British American Tobacco.

Tony Elias declared a personal interest in that he has a pension policy with Standard Life.

4/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

5/13 GOVERNANCE POLICY STATEMENT [Item 5]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item.
2. There was a discussion about whether a co-opted Member position should be offered specifically to a Surrey pensioner. However, it was felt that the Employee Representative position addressed this.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the Governance Policy Statement be **APPROVED**.

Next Steps:
None.

6/13 GOVERNANCE COMPLIANCE STATEMENT [Item 6]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item. He highlighted that the only issue that was shy of best practice was the matter that of key stakeholders should ideally be afforded the opportunity to be represented within the Pension Fund Board. It is impractical to have over 100 employer bodies directly represented on the Pension Fund Board and so this area is categorised as ‘explain’. Other than on this point, the pension fund is fully compliant.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the Governance Compliance Statement be **APPROVED**.

Next Steps:
The statement will be monitored and reviewed.

7/13 PENSION FUND BUSINESS PLAN 2013/14 [Item 7]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item.
2. The Business Plan had been agreed at a previous Investment Advisors' Group meeting. The Plan had been slightly revised to fine-tune some of the objectives and was being brought to the Board so that it is in the public domain.
3. A Member queried whether action 5 to address the Actuarial/Funding objectives addressed liabilities. It was confirmed that it did.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the Pension Fund Business Plan 2013/14 be **ADOPTED**.

Next Steps:

1. Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
2. Outturn report of the 2013/14 financial year to be presented at the first meeting of the Pension Fund Board in 2014/15.

8/13 PENSION FUND RISK REGISTER [Item 8]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

2

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item.
2. The Risk Register had been agreed by the Investment Advisors' Group but was being brought to the first meeting of the Board so that it is in the public domain.
3. Members discussed the subjectivity of assessing the likelihood of a risk and the flexibility to review the ranking of likelihoods. Officers stressed that the Risk Register is a working document and should be kept under review. Best practice would be for the Pension Fund Board to review the Risk Register on a quarterly basis.
4. The Chairman suggested that if Members had any comments that they should send them to the Strategic Manager, Pension Fund and Treasury and a more robust discussion could be held on those points at the next meeting of the Board.
5. It was suggested that the likelihood of financial loss from fraudulent activity was higher than it had been assessed to be. However, officers confirmed that the risk specifically related to internal organisational loss rather than external.
6. A Member highlighted the risk from untrained substitutes attending Pension Fund Board meetings. The Chairman stated that substitutes would not be accepted for the Board.

Actions/Further Information to be Provided:
None.

RESOLVED:

1. That the process by which the Risk Register has been compiled be **APPROVED**, subject to any suitable additions or amendments made to the Strategic Manager, Pension Fund and Treasury following the meeting.
2. That the Risk Register be **APPROVED**.

Next Steps:
The Risk Register to be reviewed on a quarterly basis.

9/13 COMMUNICATION POLICY STATEMENT [Item 9]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item.
2. The Chairman highlighted that work on the Pension Fund website was ongoing.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the Communication Policy Statement be **APPROVED**.

Next Steps:
None.

10/13 KEY PERFORMANCE INDICATORS [Item 10]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item. He tabled a revised set of Key Performance Indicators (KPIs), which are attached as Annex 1. The revisions are to make the KPIs more achievable and realistic. The KPIs are subject to constant revision and improvement and Members were invited to make suggestions.
2. Members felt that the KPIs indicated a remarkably efficient department. It was suggested that where targets such as issuing notification of dependent's pension within 5 days are missed, an explanation be provided. If targets are only being missed by a day this wouldn't suggest a serious problem but if target timescales are being missed by a more significant period Members need to know.
3. Officers informed the Board that it was not yet clear what the KPIs on data quality within the pension fund would focus on. Officers will report back to the Board on these issues.
4. It was confirmed that it was common practice for Pension Funds to have a set of KPIs and publish them. The tabled KPIs were collated by talking to contacts in other local authority pension funds. There are currently no statutory KPIs for pension funds. However, there is anticipation that KPIs could become regulatory. It is best practice for Pension Fund Boards to review KPIs on a quarterly basis.
5. In response to a query about why the new joiners KPI target had been reduced when performance appears to have outstripped the original target, officers clarified that the current score reflects the last two quarters but the average score across the year is likely to be different, mainly as a result of the auto-enrolment initiative where a substantial number of new joiners will need to be processed. The Pensions Manager also explained that new joiner activity is somewhat cyclical in terms of volume rather than all year round constant.

6. Officers explained that contributions received were not 100% as occasionally some chasing is required.
7. Members stressed that the Board should not always set targets so that they are immediately achievable. Targets should also be ambitious but achievable.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the KPI statement format be **APPROVED**.

Next Steps:
Members to send any additional comments on the KPIs to the Strategic Manager, Pension Fund and Treasury

11/13 KNOWLEDGE & SKILLS FRAMEWORK (CIPFA) FOR THE PENSION FUND [Item 11]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:
1. The Strategic Manager, Pension Fund and Treasury introduced the item. He informed the Board that the Investment Panel had completed knowledge questionnaires which indicated that where training had been provided, the knowledge had been retained, specifically on investment areas. Gaps that needed attention included governance, administration and procurement. The ongoing training programme for the Board will focus on these areas as well as additional specialist investment areas.
2. The Strategic Manager, Pension Fund and Treasury informed the Board that adopting the CIPFA Knowledge and Skills Framework does not provide official accreditation. It was an informal training arrangement.
3. New members would need to complete the needs assessment before the next meeting on 30 August 2013.

Actions/Further Information to be Provided:
None.

RESOLVED:

1. That the CIPFA Knowledge and Skills Framework be ADOPTED.
2. 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.
3. That new members complete the knowledge questionnaire prior to the next meeting of the Surrey Pension Fund Board on 30 August 2013.

Next Steps:
1. Proposals implemented by 30 September 2013.
2. Pension Fund and Treasury Manager to consult with CIPFA and Hymans Robertson reference training provision.
3. Progress monitoring will take place and success or otherwise of the project will be discussed at future Board meetings.
4. Outcomes will be outlined in the Annual Review Report for 2013/14.

12/13 AUTO-ENROLMENT [Item 12]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:
1. The Pensions Manager introduced the item and provided an update to the report. During May 2013, 106 employees who had been auto-enrolled had opted out. This meant that 1,168 remained in the scheme.
2. There has been fewer people opting out of the scheme than had been anticipated a year ago. A similar picture has been seen across the country.

Actions/Further Information to be Provided:
A one page summary on what the increase in liabilities is and how long the scheme will remain cash positive was requested for the next meeting of the Board.

RESOLVED:

That the implications of pension auto-enrolment and the increase in scheme membership be **NOTED**.

Next Steps:
None.

2

13/13 RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY [Item 13]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item. He highlighted a recent campaign following the Bangladesh factory collapse as an example of effectiveness of the Local Authority Pension Fund Forum (LAPFF), working in conjunction with a number of global organisations. A powerful statement had been released calling for companies to monitor and mitigate risks in supply chains and therefore to take responsibility for this type of event.
2. Officers confirmed that members of the Surrey Pension Fund Board could attend corporate governance meetings of companies in which the Fund holds shares. However, the LAPFF usually attends on the Board's behalf.
3. There was concern expressed by Members that the Responsible Investment and Stewardship Policy would tie up the Board in minutia when it should be focused on investments. Officers explained that the Policy sets up a general framework for good practice. The proposed Governance Consultant would keep tabs on all the companies in which the Pension Fund holds shares. The Pension Fund would receive an online voting schedule to enable it to affirm what the consultant advises. This is a very efficient process.
4. Members were concerned that there was some inconsistency between this Policy and the Report at Item 15 which advocates not getting involved in what companies are invested in. Officers explained that there was a distinction between the initial investment stock selection process and how the Fund monitors and supports companies once it holds shares in them.
5. There was some reservation that this Policy would block Investment Managers from managing funds in the way that they feel best. Officers advised that this Policy would ensure consistency between Fund Managers who hold Pension Fund shares in the same companies. They would no longer be able to vote in opposition to each other.
6. Members were unsure whether the Fund would have much influence over large companies. However, officers stressed that the LAPFF was very effective in encouraging change in company corporate governance where this was required.

Actions/Further Information to be Provided:
None.

RESOLVED:

1. That the Responsible Investment and Stewardship Policy be **APPROVED** and **ADOPTED**.
2. That the appointment of an external governance consultant be **APPROVED** and officers be instructed to commence a procurement process to achieve this.

Next Steps:

Report on progress to the next meeting of the Surrey Pension Fund Board.

14/13 PENSION FUND STOCK LENDING [Item 14]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item and the Surrey Pension Fund Advisor endorsed the protection of assets through stock lending.
2. In response to a query whether the 70/30 split of revenues between the Pension Fund and Northern Trust was generous, officers stated that in other places the split was 65/35. The revenue received by the custodian reflects the work undertaken, the costs for the custodian and a small profit.
3. Members raised concern counterparties may be rated as AAA this week but go down to BBB next week. The Strategic Manager, Pension Fund and Treasury stated that the operating agreement would stipulate the quality of the collateral required and this would be monitored. The Chairman argued that the likelihood of counterparties being down-graded by more than one level within that timeframe was small.
4. The Surrey Pension Fund Advisor stressed that commission rates can change over time depending on the availability of the underlying stocks. There is an element of subjectivity in estimating ongoing commission rates at any point in time.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the appointment of Northern Trust to operate the Pension Fund's lending programme with immediate effect, subject to the necessary due diligence carried out with regard to contract amendment, be **APPROVED**.

2

Next Steps:
The Surrey Pension Fund Board receive a report on the stock lending programme on a quarterly basis.

15/13 TOBACCO STOCK IN THE PENSION FUND [Item 15]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item.
2. The Surrey Pension Fund Advisor noted that this was an issue that had been debated by other local authorities. Some had sought to quantify what the implications would be of excluding certain companies from investment. It had been found that this would have an impact on Fund Managers, with cost implications as Managers would not be able to invest in pooled funds, only segregated funds.
3. Members stressed that, while on a personal level it was possible to feel strongly about certain issues, as a member of the Pension Fund Board the fiduciary duty to the pension scheme members had to override those views. If the Pension Fund Board began to prohibit companies it would be difficult to assess where to draw the line and it would have a material impact on investment returns, cost and performance measurement.
4. Members suggested that if members of the Surrey County Council pension scheme spoke to them about issues such as investing in tobacco stock, the cost implications could be discussed. It was felt that this issue should be kept under review, with the views of members of the pension scheme and employers taken into account.

Actions/Further Information to be Provided:
None.

RESOLVED:

To continue the current strategy with regard to environmental, social and governance factors, allowing suitable delegation and discretion to the external fund managers, and receiving regular reports and updates from managers as to their approach.

Next Steps:
None.

16/13 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 16]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item. He updated the market value of the pension fund to £2.65bn as of 28 May 2013.
2. The Surrey Pension Fund Advisor suggested that the Q4 Performance Relative to Target graph was not accurate or useful. This was because a single quarter's performance was being measured against a full year target.
3. Officers stated that the comparative performance with peers would be detailed in the Annual Report.

Actions/Further Information to be Provided:
None.

RESOLVED:

1. That use of Goldman Sachs as a foreign exchange counterparty be **APPROVED**.
2. That a USD 20m commitment to the Vintage VI fund by the Surrey Pension Fund be **APPROVED**.
3. That a USD 20m commitment to the DivPEP V fund by the Surrey Pension Fund be **APPROVED**.

Next Steps:
In future the Surrey Pension Fund Board will receive copies of any responses to relevant FOI requests.

17/13 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW [Item 17]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item.

Actions/Further Information to be Provided:
None.

RESOLVED:

1. That the current position on the Fund's Private Equity investment performance be **NOTED**.
2. That 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.

Next Steps:

1. Review of strategy by the Pension Fund Board
2. Consideration of further investment opportunities by the Pension Fund Board.

18/13 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 18]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item and tabled an updated page 138 (attached as annex 2). He pointed out that section 10 of the Statement of Investment Principles outlined the extended Stewardship policy. The Chairman highlighted a recent report which showed that Funds with a strong environmental, social and governance policy achieved higher returns.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the revised Statement of Investment Principles be **APPROVED**.

Next Steps:
None.

19/13 FUNDING STRATEGY STATEMENT [Item 19]

Declarations of Interest:
None.

Officers:
Paul Baker, Pensions Manager
John Harrison, Surrey Pension Fund Advisor
Kevin Kilburn, Deputy Chief Finance Officer
Sheila Little, Chief Finance Officer
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager, Pension Fund and Treasury

Key Points Raised During the Discussion:

1. The Strategic Manager, Pension Fund and Treasury introduced the item. He explained that the Statement had been previously agreed by the Investment Advisory Group and was on the Table for approval by the new Board. A new Strategy was likely to come to the November meeting of the Board for approval.

Actions/Further Information to be Provided:
None.

RESOLVED:

That the Funding Strategy Statement be **APPROVED**.

Next Steps:
Board to approve the next statement when practicable.

Meeting ended at: 11.15 am

Chairman

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KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS Annex 1

2

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	**85%**	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	**85%**	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	**85%**		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	**85%**	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	**85%**		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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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.

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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).

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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.

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	Category	Allocation Policy %	Fund %	Control Range% +/-
Equities			**63.0**	**+/-3.0**
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**	**+/-3.0**
CBRE	*Core Active*	7.0		
Alternatives			***10.0***	**+/-3.0**
Standard Life	*Diversified growth*	*6.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**20.0**	**+/-3.0**
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**	

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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

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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

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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

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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.

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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

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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

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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.

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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.

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✓ **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.

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✓ **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.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: 20 SEPTEMBER 2013

LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER

SUBJECT: AFFIRMATION OF DISCUSSIONS HELD AT THE INFORMAL BOARD MEETING OF 31 MAY 2013

SUMMARY OF ISSUE:

A summary of notes of the Board's informal London meeting of 31 May 2013 is included in Annex 1 for discussion and approval.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1. scrutinise the notes;
2. agree to amend CBRE's benchmark outperformance requirement to +0.5% per annum (gross of fees) over rolling three-year periods with the injection of a further £25m;
3. agree that a breach in the control range on the asset allocation categories as shown in the newly approved Statement of Investment Principles (SIP) would not stipulate that steps be taken immediately to restore parity, but that this breach would necessitate discussion amongst the Chairman and officers and, where appropriate, the Pension Fund Board.
4. agree that the Fund should continue to ensure a diverse portfolio of assets to mitigate risk and volatility of returns;
5. agree to balance the portfolio by removing £25m from LGIM's passive mandate and transferring to the Baillie Gifford Diversified Growth Fund; and
6. revisit discussions concerning the transfer of £50m from LGIM's passive mandate and transferring to the Standard Life GARS Fund, subject to the outcome of discussions with Standard Life at this meeting.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must formally approve all decisions in line with its delegated powers.

DETAILS:

5

Background

1 A summary of the notes taken from the London meeting of 31 May 2013 is included as Annex 1.

2 The Pension Fund Board is requested to discuss and approve the various outstanding decisions in line with the Manager Issues and Investment Performance Report.

CONSULTATION:

3 The Chairman of the Pension Fund has been consulted on the notes taken and has offered full support that these be scrutinised and discussed by the Board with a view to resolving outstanding decisions.

RISK MANAGEMENT AND IMPLICATIONS:

4 Risk related issues are outlined within Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

5 Financial and value for money implications are outlined within Annex 1.

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.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

8 This report 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:

- Approval of the matters under discussion.
- Implementation of decisions taken.

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

Consulted:
Pension Fund Board Chairman

Annexes:
Notes from the London meeting on 31 May 2013

Sources/background papers:
None

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Notes from the Pension Fund Board 31 May 2013 (afternoon training session)

Hosted by Standard Life Investments at 30 St Mary Axe, London.

Manager	Attending
Baillie Gifford	Paul Morrison James Squires
Standard Life	Roger Sadewsky Dale MacLennan

Internal Cash and Asset Allocation

1. The Board discussed potential changes to the pension fund's asset allocation.

2. The internally managed cash levels surpassed minimum levels required for day-to- day liquidity, allowing £25m to be assigned to the externally managed portfolios.

3. Strong market movements in equities had lead to the fund's actual asset allocation differing from the target policy allocation. This difference was most marked in the allocation to global equities with a target of 34.0% against an actual allocation of 39.4% as at 14 May 2013.

4. The actual asset allocation to property was 5.2%, significantly underweight the 7% target.

5. Mercer, represented by Steve Turner (ST), brought to the Board a report analysing the potential to change CBRE's investment mandate, specifically the benchmark outperformance target. ST proposed that the current outperformance target for CBRE of 1.0% above the benchmark was forcing CBRE's investment strategy to be overly aggressive, seeking ambitious capital appreciation from a greater allocation to higher risk funds.

6. CBRE were overweight in a number of poorly performing European funds which were a drag on the overall portfolio's performance. CBRE had proposed two options that would allow them to de-risk the portfolio to allow a greater focus on income generation, thus not relying on capital appreciation to achieve the out-performance target.

7. Option A would allow for a reduction in the outperformance target from 1.0% to 0.5%. Option B would reduce the target to 0.5% but would also involve a capital contribution from internal cash of £25m to allow the portfolio to become more balanced

8. The Board felt that option B was the preferred choice and the surplus internal cash balance of £25m would be assigned to CBRE.

9. In terms of the Fund's overall asset allocation, the Board sought to clarify the agreed +/- 3.0% control range on the broad target asset allocation categories as shown in the newly approved Statement of Investment Principles (SIP). It was suggested that a breach in the control range of greater than +/-3.0% would not stipulate that steps be taken immediately to restore parity, but that this breach should necessitate discussion.

10. As such the Board discussed the 5.4% overweight position in global equity. It was felt that whilst global equity has performed especially strongly over the last period, the fund should seek to ensure a diverse portfolio of assets to mitigate risk and volatility of returns and that such an overweight position in global equity was not consistent with that approach.

11. John Harrison recommended that the passive global equity mandate, managed by LGIM, would be the best source of funds to rebalance the portfolio, given the strength of the current two active global equity managers. The global equities element of LGIM was overweight 3.1% against the target of 14%. This disparity was equal to £75m. The Board debated whether, to balance the portfolio, £75m should be removed from LGIM's passive mandate.

12. The £75m would be split between two different managers: £25m to be assigned to the diversified growth manager Baillie Gifford to align the allocations to each of the two current diversified growth funds.

13. The remaining £50m would be held for the release of a new diversified growth fund, also managed by Standard Life, but along different lines to the existing GARS fund. Following questioning about the differences between the existing GARS and the new version, Dale MacLennan from standard Life explained that the fund targeted a higher absolute return and that, out of a total of 35-40 investment themes, the new GARS funds only shared four with the former, indicating a diversity of approach and asset type.

Baillie Gifford (BG)

1. Paul Morrison and James Squires presented.

2. The Board were informed that the Baillie Gifford diversified growth fund was closed to new entrants with total fund size of £3.4bn at 31 March 2013. The allocation to Surrey was worth £97.3m as at 28 May 2013.

3. The aim of the portfolio is to deliver strong absolute returns, comparable with equity type returns, but with much reduced volatility of less than 10% per annum. Since inception in December 2008, BG reported annualised growth of 14.2% and volatility of 6.9%.

4. BG invests in a broad range of asset classes with an overriding focus upon managing risk. This is maintained through managing a number of disparate investment strategies with positions held as a hedge against the performance of other strategies. One example was insurance backed securities, the performance of which is linked to the occurrence of natural disasters, with a strong divergence from the performance of other assets.

5. BG were questioned about the exposure to insurance backed securities and the liquidity of these assets, especially the liquidity in the face of a forced sale due to fund withdrawals. BG responded that the liquidity of the assets in which they invest is very important and has a significant impact upon their strategy. Insurance assets are less liquid than some other portfolio assets as the total market is relatively small, but that fund exposure to these assets is limited and monitored regularly.

6. BG had set internal investment restrictions to ensure liquidity, 90% of holdings must be open to exit within one day.

7. A key performance driver to the fund's performance was an average 4.9% holding in private equity which returned 28% over the past 12 months. BG explained that a significant number of private equity funds were trading at large discounts to their net asset value so were very attractive. Whilst discounts to NAV had shortened in recent months, BG still considered some private equity funds to be attractive. 5

8. The relatively weak performance of the asset category listed equities was queried with a return over the previous year of 1.1%. BG explained that the allocation to listed equities included a variety of derivative assets which would have performed strongly had the equity markets pulled back or stagnated.

9. BG were overweight in emerging market bonds, which provided the greatest absolute return within the portfolio. Another aspect of emerging market bonds to which BG were optimistic is the exposure to emerging market currency through this asset class. BG did not hedge the emerging market currency exposure.

10. BG's economic outlook was confident, with the prospect of a major collapse in asset prices lessening. In light of this, BG's recent adjustments in the portfolio included an increase in listed equity and emerging market bonds with a reduction in defensive cash holdings.

11. BG were questioned about the potential withdrawal of central bank support via commitment to quantitative easing (QE). The withdrawal of QE was very much at the forefront of BG's strategy themes, with a distinction between how well the central banks will manage the withdrawal as the impact of a disorderly exit would be markedly different.

12. The issue of Europe was raised. BG maintained that whilst Europe was a very problematic area there were areas attractive for investment. One such area was dividend futures. Companies are very unwilling to reduce the dividend levels even if profitability falls so BG considered this a defensive exposure to Europe.

Standard Life Investments (SLI)

1. Roger Sadewsky and Dale MacLennan from Standard Life Investments (SLI) presented.

2. Dale provided a summary of the objective of the SLI Global Absolute Return Strategies (GARS) Fund. The objective is to achieve an absolute return of cash + 5.0% per annum over rolling three-year periods with an expected volatility between 4.0% to 8.0%.

3. The GARS fund only invests in highly liquid instruments with significant market depth to ensure that the fund has daily liquid access with limited price impact.

4. Investment strategies and ideas are designed to cover a two to five year duration which allows SLI to take a long term view on an investment issue, reducing the timing pressure.

5. The example offered of this was SLI's position on Japan. Japan was operating under a number of high profile economic problems including high debt to GDP, ageing demographics and restrictive labour market. SLI believed that it was likely that in the medium term some action would be taken, enabling a long US Dollar versus Yen position, which came to fruition following the recent Bank of Japan monetary expansion.

6. SLI were underweight on South Korean and Taiwanese equities following increased pressure from other manufacturing hubs and the decline in the relative value of the Yen.

5

7. SLI had recently taken an overweight position in Chinese equities. Fears surrounding a slowdown in China's growth rate had brought asset prices in line with valuation. SLI were of the opinion that a long position in the Chinese equity market had a limited downside risk.

8. SLI were confident in the US economy: the banking sector was in much better shape than Europe and US companies were sat upon very strong balance sheets with the recent low levels of capital expenditure likely to be reversed in the near future. However, concerns regarding the unwinding of US QE led to SLI taking steps to lessen US exposure through futures and options.

9. Improvements in the US economy will have significant impact on Mexico. SLI was overweight in Mexican government bonds with a low debt to GDP of 30% and recent credit upgrades, as well as positive exposure to the Mexican Peso.

10. In response to questioning regarding Europe, SLI were of the opinion that the risk premium in Europe had reduced to an extent that the market was less attractive, especially in France, where French equities had recently outperformed German equities, indicating a mispricing of risk.

11. SLI made reference to developing strategies based on where there is suspicion of strong structural improvements in a country, but that will not necessarily be evident in the short term. The extended investment duration allows SLI to develop long term strategies based on such assertions. One such strategy was a long Indian Rupee versus the Singapore Dollar position based upon perceived strengths of the Indian economy.

12. SLI were also interested in exposure to income generating property through REITS, excluding Australian and Canadian property due to perceived currency overvaluations.

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **20 SEPTEMBER 2013**

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

6

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 the Pension Fund Board:

1. approve the report and the decisions as laid out;
2. agree the Surrey Pension Fund make a USD 20m commitment to the Standard Life Secondary Opportunities Fund;
3. agree that the Surrey Pension Fund make a USD 25m commitment to the Global Clean Energy and Infrastructure Fund;
4. agree that the Surrey Pension Fund make a £20m commitment to the Darwin Property Fund.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

DETAILS:

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1) Manager Issues during the Quarter

Manager	Issue	Status/Action Required
CBRE	UBS Triton	UBS Triton have updated on the redemption queue. Following the receipt of £197m of new equity raised by the manager, the redemption queue was further reduced by approximately £15m to around £32m by 1 July, a result of investors withdrawing their redemption notice following the notice of the new equity raised. UBS Triton have also indicated that they have exchanged on the sale of another non-core shopping centre asset and have strong interest in another four assets. The proceeds from these disposals will be used to pay down the remaining redemptions and also be used to make some property acquisitions. CBRE regard the Triton Fund as having achieved some stability and expect the fund to perform well relative to most of its core balanced peer group with returns driven by an attractive distribution yield in excess of 6% pa. The Fund will continue to be monitored. A further update by fund managers is expected at the Board meeting.
	Revised Investment Management Agreement (IMA)	Officers have just received a revised IMA following the change to the manager benchmark outperformance requirement. This will be scrutinised, signed and returned. The Board will recall the approval of an additional £25m to the manager. This has not yet been called upon.
LGIM	Rebalancing	Members are invited to discuss the question of rebalancing in line with the meeting notes of 31 May 2013, these being included as an agenda item at this meeting, and the various options available. An up-to-date schedule setting out the asset allocation position at 31 August 2013 is shown in Annex 1. It should be noted that the Board's wish to allocate additional funds to Standard Life should be revisited following the departure of a key member of Standard Life's fund manager team. Standard Life will be attending the meeting to update the Board on latest developments.
Baillie Gifford	Additional Funds	A further £25m was paid to the Baillie Gifford Diversified Growth Fund on 5 July 2013.
Goldman Sachs	Vintage Fund VI	Officers submitted the necessary signed paperwork within the necessary deadlines for the Vintage Fund VI private equity fund. Confirmation of acceptance by Goldman Sachs has been received by officers.
BlackRock	DivPep V Fund	Officers have held back on confirming subscribing to this Fund and will report verbally at the meeting.

Marathon		Update included in minutes of external fund manager meetings held on 31 July 2013 (Annex 2).
Majedie		Update included in minutes of external fund manager meetings held on 31 July 2013 (Annex 2).
UBS		Update included in minutes of external fund manager meetings held on 31 July April 2013 (Annex 2).
Franklin Templeton		Update included in minutes of external fund manager meetings held on 31 July April 2013 (Annex 2).

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2) Freedom of Information Requests

The table below summarises the FoI request responses provided by the fund since the last meeting.

Date	Requestor	Organisation	Request	Response
May -13	Company	Pitchbook	Information on private equity holdings	Provided summary as at 31 Mar 2013
July-13	Resident		Information regarding pensionable payroll and contribution amounts for Surrey and Elmbridge Borough for 11/12 12/13 and 13/14	Provided 11/12 and 12/13 as per requested and deficit contributions expected from both organisations for 13/14
July-13	Company	Proxy Insight Ltd	Proxy voting records for 2012/13 calendar year.	Provided as requested.

3) Future Pension Fund Board Meetings/Pension Fund AGM

The schedule of meetings for 2013 and 2014 is as follows:

- 20 Sep 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.
- 14 Feb 2014: Board meeting hosted in City
- 23 May 2014: Board meeting hosted in City
- 19 Sep 2014: Board meeting hosted at County Hall
- 21 Nov 2014: Board meeting hosted in City

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4) Auto Enrolment

Auto enrolment statistics at 31 July 2013 are set out below

LGPS Auto Enrolment Statistics as at 31 July 2013

Number Auto Enrolled	1,795
Number Opted Out	632
Total Remaining in Scheme	1,163
Total Annual Pay	£19.2m
Total Employer Contributions	£3.3m
Total Employee Contributions	£1.1m
Total	£4.4m

The effect on the liability valuation and overall long term cash flow implications are currently being assessed by the actuary in his work on the triennial valuation and will be reported to the next Pension Fund Board meeting.

5) Stock Lending

Northern Trust (NT) have issued a draft contract with regard to the stock lending process. At the time of writing, this is being scrutinised by the Fund's advisor with a view to further negotiations with NT reference the terms and conditions set out within. It is anticipated that the stock lending programme will commence during October 2013.

Report of the Pension Fund & Treasury Manager

Internally Managed Cash

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The internally managed cash balances of the Pension Fund are currently around £7.6m. 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 0.50% and an RBS money market fund paying 0.40%. It is anticipated that this cash will be used to fund private equity drawdowns as they occur.

Standard Life Capital Secondary Opportunities Fund

Standard Life Capital Partners (SL Capital) is raising SL Capital Secondary Opportunities Fund I to target niche secondary opportunities that can generate target returns of 20% net IRR to investors, by focusing on secondary opportunities. The Fund will primarily focus on acquiring positions in private equity fund of funds or private equity secondary funds, regarded as an emerging niche within the broader private equity secondaries market where assets often sell at discounts to net asset value of 25% or greater. Where such opportunities meet the Fund's target returns, it may acquire secondary positions in European and North American mid-market buyout funds where SL Capital has specific insights and/or an existing relationship angle. All interests targeted by the Fund will be at least 40% funded thereby ensuring good visibility on the underlying portfolio quality. The Fund target size is USD 200m, predominantly European and North American buyout funds, target return is 20% IRR and a management fee of 40 bps on net asset value.

It is recommended that the Surrey Pension Fund make a USD 20m commitment to the Standard Life Secondary Opportunities Fund.

Capital Dynamics

Capital Dynamics is an independent asset manager with 25 years experience and an existing manager of the Surrey County Council Pension Fund. The senior members of the Clean Energy Infrastructure team each have over 20 years global experience as investors/operators in conventional and clean energy. They have expertise in origination, structuring, operational improvement, finance, asset optimisation and risk management. There is an attractive market opportunity with funds being required to meet increasing demand for clean energy over the next 20 years. Energy security, rising fossil fuel prices, carbon taxes and "mothballing" of older coal and nuclear energy infrastructure are all driving demand. Capital scarcity and a lack of sector experience is creating opportunity for attractive risk adjusted returns in select OECD markets for experienced investors.

Capital Dynamics are raising a $750m Global Clean Energy and Infrastructure Fund. The Fund will invest directly in clean and renewable energy supply infrastructure assets, using only proven technologies. It will be a diversified portfolio targeting markets in mostly the UK and the US, across multiple partners, projects, commercial and utility scale technologies, fuel types, revenue streams, currencies and investment-grade counterparties. The Fund will consist of 10-15 investments, two of which have already been made, with unlevered contracted cash yields of 16% and 18%, in UK wind farms. The target returns are 20%+ gross IRR, with the potential to deliver 5%-10% cash yields from annual operating income, secured by contracted electricity/energy sales to investment grade counterparties. The fee level is 150bps. Risk will be mitigated via disciplined project selection, contractual negotiations and portfolio diversification/construction.

The investment opportunity is rated as a B+ by Mercer.

It is recommended that the Surrey Pension Fund make a USD 25m commitment to the Global Clean Energy and Infrastructure Fund.

Darwin Property Investment Management

The Darwin Group was started in 2003 as a strategic consulting boutique and capital raising advisor. This fund is Darwin's only fund under management. Darwin have identified opportunities in UK holiday parks where scale and management expertise are applied to create investment returns. The team has demonstrated a potential to source existing assets with strong value creation potential and manage the assets in the creation of a nationwide portfolio. The asset management strategies are a blend of value creation and lower risk income generation. 6

The areas where Darwin can add value to a newly acquired asset are clear and the investment process focuses on identification of a likely asset which will fit within the portfolio, where the asset is likely to produce the required return before any value-added activity by Darwin, and where Darwin is likely to be able to add significant value after acquisition. Darwin's competition in this space is fragmented with much of the existing market run by family businesses, and not managed to any great efficiency. The Fund aims to produce a total return to investors (net of charges) of at least 8% per annum. 75% of this return is expected to come from the regular income stream generated by the operating profits of the parks, with the remainder generated through the capital growth achieved as a result of park upgrades and redevelopments. The Fund target size is £300m, target return is 8% to 12% IRR with a net initial yield of 6.2%, and a management fee of 100 bps on gross asset value.

The investment opportunity is rated as an A by Mercer.

It is recommended that the Surrey Pension Fund make a £20m commitment to the Darwin Property Fund.

Actuarial Update

The process of data transfer to the Fund's actuary for the triennial actuarial valuation as at 31 March 2013 is now complete. Officers are in regular contact with the actuary with regard to the processing and quality checking of the data. The Pension Fund and Treasury Manager has been in regular contact with the Surrey Treasurer's Association to keep them appraised of progress. An initial result meeting will be held on 4 October with the actuary attending County Hall. The Pension Fund and Treasury Manager will report full results at the Pension Board meeting of 15 November.

Governance Strategies and Policies

All outstanding papers have now been drafted and presented to the Board, apart from the Pensions Administration Strategy and the Pensions Administration Service Level Agreement. These will be presented to the Board for the 15 November 2013 meeting.

Fund Manager Meetings on 31 July 2013

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

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Report of the Pension Fund & Treasury Manager

Financial and Performance Report

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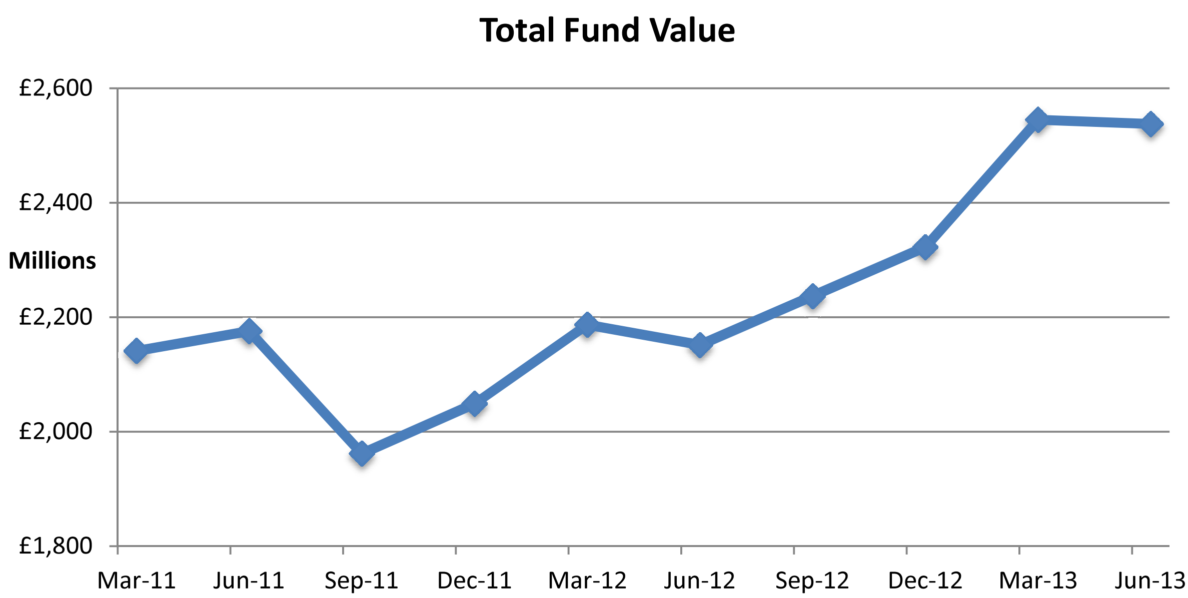
1. Market Value

The value of the Fund was £2,537.5m at 30 June 2013 compared with £2,545.0m at 31 March 2013. Investment performance was -0.3% for the quarter against the customised (hedged) benchmark return of -1.2%

The decrease is attributed as follows:

	£m
MARKET VALUE AT 31/03/2013	**2,545.0**
Contributions less benefits and net transfer values	9.8
Investment income received	14.0
Investment expenses paid	-1.8
Market Movements	-29.5
Market Value at 30/06/2013	**2,537.5**
Estimated Market Value at 31/08/2013	**2,580.1**



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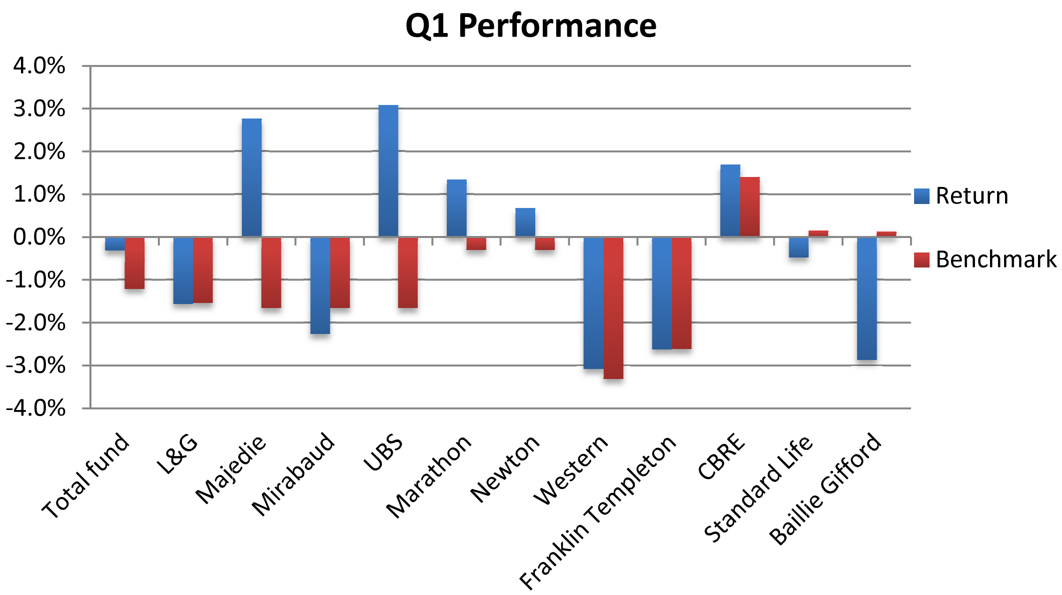
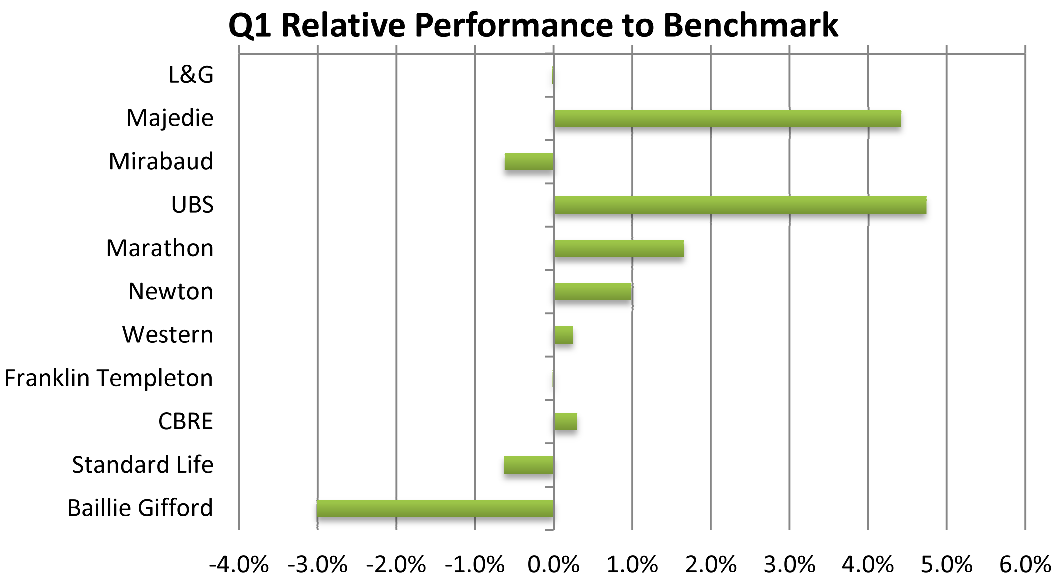
2. Fund Performance

Summary of quarterly results

Overall, the total fund returned -0.3% in Q1 2013/14, a shallower reduction compared to the customised (hedged) benchmark return of -1.2% during Q4 of 2012/13.



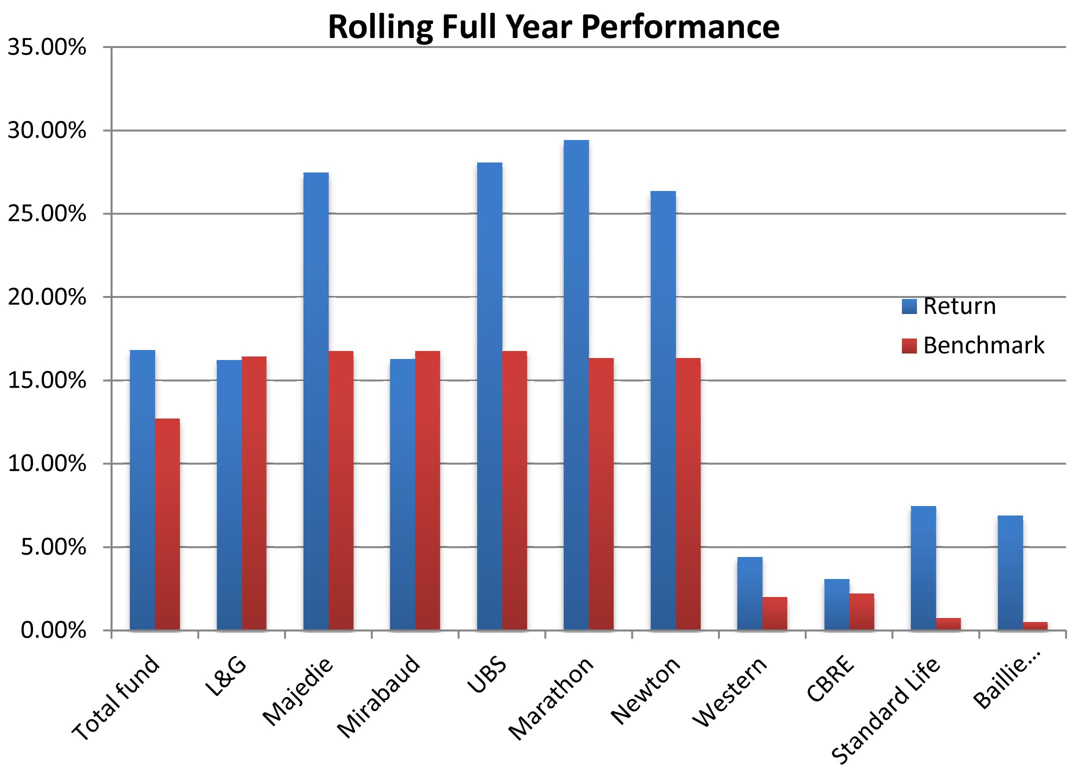
Most markets suffered declines in value during Q1 of 2013. All benchmark performances, with the exception of property and the nominal cash benchmark for DGFs, were in negative return for Q1. This follows very significant positive asset price movements during Q4 of 2012/13.



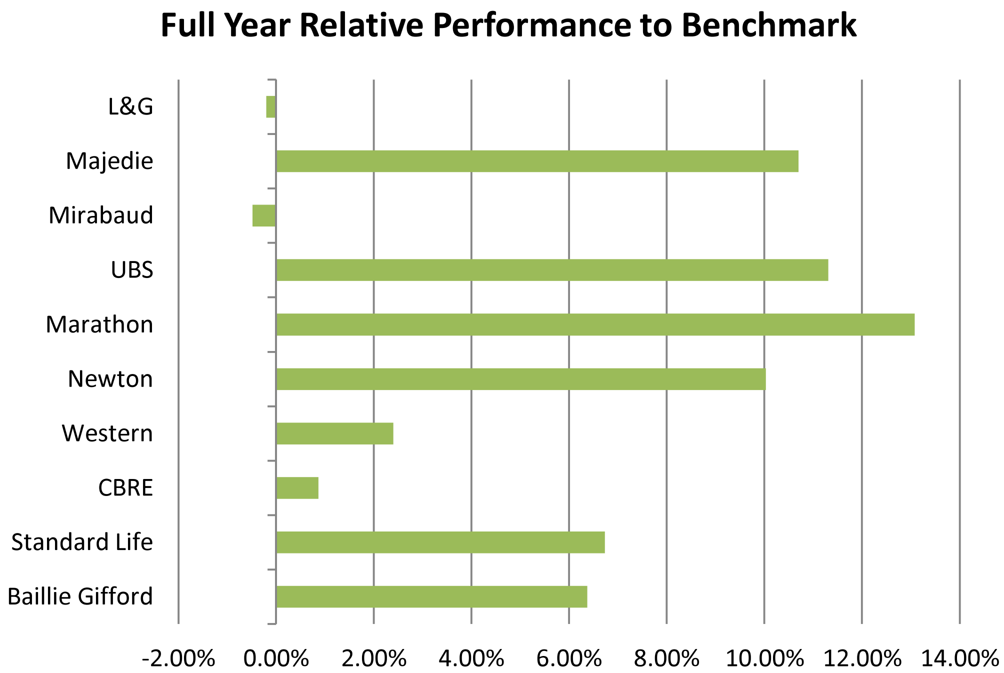
Relative to the benchmark, Majedie and UBS secured strong quarterly results with positive absolute returns in negative market conditions. Both DGFs (Standard Life and Baillie Gifford) declined in value during Q1.

Summary of Full Year Results

Over the past 12 months to 30 June 2013, the total Fund returned 16.8% outperforming its benchmark of 12.7% by +4.1%.



Equities provided the greatest overall return for the Fund over the last year with Marathon, UBS, Majedie and Newton all recording absolute investment returns greater than 25% and reaching double digit out-performance to the benchmark.



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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.

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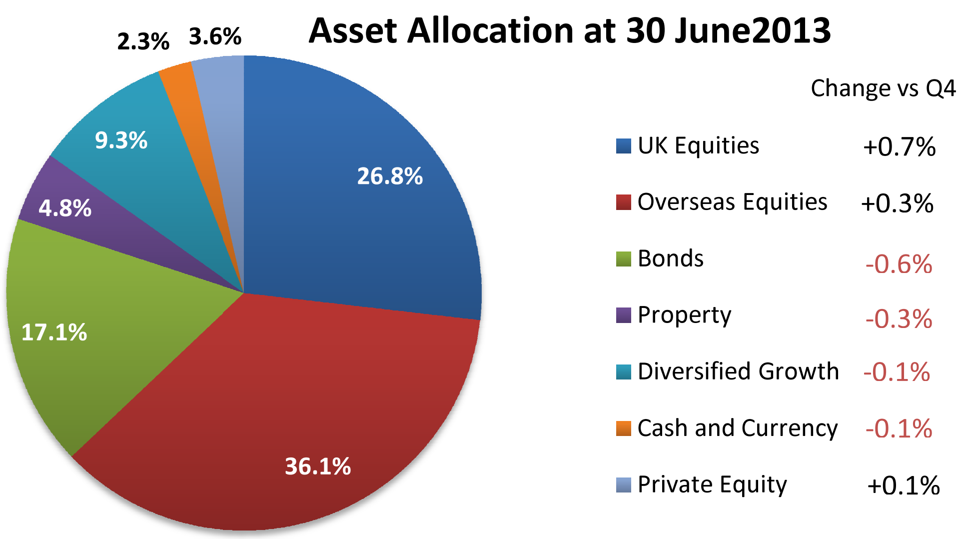


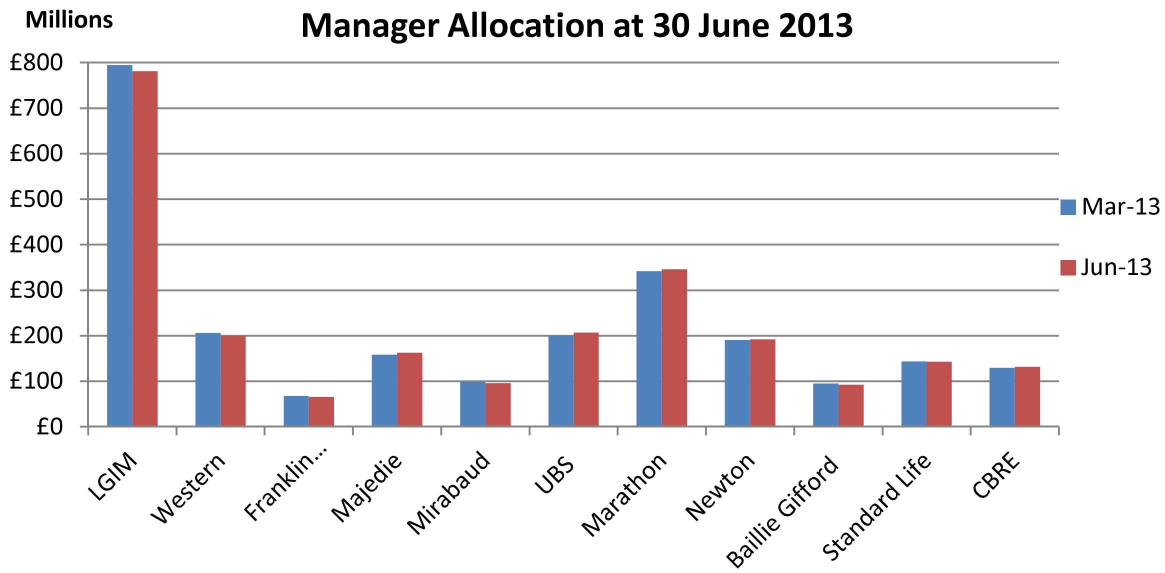
The table below compares the actual asset allocation as at 30 June 2013 against that target asset weightings.

	TOTAL FUND £m	Actual %	Target %	Last Quarter £m	Last Quarter %
Fixed Interest					
UK Government	108.3	4.2	5.0	103.3	4.1
UK Non-Government	165.9	6.5	7.6	178.0	6.9
Overseas	4.6	0.2	0.0	2.2	0.1
Total Return	65.9	2.6	2.7	67.7	2.7
Index Linked	90.1	3.6	3.8	99.4	3.9
Equities					
UK	680.7	26.8	27.5	665.7	26.1
Overseas	915.8	36.1	32.3	909.9	35.8
Property Unit Trusts	121.4	4.8	6.6	129.8	5.1
Diversified growth	235.6	9.3	9.5	239.0	9.4
Cash	65.7	2.6	0.0	65.7	2.6
Currency hedge	-7.6	-0.3	0.0	-5.9	-0.2
Private Equity	91.1	3.6	5.0	90.3	3.5
TOTAL	**2,537.5**	**100.0**	**100.0**	**2,545.0**	**100.0**

This table includes private equity and cash held by investment managers separately, in contrast to the asset allocation shown in annex 1 which includes cash held by managers as part of their mandate.

4. Manager Allocation

The graph below shows the current manager allocation.



The table below includes the actual and target manager allocation weightings for those investments managed through the custodian Northern Trust as at 30 June 2013. This excludes the internal cash and private equity portfolio.

Investment Manager	Asset Class	Market Value £m	Actual Allocation %	Target Allocation %
LGIM	Multi-Asset	781.4	32.5	33.0
Western	Bonds	199.6	8.3	8.25
Franklin Templeton	Bonds	65.9	2.7	2.75
Majedie	UK Equity	163.0	6.7	7.0
Mirabaud	UK Equity	95.9	4.0	4.0
UBS	UK Equity	206.7	8.5	8.0
Marathon	Global Equity	346.2	14.3	12.0
Newton	Global Equity	192.3	7.9	8.0
Baillie Gifford	Diversified Growth	92.6	3.8	4.0
Standard Life	Diversified Growth	142.9	5.9	6.0
CBRE	Property	131.9	5.4	7.0
	Residual Cash	0.9	0.0	0.0
TOTAL		**2,419.3**	**100.0**	**100.0**

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5. Fees

The following table shows a breakdown of fees due for Q1 2013/14.

Manager	MV 30/06/13 £m	Fee Q1 £	Annualised Average Fee %
LGIM*	781.4	185,450	0.09%
Western	199.6	99,740	0.20%
Franklin Templeton	65.9	82,788	0.50%
Majedie	163.0	135,407	0.33%
Mirabaud	95.9	140,962	0.59%
UBS	206.7	51,006	0.10%
Marathon	346.2	331,576	0.38%
Newton	192.3	108,608	0.23%
Baillie Gifford*	92.6	118,370	0.51%
Standard Life*	142.9	244,889	0.69%
CBRE	131.9	61,542	0.19%
Total		**1,560,338**	**0.26**

*Estimated

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

7 Risk related issues have been discussed and are contained within the report. 6

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 as at 30 June 2013 and 9 September 2013
2. Fund manager meeting notes on 31 July 2013

Sources/background papers:
None

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Annex 1

Asset Allocation Update

The table shows the actual managed asset allocation as at 30 June 2013 against the target allocation. The allocation for 31 August is shown overleaf.

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	Category	Allocation Policy %	Allocation at 30/06/2013*	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*	*4.0*	*+0.0*
UBS	*Core Active*	*8.0*	*8.5*	*+0.5*
Overseas				
Legal and General	*Passive*	*14.0*	*17.3*	*+3.3*
Marathon	*Concentrated Active*	*12.0*	*14.3*	*+2.3*
Newton	*Core Active*	*8.0*	*7.9*	*-0.1*
Property		**7.0**	**5.4**	**-1.6**
CBRE	*Core Active*	*7.0*	*5.4*	*-1.6*
Alternatives		**10.0**	**9.7**	**-0.3**
Standard Life	*Diversified growth*	*6.0*	*5.9*	*-0.1*
Baillie Gifford	*Diversified growth*	*4.0*	*3.8*	*-0.2*
Bonds		**20.0**	**18.1**	**-1.9**
Fixed interest gilts				
Legal and General	*Passive*	*2.5*	*1.7*	*-0.8*
Western	*Core Active*	*2.75*	*2.9*	*+0.1*
Index linked gilts				
Legal and General	*Passive*	*4.0*	*3.7*	*-0.3*
Western	*Core Active*	*0.0*	*0.0*	*+0.0*
Corporate bonds				
Legal and General	*Passive*	*2.5*	*1.8*	*-0.7*
Western	*Core Active*	*5.5*	*5.3*	*-0.2*
Total Return				
Franklin Templeton	*Unconstrained*	*2.75*	*2.7*	*0.0*
Total		**100.00**	**100.00**	

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Asset Allocation Update

The table shows the actual managed asset allocation as at 31 August 2013 against the target allocation.

	Category	**Allocation Policy %**	**Allocation at 31/08/2013***	**Variance %**
Equities		**63.0**	**66.4**	**+3.4**
UK				
Legal and General	*Passive*	*10.0*	*8.2*	*-1.8*
Majedie	*Concentrated Active*	*7.0*	*7.0*	*+0.0*
Mirabaud	*Concentrated Active*	*4.0*	*4.0*	*+0.0*
UBS	*Core Active*	*8.0*	*8.8*	*+0.8*
Overseas				
Legal and General	*Passive*	*14.0*	*16.8*	*+2.8*
Marathon	*Concentrated Active*	*12.0*	*13.9*	*+1.9*
Newton	*Core Active*	*8.0*	*7.7*	*-0.3*
Property		**7.0**	**5.4**	**-1.6**
CBRE	*Core Active*	*7.0*	*5.4*	*-1.6*
Alternatives		**10.0**	**10.5**	**0.5**
Standard Life	*Diversified growth*	*6.0*	*5.7*	*-0.3*
Baillie Gifford	*Diversified growth*	*4.0*	*4.8*	*0.8*
Bonds		**20.0**	**17.7**	**-2.3**
Fixed interest gilts				
Legal and General	*Passive*	*2.5*	*1.6*	*-0.9*
Western	*Core Active*	*2.75*	*3.2*	*+0.5*
Index linked gilts				
Legal and General	*Passive*	*4.0*	*3.6*	*-0.4*
Western	*Core Active*	*0.0*	*0.2*	*+0.2*
Corporate bonds				
Legal and General	*Passive*	*2.5*	*1.8*	*-0.7*
Western	*Core Active*	*5.5*	*4.6*	*-0.9*
Total Return				
Franklin Templeton	*Unconstrained*	*2.75*	*2.6*	*-0.1*
Total		**100.00**	**100.00**	

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Notes of Meetings with Fund Managers: 31July 2013

Hosted by Franklin Templeton Investments

Manager	Attending
Franklin Templeton	Darren Cotter John Beck Chris Orr
UBS	Steve Magill Richard West
Majedie	Rhiannon Mercer Rob Harris
Marathon	Graeme Neuff

Representing SPF: Phil Triggs
John Harrison
Alex Moylan

Franklin Templeton

1. Met with Darren Cotter, John Beck and Chris Orr.

2. Franklin Templeton (FT) explained their investment style, which is based upon a research driven approach focused upon identifying sources of total return, capital
6 appreciation and income, pursued without reference to the benchmark with a long term focus. A large proportion of the global benchmark is made up of USD Treasuries, UK Gilts and German Bunds which were all excluded from the portfolio.

3. FT operated an average duration of between two to three years within the portfolio, with a negative position on longer duration assets. The only exceptions to the target short duration were investments in Irish Government debt which were further along the yield curve. Franklin Templeton were overweight Irish government debt due to previous large imbalances between the relatively minor debt risk and the high yield.

4. FT were wary about Japanese Yen so undertook short positions versus the South Korean Won. FT were of the opinion that there was a significant exchange rate imbalance between developed and developing economies. As a result, they were underweight the Euro currency and overweight a number of east Asian currencies. Many developing economies were not in a position where devaluing currency is beneficial, due to high growth levels and inflation.

5. FT were also overweight on commodity currencies with an increased position in Canada.

6. FT were very cynical of supposed risk free assets, both from a historic perspective and absolute perspective. UK gilts were at the most expensive in the Bank of England's history with no reasonable risk return trade off.

7. Questioned about the complete avoidance of US Treasuries despite the USD acting as the de facto global reserve currency, FT maintained exposure to the USD through various currency positions, which allowed them to avoid holding US Treasuries and suffering from poor yield.

8. FT reported on concerns that estimates of economic growth in some areas of east Asia were overrated. FT were concerned with government influence in Indonesia but were not worried about Singapore or China. FT believed Chinese growth would indeed slow but that fears of a substantial credit bubble were unlikely to materialise. Houses are still frequently bought with cash in China.

UBS

1. Met with Steve Magill and Richard West.

2. UBS explained its value investment strategy, which is to establish the perceived fair value of equities and use market cycle and investor sentiment to exploit any mispricing. 6

3. UBS reported that a significant number of value stocks had performed very well during the period with this performance balanced by weaknesses in demand for mining sector. UBS were overweight the mining sector, including specifically Rio Tinto following the appointment of a new CEO.

4. UBS had previously held no shares in consumer goods but recently developed an overweight position in Tesco to take advantage of declining investor sentiment and share price as well as positive changes in Tesco's strategy. Tesco announced that they were exiting unprofitable overseas markets, most notably the US venture Fresh 'n' Easy, whilst focusing on UK and other more profitable overseas markets.

5. The negative position in consumer goods was a result of their high current share valuations due to investor drives for yield and perceived security of consumer goods.

6. UBS had reduced their position in ITV following very sharp increases in the share price, which has nearly tripled over the last three years, as a result of ITV's increasing focus upon revenues from programmes rather than advertising.

7. The largest overweight position in the portfolio at the end of June 2013 was Lloyds Banking Group, which UBS considered undervalued with a large potential upside. During July, 2013 UBS had since divested a portion of the Lloyds portfolio to secure profits and were wary about future profitability.

8. UBS were overweight in Barclays as they believed them to be well capitalised even prior to the enforced July capital call.

Majedie

1. Met with Rob Harris and Rhiannon Mercer.

2. Majedie reported full year results to June 2013 of 28% with a strong performance arising from banking, technology and mining sectors. Majedie believed that there was
6 an extreme variance between the valuation of financial stocks and the value of company assets.

3. Majedie was overweight in the mining sector for the previous twelve and three months, but have adjusted significantly to move underweight mining. Expectations were that low Chinese growth would reduce the demand for raw materials, thus reducing profitability for mining companies who are heavily dependent upon raw material prices. Majedie was positive on changes in Rio Tinto's management but were not in a position to move back into the stock.

4. During the months leading up to the Barclays capital call, Majedie had wound down a large overweight position. On recent management changes, they retain an underweight position.

5. Majedie was also very positive on Lloyds Banking Group but believed it had begun trading at a premium so Majedie were selling down its stake.

6. Majedie was keen on the telecoms sector, especially in light of moves by the European regulator to encourage infrastructure investment by telecoms companies through strong profit incentives. There was also a belief that the strongest upside could be found in EU periphery telecoms firms.

7. Questioned about the European holdings and whether any foreign currencies are hedged back to sterling, Majedie reported that it does not hedge currency but takes into account currency movements in its assessment of stock valuations.

8. Majedie reported that they hired another specialist small cap manager to take advantage of an increasingly under researched and undervalued sector.

Marathon

1. Met with Graeme Neuff.

2. Marathon still reported that the search for a specialist North American Manager is ongoing. They are not keen to rush the appointment. As such, the North American sleeve of the portfolio has undergone slightly less stock turnover than other areas. 6

3. Marathon was also planning to launch a specific emerging market fund with the recruitment of an emerging market manager.

4. Marathon continued to be overweight in Japan which has been a key driver of performance, whilst it was underweight in emerging markets due to the perceived high prices of equities in these areas. Marathon was underweight North America relative to the benchmark, with North American equities performing well in recent months.

5. Marathon reported that efforts have been taken to reduce the total number of stocks held and, under watch, to allow for greater focus with fewer small stock holdings.

6. Marathon was overweight in consumer defensive sectors with confidence of further positive movements following on very strong performance in the last six months. Marathon was convinced of strong, reliable cash flow within the sector.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE:	20 SEPTEMBER 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 assess the Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

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.

7

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.

Review

8 The risk register will be reviewed on a quarterly basis.

CONSULTATION:

9 The Chairman of the Pension Fund Board has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

CHIEF FINANCE OFFICER COMMENTARY

12 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

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

EQUALITIES AND DIVERSITY

14 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.

7

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

16 The following next steps are planned:

- Monitoring by officers and reporting every quarter.

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

Consulted:
Pension Fund Board members. .

Annexes:
Annex 1: Pension Fund Risk Register

Sources/background papers:
None

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ANNEX 1

7

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: **20 SEPTEMBER 2013**

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

SUBJECT: **KEY PERFORMANCE INDICATORS**

8

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 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: To 30 June 2013 Annex 1

8

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 30 Jun 13	**100.00%**	3 months to 31 Mar 13	0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**		**96.08%**	3 months to 30 Jun 13	**94.00%**	3 months to 31 Mar 13	2.08%
	Pay death grant within 5 days of receipt of relevant documentation	**90%**		**100.00%**	3 months to 30 Jun 13	**92.00%**	3 months to 31 Mar 13	8.00%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**		**100.00%**	3 months to 30 Jun 13	**92.00%**	3 months to 31 Mar 13	8.00%
	RETIREMENTS Retirement options to members within 10 days	**90%**	PB	**94.19%**	3 months to 30 Jun 13	**90.00%**	3 months to 31 Mar 13	4.19%
	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		**99.63%**	3 months to 30 Jun 13	**98.00%**	3 months to 31 Mar 13	1.63%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	**95%**	PB	**Pending**	3 months to 30 Jun 13	**100.00%**	3 months to 31 Mar 13	
	DBS issued to 85% of eligible deferred members by 30th June	**95%**		**To be issued by 30 Sep 13**	3 months to 30 Jun 13	**100.00%**	3 months to 31 Mar 13	
	NEW JOINERS New starters processed within 20 days	**85%**	PB	**99.00%**	3 months to 30 Jun 13	**99.00%**	3 months to 31 Mar 13	0.00%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	**85%**	PB	**100.00%**	3 months to 30 Jun 13	**100.00%**	3 months to 31 Mar 13	0.00%
	Non LGPS transfers-in payments processed within 20 days	**85%**		**100.00%**	3 months to 30 Jun 13	**100.00%**	3 months to 31 Mar 13	0.00%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	**85%**	PB	**94.29%**	3 months to 30 Jun 13	**100.00%**	3 months to 31 Mar 13	-5.71%
	Non LGPS transfers out payments processed within 20 days	**85%**		**94.29%**	3 months to 30 Jun 13	**97.00%**	3 months to 31 Mar 13	-2.71%
	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 30 Jun 13	**100%**	3 months to 31 Mar 13	
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 13	
	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 13	
4	INVESTMENT PERFORMANCE							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	**Benchmark**	PT	**BENCHMARK 12.7%**	12 months to 30 Jun 13	**BENCHMARK 11.6%**	12 months to 31 Mar 13	3.10%
				ACTUAL 16.8%	12 months to 30 Jun 13	**ACTUAL 14.7%**	12 months to 31 March 13	
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	**99%**	Jul-13	**98%**	Feb-13	1.00%
7	AUDIT							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Clean Report**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	
	Annual audit returns no significant findings	**No significant findings**		**Achieved**		**Achieved**		
8	COST							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **20 SEPTEMBER 2013**

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

SUBJECT: **REVISED STATEMENT OF INVESTMENT PRINCIPLES**

SUMMARY OF ISSUE:

With the slight changes to the private equity portfolio and the property manager benchmark outperformance requirement, it is now necessary to approve a revised Statement of Investment Principles (SIP).

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 Approve the revised Statement of Investment Principles shown in Annex 1.

2 Agree that a breach in the asset allocation control range of greater than +/- 3.0% will not require steps to be taken immediately to restore parity, but require that the breach will necessitate discussion amongst the Chairman and officers and, where appropriate, the Pension Fund Board.

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 on the investment of the pension. It also has to review the policy from time to time and revise it if considered necessary following such a review, as is recommended here in the light of changed circumstances.

Revised Statement

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

Monitoring and Review

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

CONSULTATION:

4 The Chairman of the Pension Fund has been consulted on the revised draft 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

9

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 proposed SIP offers a clear structure, reflecting the current investment strategies approved by the Pension Fund Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

9 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

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 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.

9

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.

9 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. 9

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.

9

	Category	Allocation Policy %	Fund %	Control Range% +/-
Equities			**63.0**	**+/-3.0**
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**	**+/-3.0**
CBRE	*Core Active*	7.0		
Alternatives			***10.0***	**+/-3.0**
Standard Life	*Diversified growth*	*6.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**20.0**	**+/-3.0**
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.

9

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
GSAM Vintage Fund VI	$	2013	20.0
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:

9

	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.

9

5. Investment Performance Targets and Benchmarks

Manager	Portfolio	Benchmark Index	Performance Target
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	+0.5% 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
Internal	Private Equity	MSCI World Index	+5% p.a. (net of fees) over the life o the contract
Internal	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.

9

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.

9

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.

9

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 9
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.

9

✓ **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.

9

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: **20 SEPTEMBER 2013**

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

SUBJECT: **LGPS: CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME**

SUMMARY OF ISSUE:

The Department for Communities and Local Government has issued a call for evidence on the future structure of the Local Government Pension Scheme. This paper sets out a summary of the various issues that need to be considered.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board discuss the issues with a view to offering views and observations for the compilation of a formal response by the Board to be finalised by the Chief Finance Officer in consultation with the Chairman of the Pension Fund Board.

REASON FOR RECOMMENDATIONS:

The outcome of this process will affect the way in which the Surrey Pension Fund is administered. Therefore, the Pension Fund Board should take a full part in the consultation process.

DETAILS:

Background

1 On 21 June 2013, the Department for Communities and Local Government issued a call for evidence on the future structure of the Local Government Pension Scheme. The document is included as Annex A.

2 The document is set out as a "call for evidence" and therefore required to show "evidence" rather than opinion. Although the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) would like to assess hard evidence during the consultation period, the questions actually leave some room for opinion.

3 The call for evidence indicates that the response should have particular but not exclusive regard to the questions and it would be helpful for members to indicate whether there are any other issues they would want addressed in the response.

Objectives

4 The document sets out high level and secondary objectives for reform. These are:

High level objectives
a) dealing with deficits
b) improving investment returns

Secondary objectives
a) reducing investment fees
b) improving the flexibility of investment strategies
c) providing for greater investment in infrastructure
d) improving the cost effectiveness of administration
e) providing access to higher quality staffing resources
f) providing more in-house investment resource

Approach to the Questions

5 There are five questions and these can be referred to in the Annex 1 as well
10 as being set out below. The themes of the questions are accountability, objectives, options analysis and data requirements.

6 Q1 on Accountability: this is about the accountability of any (potentially restructured) entities running the LGPS funds. It also relates to the extent to which consultees feel it is important to retain local decision making with regard to their specific Funds.

Q2 on Objectives: this question asks for opinion on whether these are the right objectives and therefore responses can only be opinion based.

Q3 & Q4 on Options Analysis: this question asks to what extent the options under consideration would meet the two primary and six secondary objectives. Evidence based responses would be welcome but where data is not available, opinion should be offered.

Q5 Data: the question asks what data should be collected and how should it be analysed. The question suggests that the Department acknowledges that data for deciding the way forward is not all available yet and may need to be gathered, even after the consultation ends.

7 In summary, the DCLG will welcome any evidence that is available but, where it is not, there must be an element of opinion in response to the DCLG's consultation. Each of the questions is addressed below:

8 **Q1: How can the LGPS best achieve a high level of accountability to local taxpayers and other interested parties, including through the availability of transparent and comparable data on costs and income, while adapting to become more efficient and to promote stronger investment performance.**

9 A cornerstone of the current structure is the concept of local accountability. Any alternative proposal would need to demonstrate the preservation or otherwise of local accountability. Various alternatives could certainly result in the loss of local decision making on matters such as investment risk, asset allocation and deficit recovery plans. Such decisions have a direct impact on local taxpayers and the concept of local accountability could be diluted.

10 **Q2: Are the high level objectives listed (dealing with deficits and improving investment returns) those we should be focusing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?**

11 This is agreed. Achieving 100% fund levels is the most important investment and funding objective. Improving investment returns is one of the tools to achieve that objective.

12 **Q3: What options for reform would best meet the high level objectives (dealing with deficits and improving investment returns) and why?**

Deficits

10

13 The various alternative frameworks for fund mergers will have no immediate effect on funding deficits and could significantly increase the range of funding deficits across the participating employers within a single fund. Permutations will exist amongst employers in a single fund who are regarded as having a strong or weak covenant, being well or poorly funded, and operating on a long or short time horizon. Whatever the framework, the deficits will need to be managed and, whether or not this can be better achieved via the existing LGPS arrangement or an alternative structure, only time and experience will tell. Regardless of the framework chosen, deficits will need to be tackled with additional contributions and improved investment performance from growth assets.

14 The starting point will be comparable data on fund deficits. We will need disclosure of funding levels and deficits using like-for-like assumptions. There is currently a huge range of actuarial assumptions used in liability calculations. It should be said that funds can justify varying actuarial approaches to setting contributions according to their unique liability profiles and the associated investment strategies.

Investment returns

15 For most long term, secure LGPS employers, a common investment strategy might suffice. However, within an alternative structure, there could be increasing diversity amongst employers due to outsourcing and the resultant better or worse funding levels. Well funded employers may be able to reduce investment risk now, while poorly funded employers may not be able to reduce risk so easily. One investment strategy will not fit all, and a move to multi-investment strategies within one super fund will be necessary. These various permutations will each require the selection of a best-fit investment strategy. The desirability of having some influence on the level of investment risk could become important if gilt yields rise quickly because the impact on deficits for individual employers may vary greatly in this environment.

16 It is argued that diseconomies of scale could apply with some alternative frameworks, especially with the use of external active managers, and possibly greater use of passive funds would result. The current structure of collaboration and cooperation between funds will enjoy the benefits of reduced market impact, diversified risk, whilst benefitting from lower expense ratios. There is currently conflicting evidence with respect to the positive effect of scheme size on performance in the global pension fund industry and some have argued that there are diseconomies of scale when investing in listed equity securities due to market impact costs and execution delays.

17 The larger schemes generating superior returns have done so through increased allocation to alternative investments at favourably negotiated terms, whilst using internal staff to manage active strategies. This may have implications on asset allocation decisions (active or passive, liquid or illiquid, traditional or alternatives) and the composition and remuneration of the investment professionals. Evidence from other countries suggests that scale benefits could improve net of fees investment performance but there is no definitive proof that bigger is better. There is also much negative experience associated with large funds overseas.

10

18 **Q4: To what extent would the options you have proposed under Q3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?**

Infrastructure

19 The important point here is that such projects must be relevant to the investment and funding objectives of the fund. Whilst LGPS funds can be a valid source of funding for infrastructure projects, a long term tie up and lack of liquidity must fit in with the fund's liability profile. Alternative structures are not necessary to enable investment in infrastructure. The pooling of infrastructure assets in common investment funds will enable access to infrastructure investment at reasonable fee levels.

Cost Effectiveness of Administration

20 Various initiatives exist with regard to reducing administration costs. These include various forms of shared services, voluntary mergers of individual fund administration staffing and funds competitively tendering for the provision of other funds' administration services. All of these initiatives have not had to rely on structural change in the way that Funds are currently administered. It could be argued that the cost effectiveness of administration should not be included within the criteria for change necessity.

Higher Quality Staffing Resources

21 Attracting and retaining in house talented investment professionals paid at private sector rates at or above local authority director level could prove challenging (but not insurmountable), given that the new funds would almost certainly be run by existing LGPS administering authorities.

In House Investment Resources

22 The larger LGPS funds predominantly employ in house investment staff. Further recruitment of professionals to run active strategies in house could result if the number of LGPS funds was significantly reduced. Much of the current debate suggests that alternative proposals regarding fund structures are about gaining bargaining power on manager fees. Moreover, there exists a so called “governance dividend" arising from more responsive governance arrangements, more in-house specialist resources and more diversification by fund manager and asset class associated with larger funds.

23 **Q5: What data is required in order to better assess the current position of the LGPS, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?**

24 A valid business case for change can only be made with precise and consistent costings as to current and future proposed structures. Accurate LGPS cost information is required, especially with regard to administration and investment management costs. Currently, there is a wide range from lowest to highest unit costs and inaccurate data is considered part of the reason. Poor and inconsistent costings, especially with regard to the different treatment of pooled fund fees, will continue to cause inaccurate and unfair comparisons to be made between funds. 10

25 Accurate costings arising from any of the proposed alternative structures and the quantification of future potential benefits are required. Such costs could be considerable and could include the set up costs for the alternative frameworks and fund transition costs. The project cost, benefits and viable payback period must be demonstrated. There is currently no suggestion that merger costs would be borne by anyone apart from the LGPS funds themselves. This makes an accurate cost benefit analysis absolutely vital in the decision making process. As things stand, no one is really sure how strong the business case for any alternative is.

CONSULTATION:

26 The Chairman of the Pension Fund has been consulted on the Call for Evidence and has offered full support for the narrative set out in this report.

RISK MANAGEMENT AND IMPLICATIONS:

27 There are various risk issues contained within the Call for Evidence document and the report narrative.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

28 Financial and value for money implications are set out within the report narrative.

CHIEF FINANCE OFFICER COMMENTARY

29 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that responding to the call for evidence will offer a clear path for the provision of evidence and opinion, reflecting the views of the Pension Fund Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

30 A new future LGPS structure will give rise to various legal implications and legislative requirements, possibly from 2014 onwards.

EQUALITIES AND DIVERSITY

31 The response to the call for evidence will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

10

32 There are potential implications for council priorities and policy areas that will become clear if a new LGPS structure is proposed.

WHAT HAPPENS NEXT

33 The following next steps are planned:

- Respond to the Call for Evidence by the deadline (27 September 2013).
- Further report to the Board following proposals due to be published before end of 2013.

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

Consulted:
Pension Fund Board Chairman

Annexes:
Local Government's call for evidence on the future structure of the Local Government Pension Scheme: June 2013

Sources/background papers:
None

Department for Communities and Local Government

Local Government Association

Call for evidence on the future structure of the Local Government Pension Scheme

Background

In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. Among its recommendations, the report made clear that the benefits of co-operative working between local government pension scheme funds and achieving administration efficiencies more generally should investigated further. The Local Government Pension Scheme currently costs local taxpayers £6billion a year in employer contributions. 10

***Recommendation 23**: Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.*

Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

On 16 May 2013, the LGA and DCLG held a roundtable event on the potential for increased co-operation within the Local Government Pension Scheme, including the possibility of structural change to the current 89 funds. 25 attendees represented administering authorities, employers, trade unions, the actuarial profession and academia.

The roundtable aimed to bring objectivity and transparency to the subject through open debate. There was a full discussion of the possible aims of reform and the potential benefits of structural change, together with the further work needed to provide robust evidence to support emerging options. The meeting focused on the issues to be addressed by reform rather than the detailed arguments for any of the potential ways forward that have been proposed.

The roundtable heard about the projects being undertaken to look at the options for structural reform of the Scheme in London and Wales and considered the range and relative priorities of the desired outcomes of reform, the data requirements for determining a start point and target and the next steps for delivering those outcomes.

On 22 May at the National Association of Pension Funds' local authority conference, the Local Government Minister Brandon Lewis said:

I am determined that we make progress and make it as quickly as reasonably possible. I can therefore announce this morning, that we will consult later in the year on a number of broad principles for change. This will be your opportunity to tell us what reforms could be made to both help improve your investment performance and reduce your fund management costs.

10

The consultation will not set out some pre-determined solution to what is undoubtedly a complex and contentious issue. I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal.

I have talked a fair amount about the need for robust data to inform decisions. I am therefore working with the LGA and others to launch a call for evidence, which will both inform our consultation and help all involved formulate their views in response to the consultation.

You will be aware that work is well underway to establish a shadow national pensions board for the Scheme. I have met with the LGA and local government trades unions on several occasions to discuss the sort of work that I would like the board to undertake.

This document sets out the call for evidence from DCLG and the LGA, working with the Shadow Scheme Advisory Board, and explains how it will feed into the forthcoming consultation.

The call for evidence

At the roundtable, the following high level and secondary objectives for structural reform were proposed:

<u>High level objectives</u>

1. Dealing with deficits
2. Improving investment returns

<u>Secondary objectives</u>

1. To reduce investment fees
2. To improve the flexibility of investment strategies

3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

The roundtable also agreed that, although there is a wide range of data available on Local Government Pension Scheme funds, it is currently widely dispersed and would benefit from enhancement, collation and further analysis. It also considered how best to achieve a high level of accountability to local taxpayers, particularly if services are to be shared or funds merged.

In your response to this call for evidence, it would be helpful if you could have particular (although not exclusive) regard to the following questions and provide evidence in the form of annexes to support your answers.

Question 1 – How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties - including through the availability of transparent and comparable data on costs and income - while adapting to become more efficient and to promote stronger investment performance.

Question 2 – Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured? 10

Question 3 – What options for reform would best meet the high level objectives and why?

Question 4 – To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

Question 5 – What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

Timetable

Responses to this call for evidence should be submitted in electronic form to Victoria Edwards at: LGPSReform@communities.gsi.gov.uk

The closing date for submissions is 27 September 2013.

The submissions will then be analysed by DCLG and the LGA, working with the Shadow Scheme Advisory Board. You may be asked to provide further clarification and/or evidence to support your answers during that process.

The analysis of submissions will then inform a formal consultation on the options for change to be published by DCLG in the early autumn.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **20 SEPTEMBER 2013**

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

SUBJECT: **SURREY PENSION FUND ACCOUNTS 2012/13**

SUMMARY OF ISSUE:

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2013, in respect of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) has issued an unqualified opinion on the accounts and this is outlined in the Audit Findings for Surrey Pension Fund Report.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

11

1 Note and approve the financial statements set out in Annex 1.

2 Note the content of the Audit Findings for Surrey Pension Fund Report as set out in Annex 2.

3 Note the Letter of Representation as set out in Annex 3.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must approve all financial statements produced for the Pension Fund.

DETAILS:

1 The Pension Fund statement of accounts was presented to the Audit and Governance Committee at its meeting on 24 June 2013 and approved, subject to the completion of the external audit.

2 The external auditor is required to report on the Pension Fund financial statements. During the external audit, Grant Thornton identified some minor issues, which led to minor amendments being made to the 2012/13 draft financial statements and related notes to the accounts.

3 The revised statements were presented to the Audit and Governance Committee at its meeting on 2 September 2013. Annex A represents the revised Pension Fund primary statements and accompanying notes to the accounts.

4 The Audit Findings for Surrey Pension Fund Report is presented at Annex B and sets out a summary of the work carried out, the conclusions reached and recommendations made. The Pension Fund Board will note that Grant Thornton issued an unqualified opinion on the financial statements.

5 A copy of the financial statements and notes to the accounts included in Annex A will be published in the Pension Fund Annual Report 2013.

6 It is considered good practice for those charged with governance to provide the external auditor with a letter of representation in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist. The letter of representation, signed by the Chief Finance Officer is included at Annex C.

CONSULTATION:

7 The Chairman of the Pension Fund has been consulted on the financial statements and has confirmed full support on the outcome.

RISK MANAGEMENT AND IMPLICATIONS:

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

11

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9 Financial and value for money implications are contained within the financial statements and the Audit Findings Report.

CHIEF FINANCE OFFICER COMMENTARY

10 The Chief Finance Officer has overseen the full process of the compilation of the financial statements and the external audit process.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

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

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14 The following next steps are planned:

- Approval of the financial statements.
- Inclusion of the financial statements in the Pension Fund Annual Report 2012/13.

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

Consulted:
Pension Fund Board Chairman

Annexes:
Surrey Pension Accounts 2012/13
Audit Finding Report
Letter of Representation

Sources/background papers:
None

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SURREY PENSION FUND ACCOUNTS 2012/2013

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2012/2013 and of the disposition of its assets at 31 March 2013.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and around a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

The Fund exists to provide pensions and other benefits for employees, their widows or dependants in accordance with Local Government Pension Scheme Regulations.

The number of employees in the fund and the number of pensioners as at 31 March 2012 and 31 March 2013 are:

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2011/2012		2012/2013
29,120	Employees in the fund	30,608
19,664	Pensioners	20,553
26,583	Deferred pensioners	27,648
75,367	**Total**	**78,809**

Surrey pension fund account

2011/2012 £000		Note	2012/2013 £000
	Contributions and benefits		
138,582	Contributions receivable	7	**159,544**
13,968	Transfers in	8	**13,833**
152,550			**173,377**
-109,800	Benefits payable	9	**-113,893**
-35,835	Payments to and on account of leavers	10	**-7,945**
-1,717	Administrative expenses	14	**-1,867**
-147,352			**-123,705**
5,198	**Net additions from dealings with members**		**49,672**
	Return on investments		
42,887	Investment income	16	**40,645**
1,441	Change in market value of investments	17	**278,985**
-6,150	Investment management expenses	15	**-6,856**
38,178	**Net return on investments**		**312,774**
43,376	**Net increase in the fund during the year**		**362,446**
	Net assets of the fund		
2,152,894	**At 1 April**		**2,196,270**
2,196,270	**At 31 March**		**2,558,716**

11

Net asset statement

31 Mar 2012 £000		Note	31 Mar 2013 £000
	Investment assets	17	
309,600	Fixed interest securities		**347,863**
79,752	Index linked securities		**99,100**
1,510,160	Equities		**1,574,687**
120,306	Property unit trusts		**120,748**
-	Diversified growth		**238,986**
84,776	Private equity		**90,336**
	Derivatives	17c	
126	- Futures		**-**
7,939	- Foreign exchange contracts		**2,153**
70,564	Cash		**59,723**
18,281	Other investment balances		**11,128**
	Investment liabilities		
	Derivatives	17c	
-	- Futures		**-310**
-1,414	- Foreign exchange contracts		**-7,500**
-8,297	Other investment balances		**-3,810**
2,191,793	**Net investment assets**		**2,533,104**
-	**Long-term debtors**	12	**16,335**
9,071	**Current assets**	11	**13,582**
-4,594	**Current liabilities**	13	**-4,305**
2,196,270	**Net assets of the fund at 31 March**		**2,558,716**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 of these accounts.

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership & Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management & Investment of Funds) Regulations 2009

It is a contributory defined pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters
11 are not included as they come within other national pension schemes.

During 2012/13 the investments of the fund were overseen by the Investment Advisors Group (IAG) and scrutinised by the Audit & Governance Committee at Surrey County Council. Pension administration issues were overseen by the People, Performance and Development Committee. From May 2013 the governance arrangements of the fund have been adjusted in line with best practice, with the combined IAG and Audit & Governance Committee responsibilities replaced by a single Pension Fund Board.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service.

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org).

The LGPS was changed on the 1st April 2008 adjusting the method by which entitlements are accrued. Benefits earned prior to the change are unaffected.

	Service pre April 2008	**Service post 31 March 2008**
Basis of pension	1/80th of final salary	1/60th of final salary
Lump sum	Automatic lump sum 3 x salary Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

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e) New LGPS Scheme 2014

The current government requested Lord Hutton to chair a commission on the reform of public sector pensions. Following the publication of this report in 2011, a new scheme design for the LGPS was agreed. The new scheme will commence on April 1 2014.

The changes will not affect those who currently receive pension payments. All pension benefits built up at March 2013 will be treated according to the current scheme rules.

	Current LGPS scheme	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60th of salary	1/49th of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

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Existing employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

LGPS 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
More than £150,000	12.5%
Estimated overall LGPS average	6.5%

For additional information into the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or to the LGPS 2014 scheme website (http://www.lgps2014.org).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 of these accounts.

These accounts have been prepared on a going concern basis.

Note 3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income
Normal contributions, both from the members and from the employer , are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. 11

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

c) Investment income
i) Interest income
Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

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e) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for against the investment income from which it is incurred. Investment income is shown net of irrecoverable tax.

f) Administration expenses

Pensions administrative expenses reflect the costs incurred in the payment of pensions and other benefits, actuarial advice, dealing with transfer values and the maintenance of member records. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pensions administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Investment management expenses also include fees for investment advice and performance measurement services together with the county council costs incurred on administration and monitoring of investment related issues.

Net assets statement

h) Financial assets

All financial assets are included in the net asset statement on a fair value basis as at the reporting date, with the exception of loans and receivables, and financial liabilities which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period. 11

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund’s share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

iv) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price.

i) Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

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Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contacts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year–end with an equal and opposite contract.

k) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Financial liabilities
The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

m) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

n) Additional voluntary contributions
Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider, however a small number of members remain with Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093).

Note 4: Critical judgements in applying accounting polices

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and 11
judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2013 was £90 million (£85 million at 31 March 2012).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement as at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease of the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments are valued at fair values provided by the administrators of the funds. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £90 million. There is a risk that this investment may be over or under stated in the accounts.

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Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in September 2013. The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

2011/2012		2012/2013
£000		**£000**
106,671	Employers	109,514
31,911	Members	31,880
-	Magistrates Court Services deficit funding	18,150
138,582		**159,544**

By employer

2011/2012		2012/2013
£000		**£000**
75,435	Administering authority	78,045
52,266	Scheduled bodies	50,889
10,881	Admitted bodies	12,460
-	Magistrates Court Services deficit funding	18,150
138,582		**159,544**

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Magistrates Court Services deficit funding for 2012/13 reflects the merger of the Magistrates Court Services. A detailed explanation is shown in note 12, long term debtors.

Note 8: Transfers in from other pension funds

2011/2012		2012/2013
£000		**£000**
13,968	Individual transfers in from other schemes	13,833
13,968		**13,833**

Note 9: Benefits payable

By category

2011/12 £000		2012/13 £000
86,143	Pensions	94,191
20,667	Commutation and lump sum retirement benefits	16,818
2,946	Lump sum death benefits	2,840
44	Interest on late payment of benefits	44
109,800		**113,893**

By employer

2011/2012 £000		2012/2013 £000
51,916	Administering Authority	54,388
49,746	Scheduled Bodies	50,875
8,094	Admitted Bodies	8,586
109,756		**113,849**

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The total does not include interest on late payment of benefits £43,874 (£43,793 2011/12)

Note 10: Payments to and on account of leavers

2011/2012 £000		2012/2013 £000
26,376	Group transfers to other schemes	96
9,448	Individual transfers to other schemes	7,814
15	Refunds of contributions	30
-4	Payments for members joining state schemes	5
35,835		**7,945**

Note 11: Current assets

2011/2012		2012/2013
£000		£000
1,055	Contributions – employees	2,445
5,650	Contributions - employer	9,239
2,366	Sundry debtors	1,898
9,071		**13,582**

Analysis of current assets

2011/2012		2012/2013
£000		£000
187	Central government bodies	713
6,727	Other local authorities	10,907
8	Public corporations and trading funds	-
2,149	Other entities and individuals	1,962
9,071		**13,582**

Note 12: Long term debtors

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2011/2012		2012/2013
£000		£000
-	Central government bodies	16,335
-		**16,335**

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms have been agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). Hymans Robertson the fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the fund and has calculated the retained assets to match these liabilities. The actuary has determined that the assets are insufficient to match the liabilities and a balancing payment is now required.

On 11 March 2013 the total value of the shortfall was agreed as £18.15m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount has been recognised as contributions during 2012/13. A corresponding debtor has been created. The first instalment of £1.815m was actually received on 26 March 2013, meaning that as the remaining nine instalments are due in excess of one year from the 31 March 2013, the whole of the remaining balance has been included as a long term debtor in the accounts.

Note 13: Current liabilities

2011/2012 £000		2012/2013 £000
4,527	Sundry creditors	4,257
67	Benefits payable	48
4,594		**4,305**

Analysis of current liabilities

2011/2012 £000		2012/2013 £000
1,065	Central government bodies	1,157
1,548	Other local authorities	1,592
13	Public corporations and trading funds	-
1,968	Other entities and individuals	1,556
4,594		**4,305**

Note 14: Administrative expenses

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2011/2012 £000		2012/2013 £000
962	Employee related	901
644	Support services	826
40	External audit fee	20
10	Legal and other professional fees	6
61	Actuarial fees	114
1,717		**1,867**

Note 15: Investment expenses

2011/2012 £000		2012/2013 £000
5,776	Management fees	6,446
254	Custody fees	252
4	Performance measurement services	7
112	Investment consultancy fees	151
4	Interest paid	-
6,150		**6,856**

Note 16: Investment income

2011/2012 £000		2012/2013 £000
	Fixed interest	
7,757	UK	8,143
2,759	Overseas	3,051
	Index linked	
600	UK	55
	Equities	
18,083	UK	15,636
7,764	Overseas	7,633
5,645	**Property unit trusts**	4,771
0	**Diversified growth**	1,118
279	**Cash**	238
42,887		**40,645**

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Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 1 April 2012 £000	Purchases during the year and derivate payments £000	Sales during the year and derivative payments £000	Market movements £000	Market value at 31 Mar 2013 £000
Fixed interest securities	**309,600**	209,052	-190,222	19,433	**347,863**
Index linked securities	**79,752**	74,945	-64,442	8,845	**99,100**
Equities	**1,510,160**	878,231	-1,051,499	237,795	**1,574,687**
Property unit trusts	**120,306**	12,745	-8,685	-3,618	**120,748**
Diversified growth	**-**	224,025		14,961	**238,986**
Private equity	**84,776**	13,283	-17,890	10,167	**90,336**
Derivatives					
- Futures	**126**	192	-763	135	**-310**
- Forex conts	**6,525**	13,027	-16,271	-8,628	**-5,347**
	2,111,245	**1,425,500**	**-1,349,772**	279,090	**2,466,063**
Cash	**70,564**			-105	**59,723**
Other investment balances	**9,984**				**7,318**
	2,191,793			**278,985**	**2,533,104**

Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

	Market value at 1 April 2011 £000	Purchases during the year and derivate payments £000	Sales during the year and derivative payments £000	Market movements £000	Market value at 31 Mar 2012 £000
Fixed interest securities	**311,766**	222,692	-250,837	25,979	**309,600**
Index linked securities	**59,512**	40,563	-33,022	12,699	**79,752**
Equities	**1,520,898**	395,688	-369,926	-36,500	**1,510,160**
Property unit trusts	**121,614**	31,970	-31,794	-1,484	**120,306**
Private equity	**74,215**	23,229	-20,658	7,990	**84,776**
Derivatives					
- Futures	**-205**	12,840	-500	-12,009	**126**
- Forex conts	**-5,344**	8,426	-1,326	4,769	**6,525**
	2,082,456	**735,408**	**-708,063**	1,444	**2,111,245**
Cash	**55,949**			-3	**70,564**
Other investment alances	**2,411**				**9,984**
	2,140,816			**1,441**	**2,191,793**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.37m (£1.34m in 2011/12).

Derivative receipts and payments represent the realised gains and losses on forward foreign exchange contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio.

Note 17b: Analysis of investments

	31 Mar 2012	31 Mar 2013
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	173,516	137,890
UK pooled funds	79,064	87,769
Overseas public sector & quoted	48,830	52,316
Overseas pooled fund	8,190	69,888
	309,600	**347,863**
Index linked securities		
UK public sector & quoted	58,332	2,945
UK pooled funds	21,420	96,155
	79,752	**99,100**
Equities		
UK quoted	461,924	452,587
UK pooled funds	264,458	209,571
Overseas quoted	395,616	423,779
Overseas pooled funds	388,162	488,750
	1,510,160	**1,574,687**
Property unit trusts	**120,306**	**120,748**
Diversified growth	**-**	**238,986**
Private equity		
Limited partnerships	33,336	38,683
Fund of funds	51,440	51,653
	84,776	**90,336**
Derivatives		
Futures	126	-310
FX forward contracts	6,525	-5,347
	6,651	**-5,657**
Cash deposits	**70,564**	**59,723**
Other investment balances		
Outstanding sales	11,115	5,008
Outstanding purchases	-8,297	-3,810
Accrued income - dividends and interest	7,166	6,120
	9,984	**7,318**
Total investments	**2,191,793**	**2,533,104**

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Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2013 the fund had one futures contract in place with a net unrealised loss of £310,000 (net unrealised gain of £125,630 at 31 March 2012).

2012/13

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure	Asset £'000	Liability £'000
Futures	28/06/2013	3 Months	Exchange traded UK government bonds	16,867	0	-310

2011/12

Contract	Expiration Date	Expiration Date Within	Type of Underlying Investment	Economic Exposure	Asset £'000	Liability £'000
Futures	27/06/2012	3 Months	Exchange traded UK Government Bonds	33,666	126	0

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Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2013 the Fund had forward currency contracts in place with a net unrealised loss of £5,347,000 (net unrealised gain of £6,525,121 at 31 March 2012).

2012/13

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'000
2	One month	CHF	GBP	106	-74		
1	One month	DKK	GBP	545	-62		
1	One month	EUR	GBP	117	-99		
2	One month	GBP	DKK	10	-88		
2	One month	GBP	EUR	11	-12		
6	Two months	GBP	EUR	70,636	-81,796	1,433	
3	One month	GBP	JPY	234	-33,380		
4	Two months	GBP	JPY	33,187	-4,854,833		-834
1	One month	GBP	MYR	125	-588		
1	One month	GBP	SEK	110	1,083		
3	One month	GBP	USD	472	-715		
9	Two months	GBP	USD	210,711	-329,676		-6,558
1	One month	JPY	GBP	500	-4		
1	One month	JPY	USD	329,446	-3,522	26	-38
1	Four months	USD	EUR	3,207	-2,439	118	-70
1	One month	USD	GBP	221	-146		
1	Two months	USD	GBP	2,623	-1,661	67	
1	Four months	USD	GBP	5,963	-3,704	225	
1	One months	USD	JPY	3,936	-329,446	284	
						2,153	**-7,500**

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2011/12

No of Contracts	Contract Settlement Date Within	Currency Bought	Currency Sold	Notional Amount (local currency) Bought (000)	Notional Amount (local currency) Sold (000)	Asset £'000	Liability £'000
1	One month	EUR	GBP	40	-33		
8	Two months	EUR	GBP	27,988	-23,362	58	-81
1	One month	GBP	DKK	4	-35		
2	One month	GBP	EUR	939	-1,123	3	
12	Two months	GBP	EUR	117,135	-141,045	103	-577
2	One month	GBP	JPY	43	-5,722		
5	Two months	GBP	JPY	60,774	-7,328,383	5,007	
2	One month	GBP	USD	17	-27		
18	Two months	GBP	USD	203,332	-323,510	2,643	
2	One month	IDR	GBP	628,250	-43		
1	One month	PHP	GBP	26,535	-388		-1
1	Five months	USD	AUD	3,472	-3,285	101	-27
1	Three months	USD	BRL	2,162	-4,018	23	-28
1	Four months	USD	EUR	3,139	-2,439		-70
1	One month	USD	GBP	583	-364		
15	Two months	USD	GBP	85,733	-54,236		-562
1	Four months	USD	GBP	3,637	-2,347		-69
						7,939	**-1,414**

Stock Lending

The fund has not engaged in stock lending.

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Note 17d: Investments analysed by fund manager

Market value 31 March 2012 £000	%	Manager	Market value 31 March 2013 £000	%
627,132	30.3	Legal & General Investment Management	792,326	32.8
132,786	6.4	Majedie Asset Management	158,471	6.6
84,999	4.1	Mirabaud Asset Management	98,382	4.1
247,300	11.9	UBS Asset Management	198,809	8.2
274,372	13.2	Marathon Asset Management	341,002	14.1
153,498	7.4	Newton Investment Management	190,680	7.9
61,083	3.0	JP Morgan Asset Management	-	-
58,789	2.8	TCW Group	-	-
304,641	14.7	Western Asset Management	202,813	8.4
-	-	Franklin Templeton Investments	67,681	2.8
-	-	Standard Life Investments	143,613	5.9
-	-	Baillie Gifford Life Limited	95,372	3.9
127,229	6.1	CBRE Global Multi-Manager	128,307	5.3
2,071,829			**2,417,457**	

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The table above excludes the private equity portfolio, internal cash and residual cash held by the custodian.

The following investments represent more than 5% of the net assets of the fund

Market value 31 March 2012 £000	% of total fund	Security	Market value 31 March 2013 £000	% of total fund
-	-	Legal & General World Developed Equity Index	366,009	14.3
252,959	11.5	Legal & General UK Equity Index	197,336	7.7
-	-	Standard Life Global Absolute Return Strategies	143,613	5.6

Note 18a: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2012				As at 31 March 2013		
Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
309,600			Fixed interest securities	347,863		
79,752			Index linked securities	99,100		
1,510,160			Equities	1,574,687		
120,306			Property unit trusts	120,748		
			Diversified growth	238,986		
84,776			Private equity	90,336		
8,065			Derivatives	2,154		
	70,564		Cash		59,723	
18,281			Other investment balances	11,128		
	9,071		Debtors		29,916	
2,130,940	**79,635**			**2,485,002**	**89,639**	
			Financial liabilities			
-1,414			Derivatives	-7,810		
-8,297			Other investment balances	-3,810		
		-4,594	Creditors			-4,305
-9,711		**-4,594**		**-11,620**		**-4,305**
2,121,229	**79,635**	**-4,594**		**2,473,382**	**89,639**	**-4,305**

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Note 18b: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a
11 significant effect on the instrument's valuation is not based on observable market data.

The fund's private equity investments are valued using techniques that require significant judgement in determining appropriate assumptions. The value of the investments in private equity are based on valuations provided by the managers of the private equity funds in which the Surrey Pension Fund is invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. Some funds provide valuations quarterly whist others only half yearly. The accounts include £58 million worth of private equity investments which were valued as at 31 December 2012. Cash flow adjustments have been made to roll forward these valuations to the 31 March 2013.

31 March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,376,688	17,978	90,336	2,485,002
Total financial assets	**2,376,688**	**17,978**	**90,336**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,365,068**	**17,978**	**90,336**	**2,473,382**

31 March 2012	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,017,344	28,820	84,776	2,130,940
Total financial assets	**2,017,344**	**28,820**	**84,776**	**2,130,940**
Financial liabilities				
Financial assets though profit & loss	-9,711			-9,711
Total financial liabilities	**-9,711**			**-9,711**
Net financial assets	**2,007,633**	**28,820**	**84,776**	**2,121,229**

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Note 18c: Book cost

The book cost of all investments at 31 March 2013 is £2,107,273,868 (£1,887,182,964 at 31 March 2012).

Note 19: Outstanding commitments

At 31 March 2013 the Fund held part paid investments on which the liability for future calls amounted to £101,599,103 (£74,906,438 as at 31 March 2012).

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy now rests with the newly formed Pension Fund Board having previously been the responsibility of the Investment Advisors Group (IAG). Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) **Market risk**

11 Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

In 2012/13 a decision was made to alter the fund's asset allocation to seek to mitigate the volatility associated with equity holdings. This led to the removal of the dedicated regional equity portfolios, with the assets assigned to two diversified growth funds (DGF), managed by Standard Life and Baillie Gifford. DGFs can invest in a broad range of asset classes, including traditional assets such as bonds and equities, alternative asset classes as well as futures, options and other derivatives in order to restrict volatility.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2012/13 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

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Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	662,158	13.1%	748,901	575,415
Overseas equities	912,529	12.7%	1,028,420	796,638
Total bonds	347,863	5.3%	366,300	329,426
ILG	99,100	8.0%	107,028	91,172
Cash	59,723	0.0%	59,723	59,723
Property	120,748	2.4%	123,646	117,850
Total Assets	**2,202,121**		**2,434,018**	**1,970,224**

The above table excludes private equity, diversified growth, derivatives and other investment balances.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	726,382	15.6%	839,698	613,066
Overseas equities	783,777	15.4%	904,479	663,075
Total bonds	309,600	5.7%	327,247	291,953
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,284	113,328
Total Assets	**2,090,381**		**2,354,926**	**1,825,836**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

11

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton. In February 2013 50% of UK gilts managed by Western were redeemed and the proceeds were invested in Franklin Templeton's Global Total Return Fund. This has a more diverse range of fixed income investment opportunities reducing the overall interest rate risk, as there is less exposure to individual interest rate movements.

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2012 £000		As at 31 March 2013 £000
70,404	Cash & cash equivalents	59,380
160	Cash balances	343
309,600	Fixed interest securities	347,863
380,164	**Total**	**407,586**

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long-term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,380	594	-594
Cash balances	343	3	-3
Fixed interest securities	347,863	3,479	-3,479
Total	**407,586**	**4,076**	**-4,076**

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Asset type	Carrying amount as at 31 March 2012	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	70,404	704	-704
Cash balances	160	2	-2
Fixed interest securities	309,600	3,096	-3,096
Total	**380,164**	**3,802**	**-3,802**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manage this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2012/13 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant. A significant proportion of overseas assets are invested via pooled funds denominated in Sterling.

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	488,369	6.1%	518,160	458,578
Fixed interest	2,207	6.1%	2,342	2,072
Property unit trust	11,432	6.1%	12,129	10,735
Cash	2,701	6.1%	2,866	2,536
Total	**504,709**	**6.1%**	**535,497**	**473,922**

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For comparison last year figures are included below.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
Overseas Equities	445,173	9.8%	488,800	401,546
Fixed Interest	8,320	9.8%	9,135	7,505
Property Unit Trust	16,441	9.8%	18,052	14,830
Cash	3,963	9.8%	4,351	3,575
Total	**473,897**	**9.8%**	**520,338**	**427,456**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

Prior to the 1 April 2011 the fund's internally held cash was comingled with that of Surrey County Council. A separate bank account has been in operation since 1 April 2011. Both the council's and the fund's bank accounts are with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy, as agreed by the fund's Investment Advisors Group. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator (LCD) approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has a call account with NatWest Bank and a money market fund with the Royal Bank of Scotland. In line with the treasury strategy, the maximum deposit level allowed in each account is £20 million. The RBS money market fund has a long term credit rating of AAA (or equivalent) with all three ratings agencies and the NatWest call account has a rating of A (or equivalent) with all three. 11

Balance at 31 March 2012 £000		**Balance at 31 March 2013 £000**
	Call account	
15,000	NatWest	15,000
	Money market fund	
13,800	Royal Bank of Scotland	3,910
	Current account	
160	HSBC	343
28,960	Internally Managed Cash	19,253
41,604	Externally Managed Cash	40,470
70,564	**Total Cash**	**59,723**

The fund's cash holding under its treasury management arrangements as at 31 March 2013 was £19.3 million (£29.0 million at 31 March 2012).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings at NatWest and Royal Bank of Scotland. Whilst fixed term deposits are allowed under the pension fund treasury strategy, no investment of this type has been made since the implementation of the pension fund bank account in April 2011.

The fund is able to borrow cash to meet short-term cash requirements. No such borrowing was undertaken during the 2012/13 financial year.

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing
11 exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Usage of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2012/13 amounted to £55,659,746 (£55,716,313 in 2011/12).

2011/2012 £000		2012/2013 £000
38,055	Employers' current service contributions	37,035
16,058	Lump sum payments to recover the deficit in respect of past service	17,354
1,603	Payments into the fund to recover the additional cost of early retirement liabilities	1,271
55,716		**55,660**

ii) Surrey Pension Fund paid Surrey County Council £1,537,236 for services provided in 2012/13 (£1,544,808 in 2011/12).

2011/2012 £000		2012/2013 £000
203	Treasury management, accounting and managerial services	198
1,342	Pension administration services	1,339
1,545		**1,537**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2013 were £5,866,326 (£740,047 at 31 March 2012).

iv) During the year none of the Investment Advisors Group (IAG) undertook any material transactions with the Surrey Pension Fund.

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions, that can be attributed to the fund.

2011/12 £	Position	2012/13 £	
17,553	Chief Finance Officer	19,991	1
68,110	Pension Fund & Treasury Manager	58,456	2
51,769	Senior Accountant	51,994	
137,432		**130,441**	

1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund

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Note 23: Custody

Custody arrangements for securities and cash balances are provided by the fund's global custodian, The Northern Trust Company. Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York
ISIS Capital	Lloyds Banking Group
Standard Life	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America

Note 24 : Actuarial statement for 2012/13 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

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Description of funding policy

The funding policy is set out in the Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated 25 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,944 million, were sufficient to meet 72.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £755 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

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Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

Copies of the 2010 valuation report and FSS are available on request from Surrey County Council, administering authority to the Fund.

Experience over the year since April 2012

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) increased over 2012/13. The reason for this was the strong investment performance of the Fund's assets over the year, slightly offset by the fall in Government bond yields.

The next actuarial valuation will be carried out as at 31 March 2013. The FSS will also be reviewed at that time.

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 May 2013

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Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund account:

- Showing the figure in the net asset statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund, which is the remainder of this note.

Balance sheet

Year ended	31 March 2013 £m	31 March 2012 £m
Present value of promised retirement benefits	3,982	3,346

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £2,034m in respect of employee members, £770m in respect of deferred pensioners and £1,178m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis)

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £452m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2013	31 March 2012
Inflation/pension increase rate	2.8%	2.5%
Salary increase rate*	5.1%	4.8%
Discount rate	4.5%	4.8%

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to long term rate thereafter

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the funds VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

*Future pensioners are assumed to be aged 45 at the last valuation date

This assumption is the same as at 31 March 2012.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of figures in this paper, together with further details regarding the professional requirements and assumptions.

Julie Morrison FFA

11 17 May 2013

For and on behalf of Hymans Robertson LLP

Note 26: Statement of investment principles

Full details of the fund's investment policy are documented in the Statement of Investment Principles. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 27: Annual report

The Surrey Pension Fund Annual Report 2012/2013 provides further details on the management, investment performance and governance of the Fund.

The Audit Findings for Surrey Pension Fund

Year ended 31 March 2013

27 August 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the Surrey Pension Fund ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

We received draft financial statements at the end of June and commenced the audit on site on 8 July, in accordance with the dates agreed with management.

We have not altered or changed our audit approach, which we communicated to you in our Audit Plan in June 2013.

Our audit is substantially complete, although we are finalising our procedures in the following areas:

- obtaining and reviewing one independent bank confirmation
- obtaining and reviewing the final management letter of representation following the Audit and Governance Committee meeting
- updating our post balance sheet events review, to the date of signing the opinion and confirming there are no further amendments to the financial statements.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments on audit which affect the Fund's reported financial position. The draft financial statements recorded net assets at 31 March 2013 of £2,559 million, and this remains the same in the audited financial statements. However ,we highlighted a number of best practice adjustments to disclosures during the audit to enhance the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements after completion of our final audit procedures.

The key messages arising from our audit of the Fund's financial statements are:

- the financial statements provided for audit were complete and compiled in accordance with the CIPFA Code of Practice for Local Authority. Accounting.
- the Fund produced good working papers to support the figures in the financial statements.
- management agreed to amend the financial statements for all the recommended disclosure changes.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you in June 2013.

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Contributions receivable	Scheme Contributions	Other	Recorded contributions not correct	No	No significant audit findings. However, the Committee should note that the £18.15m deficit funding contribution agreed by the Ministry of Justice in 2012/13 has been reclassified on audit from transfers in to contributions based on guidance circulated to auditors by the Audit Commission.
Transfers in	Transfers in to the scheme	Remote		No	
Pensions payable – lump sums and on retirement	Benefit payments	Other	Benefits improperly computed/claims liability understated	No	None
Transfers out - Payments to and on account of leavers	Benefit payments	Other	Transfers improperly computed/liability understated	No	None
Administrative expenses	Administrative expenses	N/A		No	None
Investment income	Investments	Other	Investment activity not valid – income not complete	No	None

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Changes in value of investments	Investments	Other	Investment activity not valid- investments not valued at fair value	No	None
Taxes on income	Investments	N/A		No	None
Investment management expenses	Investments	Remote		No	None
Investments	Investments	Other	Investments not valid. Fair value measurement not correct	No	None
Current assets	Scheme Contributions, investments and cash	N/A		No	None
Current liabilities	Benefit payments, investments	N/A		No	None

We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance on 24 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion is set out in Appendix A.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, this includes a presumed significant risk of management override of controls, which is applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular, we did not identify any issued from our review of journal controls and testing of journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid - Income not complete - Investments not valued at fair value Fair value measurement not correct	• We reconciled investments between information provided by the fund managers, the custodian and the Fund's accounting records. • We selected a sample of the individual investments held by the Fund at the year end and tested the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments). • We confirmed the existence of investments directly with the fund managers. • We tested a sample of sales and purchases during the year back to detailed information provided by the custodian and fund managers. • We reviewed the Fund's compliance with its Statement of Investment Principles.	Our audit work confirmed that the investment values, classifications and movements in the Net Assets Statement and supporting notes are not materially misstated. During our review we highlighted one non trivial error in relation to the outstanding commitment disclosures in note 19. The Fund has amended the disclosure to correct this error.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit Payments	Benefits improperly computed/claims liability understated	• We reviewed controls around benefit payments to ensure key controls over new starters, leavers, deferrals, changes of circumstances and new pensioners were operating effectively. • We selected a sample of individual transfers, pensions in payment (new and existing) and lump sum benefits and tested them by reference to the benefit calculations on the respective member file.	Our testing confirmed that key controls over benefit payments are operating as designed. Our audit work confirmed that benefits payments and payments on account of leavers are not materially misstated. We did not identify any issues or amendments to benefit payments in the financial statements as a result of our audit procedures.
Contributions	Recorded contributions not correct	• We reviewed controls used by the Fund to ensure it all expected contributions from member bodies. • We select a sample of contributions and confirmed that they had been correctly calculated. • We rationalised contributions received with reference to changes in contributor numbers.	Our testing confirmed that key controls over contributions are operating as designed. Our audit work confirmed that contributions receivable from employers and employees are not materially misstated. We recommended one amendment to the contributions receivable in the financial statements to reclassify the deficit funding received from the Ministry of Justice in contributions rather than transfers in, based on guidance circulated to auditors by the Audit Commission.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the Fund is accounted for on an accruals basis.	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements. We recommended one minor amendment to the taxation policy, to more accurately describe the accounting policy adopted in practice. Note 3e to the financial statements has been amended accordingly.	Green
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code	Green
Judgements and estimates	• Key estimates and judgements include; – Actuarial present value of promised retirement benefits – investment valuation of private equity	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best information available when the financial statements were prepared in June 2013 . • The level of judgement required by the Fund is low . Estimates used are supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	Green

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted one classification issue and a couple of non trivial disclosure errors only in the notes to the financial statements during the audit. The table below provides details. No adjustments were required to the net assets statement or the total movements in the fund account.

All the amendments identified during the audit have been discussed and agreed with management and included within the final financial statements. There are no unadjusted misstatements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Classification	£18,150	Transfers in and contributions receivable	Deficit funding received from the Ministry of Justice reclassified as contributions rather than transfers in, based on guidance circulated to auditors by the Audit Commission.
2	Disclosure	N/A	Taxation accounting policy	The policy has been revised to clarify that the irrecoverable tax is accounted for as a deduction from investment income (as it is not individually material) rather than as separate expense.
3	Disclosure	£2,417,457	Investments analysed by fund manager	The Legal & General figure and the total figure have both been reduced by £5,856,000 to consistently include foreign exchange derivative investments in this note.
4	Disclosure	£89,639 assets and £4,305 liabilities	Notes 18b Financial Assets and liabilities	In note 18b the entries for loans and receivables and financial liabilities at amortised cost have been removed as this notes should only include financial instruments valued at fair value.
5	Disclosure	£101,599	Outstanding commitment disclosure	This disclosure has been amended to correct some errors identified in the individual private equity commitments included in the calculation.

During the audit we also identified a number of narrative presentations and notes in the financial statements where disclosure could be improved in line with best practice. This included some enhancements to the price risk and credit risk disclosures in note 20 to improve the clarity of the investment and cash values which were subject to these risks and sensitivities.

The majority of the recommended amendments have been agreed and applied by the Fund.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We have not identified any significant weaknesses in internal controls from our work.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents of fraud. No issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We have not identified any incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund and is included on the committee agenda.
4.	**Disclosures**	• Our review confirmed that the financial statements were prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting. During the audit we suggested a number of enhancements to disclosures in the financial statements, which the Fund has implemented.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed in the financial statements.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	26,459	26,459
Total audit fees	**26,459**	**26,459**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Future developments

Future developments relevant to your Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
1. Financial reporting No significant emerging issues effecting the Pension Fund expected for the year ending 31 March 2013.	**2. Legislation** The Pensions Act 2008 requires employers to automatically enrol eligible employees onto the Local Government Pension Scheme. Employees not wishing to participate must opt-out of membership following enrolment.	**3. Actuarial valuation at 31 March 2013** A full actuarial valuation of the Pension Fund is undertaken ever three years. The next full valuation will be undertaken as at 31 March 2013. This valuation will determine the funding position (the extent to which fund assets will meet accrued pension liabilities) and determine future employer contribution rates.	**4. Other issues** The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.
Developments relevant to future periods			
1. Financial reporting CIPFA/LASAAC are currently considering developments to the 2014/15 Code in respect of IFRS 13 Fair Value Measurement which may impact on valuation and disclosures required in the financial statements. Whilst the Fund's financial statements are prepared under the Code, which is based on IAS 26, it also draws on the Pensions SORP in some areas. PRAG has formed a working party to update the Pensions SORP. An updated SORP is not expected until 2014.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014) proposals, pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Changes to the pensions administration systems will be required. Funds need to be liaising with software suppliers now to ensure their administration systems can successfully process benefit payments under both the old and new schemes from 1 April 2014.	**3. Actuarial valuation** Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	**4. Other issues** PRAG has recently released a discussion paper on the valuation of insurance policies, and specifically the option to value buy-in policies at £nil if effective discharge of liabilities has occurred. The discussion paper recommended that such policies are always valued, not recorded at £nil, and this may come through in the revised SORP in due course.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Surrey County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and Deputy Director for Business Services and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer and Deputy Director for Business Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer and Deputy Director for Business Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Paul Creasey
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

1020 Eskdale Road
Winnersh
Wokingham
Berkshire
RG41 5TS

September 2013

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SURREY
COUNTY COUNCIL

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

02 September 2013

Dear Sirs

Surrey County Council Pension Fund - Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of the Surrey County Council Superannuation Fund (the Fund) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

11

Financial Statements

1 I have fulfilled my responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2 I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error and fraud.

3 Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

4 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

5 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

6 The financial statements are free of material misstatements, including omissions.

7 I believe that the Fund's financial statements should be prepared on a going concern basis on the assumption that current and future sources of funding or support will be adequate for the Fund's needs. I believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

8 I have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

9 I acknowledge my responsibility for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, I selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect my judgment based on knowledge and experience about past and current events and are also based on assumptions about conditions I expect to exist and courses of action I expect to take.

Information Provided

10 I have provided you with:

a access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b additional information that you have requested for the purpose of your audit; and

c unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

11

11 I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12 All transactions have been recorded in the accounting records and are reflected in the financial statements.

13 I am not aware of any fraud or suspected fraud affecting the Fund involving:

a management;

b employees who have significant roles in internal control; or

c others where the fraud could have a material effect on the financial statements.

14 I have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

15 I am not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

16 There have been no communications with The Pensions Regulator or other regulatory bodies during the fund year or subsequently concerning matters of non-compliance with any legal duty.

17 I am not aware of any reports having been made to The Pensions Regulator by any of our advisors.

18 I have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which I am aware.

19 I confirm that no member of the Surrey County Council Governance Committee, Pension's Advisory Group or Pension's Panel is connected with, or is an associate of, Grant Thornton UK LLP which would render Grant Thornton UK LLP ineligible to act as auditor to the Fund under section 27 of the Pensions Act 1995.

Other

20 I confirm that the Fund is a Registered Pension Fund. I am not aware of any reason why the tax status of the Fund should change.

21 I confirm that I am not aware of any late contributions or breaches of the payment schedule that have arisen which I considered required reporting under the easement introduced under The Occupational Pension Funds (Miscellaneous Amendments) Regulations 2000.

22 I have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and payment schedule.

11

Yours faithfully

Sheila Little
Chief Finance Officer and Deputy Director for Business Services

Surrey Pension Fund

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **20 SEPTEMBER 2013**

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

SUBJECT: **THE STEWARDSHIP CODE**

SUMMARY OF ISSUE:

The report sets out the case for adopting The Stewardship Code as a step towards achieving effective corporate governance and acting as a responsible investor with regards to the companies that it owns.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board adopt The Stewardship Code and approve the Fund's commitment to the Code as set out in Annex 1.

REASON FOR RECOMMENDATIONS:

Given the current importance of responsible investment and stewardship, the adoption of The Stewardship Code is an important move towards the Fund playing a full part in the quest for effective corporate governance. Recent research has also highlighted a link between funds demonstrating a strong environment/ social/ governance stance and the achievement of higher returns.

DETAILS:

Background

1 The Stewardship Code ("The Code") is a set of principles or guidelines released in 2010 by the Financial Reporting Council (FRC), directed at institutional investors who own shares in UK listed companies ("quoted companies"). Its principal aim is to encourage institutional investors, who manage other people's money, to be active owners and engage with their investee companies so as to encourage them to act in the interests of their beneficiaries. In the UK context these are primarily shareholders, but UK company law extends corporate responsibilities to wider stakeholders.

16

2 The Code applies to firms who manage assets on behalf of institutional shareholders such as pension funds, insurance companies, investment trusts and other collective investment vehicles. This means fund managers, but the Code also "strongly encourages" asset owners to disclose their own level of compliance with the Code's principles. Since its introduction, all UK-authorised fund managers are required under the Financial Conduct Authority's (FCA's) Conduct of Business Rules to produce a statement of commitment to the Stewardship Code, or explain why it is not appropriate to their business model.

3 The Code adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles. However, if asset owners and managers do not comply with any of the principles, they must explain why. Copies of Stewardship Code statements are also sent to the FRC and are either hosted on their website or show a link to the pension fund's own investment pages.

Origin of The Stewardship Code

4 In the immediate aftermath of the financial crisis, Sir David Walker was asked by the then government to report on the governance of banks and other financial institutions. His final report (The Walker Review) was published in July 2009. Within the report, Sir David made a number of observations about lax investor oversight. He noted that:

"With hindsight, it seems clear that the board and director shortcomings would have been tackled rather more effectively had there been more vigorous scrutiny and persistence by major investors acting as owners." (chapter 5, page 63)

5 In reaction to the criticism levelled at fund managers throughout the Walker Review consultation, the UK's Institutional Shareholders' Committee (ISC) issued a pre-emptive strike against potential legislation with the publication of a set of best practice guidelines: The Responsibilities of Institutional Shareholders And Agents: Statement Of Principles. In response, Sir David advocated that the ISC code be renamed the "Stewardship Code" and be adopted and adapted by the FRC to ensure independent oversight and monitoring.

Principles

6 The overarching purpose of the principles is to "enhance the quality of the dialogue" with companies, "reduce the risk of catastrophic outcomes", and aid "efficient exercise of governance responsibilities." Although the Code sets out a best practice framework for investors that choose to engage with investee companies, the ISC made it clear at the time of its launch that it does not constitute an obligation to micromanage or preclude a decision to sell a holding where this is considered the most effective response to concerns.

7 The seven principles of the Code are that Institutional investors should:

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

Relationship with the Myners Principles

8 The Myners Principles predate the Stewardship Code by some considerable time as they were originally published in 2002. They were introduced following a review of institutional investment, commissioned by HM Treasury and taken on by Lord Myners. His review found shortcomings in the expertise and organisation of investment decision-making by pension fund trustees. As an alternative to possible regulation, the Myners Principles were introduced on a comply and explain basis.

9 In 2004 the Government conducted a review of the operation of the principles. This review concluded that they had contributed to an improvement in trustee performance, albeit with more progress in some areas (e.g., trustee expertise and training) than others (e.g., more detailed consideration of investment time horizons and shareholder engagement). The Principles were revisited again in 2007 when the government asked the National Association of Pension Funds (NAPF) to undertake a review of their operation and propose any relevant changes.

10 In their current form, there are two principles of relevance to stewardship: principles 5 and 6.

Principle 5: Responsible ownership

11 Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents;

- Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and

- Report periodically to scheme members on the discharge of such responsibilities.

Principle 6: Transparency and reporting

12 Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and
- Provide regular communication to scheme members in the form they consider most appropriate.

13 Principle 5 contains anachronistic wording due to the fact the ISC Principles have now been subsumed into the Stewardship Code and the ISC no longer exists. However, compliance with the Myners's Principles can be achieved by adopting the Stewardship Code and referencing to that fact in the Statement of Investment Principles.

14 A draft Stewardship Code statement for approval by the Pension Fund Board is shown as Annex 1.

CONSULTATION:

15 The Chairman of the Pension Fund has been consulted on the proposed change 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 There are no financial and value for money implications.

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 Stewardship Code will assist in the quest for responsible investment and stewardship strategies.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

20 The adoption of the Stewardship Code 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:

- Adoption of the Stewardship Code
- Compliance with the Code is kept under regular review and progress reported to the Board where appropriate.

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

Consulted:
Pension Fund Board Chairman

Annexes:
Stewardship Code Statement

Sources/background papers:
None

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Surrey County Council

Stewardship Code Statement

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Surrey County Council (the Fund) takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights as set out in its Statement of Investment Principles.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, Pension Fund Board members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the Local Authority Pension Fund Forum (LAPFF). When this occurs, the Pension Fund Board will typically take a minuted vote on the decision whether to participate in the proposed activity.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

The policy is reviewed at least annually in order to take account of regulatory developments. Controversial issues may be discussed at Pension Fund Board meetings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Pension Fund Board and employer member representatives at the Annual Meeting where members have an opportunity to ask specific questions.

In addition, quarterly reports of voting actions are posted on the Fund's website.